

**AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE
COMPANY)
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2019**

AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE COMPANY)
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

(1/5)

To the Shareholders of Al-Etiihad Cooperative Insurance Company (Formerly Trade Union Cooperative Insurance Company)
(A Saudi Joint Stock Company)

Opinion

We have audited the financial statements of Al-Etiihad Cooperative Insurance Company (formerly Trade Union Cooperative Insurance Company), (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statements of income, other comprehensive income, changes in equity and cash flows for the year then ended and the summary of significant accounting policies and other explanatory information.

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

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") as 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, as 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 year. 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 the matter below, a description of how our audit addressed the matter is provided in that context:

INDEPENDENT AUDITORS' REPORT (CONTINUED)

(2/5)

To the Shareholders of Al-Etihad Cooperative Insurance Company (Formerly Trade Union Cooperative Insurance Company)
 (A Saudi Joint Stock Company)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the key audit matter
<p>Valuation of ultimate claim liabilities arising from insurance contracts</p> <p>As at December 31, 2019, outstanding claims, claims incurred but not reported (IBNR), additional premium reserves and other technical reserves amounted to Saudi Riyals 185.35 million, Saudi Riyals 129.43 million, Saudi Riyals 22.76 million and Saudi Riyals 6.17 million respectively as reported in Note 9.1 to the financial statements.</p> <p>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.</p> <p>In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of actuarial methods are used by the actuary to determine these technical reserves. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>We considered this as a key audit matter since use of management assumptions and judgements could result in material overstatement / understatement of the Company's profitability.</p> <p><i>The Company's disclosures about the significant accounting policies of the above mentioned key audit matter are included in Note 3 to the financial statements.</i></p>	<p>We understood and evaluated key controls around the claims handling and technical reserve setting processes of the Company including completeness and accuracy of claims data used in the actuarial reserving process.</p> <p>We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences</p> <p>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 accounting records.</p> <p>In order to assess management's methodologies and assumptions, we were assisted by our actuary specialist to understand and evaluate the Company's actuarial practices and the technical reserves established. In order to obtain comfort over the Company's actuarial report, our actuarial specialist performed the following:</p> <ul style="list-style-type: none"> • Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. • Assessed key actuarial assumptions including claims historical experience, ratios and expected frequency and severity of claims. We assessed these assumptions by comparing them with our expectations based on the Company's 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)

(3/5)

**To the Shareholders of Al-Etihad Cooperative Insurance Company (Formerly Trade Union 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 in the Company's annual report. Other information consists of the information included in the Company's 2019 annual report, other than the financial statements and our auditors' report thereon, which 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, 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 IFRS, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's by-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

(4/5)

**To the Shareholders of Al Etihad Cooperative Insurance Company (Formerly Trade Union 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 International Standards on Auditing ("ISAs") as 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 the Managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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 Al Etihad Cooperative Insurance Company (Formerly Trade Union Cooperative Insurance Company) (5/5)
(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 year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For Al-Bassam & Co.

P.O. Box 4636
Al Khobar 31952,
Kingdom of Saudi Arabia

Ibrahim K. Al-Bassam
Certified Public Accountant
License No. 337



March 15, 2020
20 Rajab, 1441H

For Associated Accountants,
(Member of Geneva Group
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P.O. Box 60930
Riyadh 11555,
Kingdom of Saudi Arabia

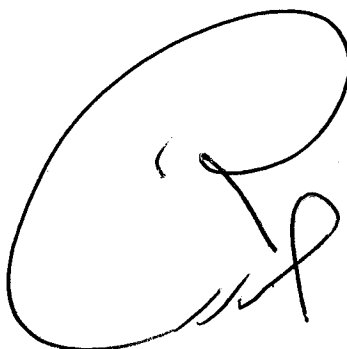
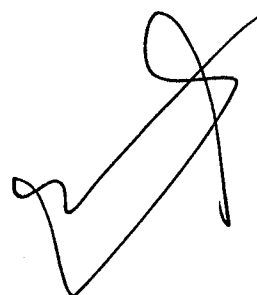
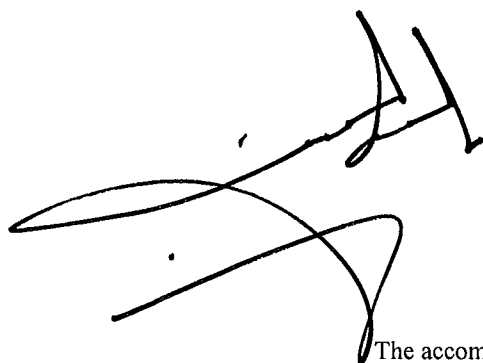
Hamoud Ali AlRubian
Certified Public Accountant
License No. 222



AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE COMPANY)
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	<i>Note</i>	<i>2019</i> <i>SR</i>	<i>2018</i> <i>SR</i>
ASSETS			
Cash and cash equivalents	5	383,064,299	151,889,704
Premiums and reinsurance receivable, net	8	180,494,131	183,846,620
Reinsurers' share of unearned premiums	9	22,133,245	23,229,716
Reinsurers' share of outstanding claims	9	65,545,868	81,346,744
Reinsurers' share of claims incurred but not reported	9	14,164,512	33,068,317
Deferred policy acquisition costs	9	23,166,791	22,750,148
Investments	7	144,598,049	132,316,495
Prepaid expenses and other assets	11	30,701,130	41,947,231
Long term/fixd income deposits	6	558,242,012	834,991,709
Property and equipment	12	14,136,473	6,491,609
Right of use assets	13	1,629,039	-
Goodwill	14	4,496,500	4,496,500
Statutory deposit	15	40,000,000	27,500,000
Accrued income on statutory deposit		4,531,789	3,629,122
TOTAL ASSETS		1,486,903,838	1,547,503,915

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

**AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE COMPANY)
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT DECEMBER 31, 2019**

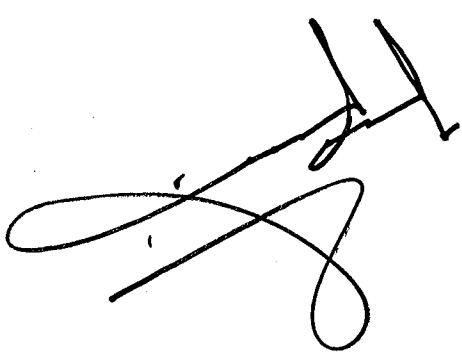
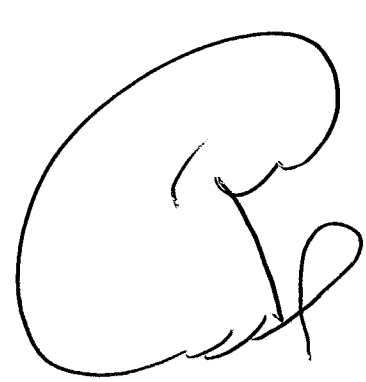
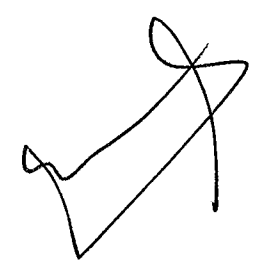
	<i>Note</i>	<i>2019</i> SR	<i>2018</i> SR
LIABILITIES			
Accounts payable		39,533,628	50,026,623
Accrued and other liabilities	17	81,326,347	71,378,018
Lease liability	13	1,230,703	-
Reinsurers' balances payable		12,084,964	13,203,930
Unearned premiums	9	474,721,686	488,953,035
Unearned reinsurance commission	16	4,931,416	3,553,941
Outstanding claims	9	185,346,838	214,585,364
Claims incurred but not reported	9	129,434,499	163,994,793
Additional premium reserves	9	22,756,206	17,219,944
Other technical reserves	9	6,167,162	17,025,025
End-of-service indemnities	19	15,001,591	9,157,438
Zakat and income tax	24	26,675,204	51,620,542
Accrued commission income payable to SAMA		4,531,789	3,629,122
TOTAL LIABILITIES		1,003,742,033	1,104,347,775
Accumulated surplus payable	18	5,449,616	9,261,070
Re-measurement actuarial (loss) / gain on end of service indemnities		(2,577,578)	1,482,759
TOTAL ACCUMULATED SURPLUS AND RESERVES		2,872,038	10,743,829
SHAREHOLDERS' EQUITY			
Share capital	25	400,000,000	275,000,000
Statutory reserve	26	24,088,829	43,281,433
Retained earnings		51,640,901	107,140,055
Fair value reserve on investments		4,560,037	6,990,823
TOTAL EQUITY		480,289,767	432,412,311
TOTAL LIABILITIES, ACCUMULATED SURPLUS AND SHAREHOLDERS' EQUITY		1,486,903,838	1,547,503,915

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

AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE COMPANY)
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	<i>Note</i>	2019 <i>SR</i>	2018 <i>SR</i> <i>(Restated-Note 3)</i>
REVENUE			
Gross written premiums	9	861,936,426	929,775,986
Less: Reinsurance premiums ceded			
- Local		(2,100,516)	(4,032,354)
- Foreign		(53,287,606)	(69,010,485)
Excess of loss premium		<u>(26,162,716)</u>	<u>(18,922,115)</u>
Net premiums written	9	780,385,588	837,811,032
Changes in unearned premiums, net		<u>13,134,878</u>	<u>(115,946,303)</u>
Net premiums earned	9	793,520,466	721,864,729
Reinsurance commission income	16	11,015,353	11,190,843
Other underwriting income	23	<u>15,218,352</u>	<u>23,933,136</u>
TOTAL REVENUES		<u>819,754,171</u>	<u>756,988,708</u>
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid		(682,766,836)	(552,842,873)
Reinsurers' share of claims paid		<u>31,083,172</u>	<u>59,801,328</u>
Net claims and other benefits paid		(651,683,664)	(493,041,545)
Changes in outstanding claims, net		13,437,650	(24,578,126)
Changes in claims incurred but not reported		15,656,489	(9,270,681)
Change in other technical reserves movement		<u>10,857,863</u>	<u>(8,547,151)</u>
Net claims and other benefits incurred		<u>(611,731,662)</u>	<u>(535,437,503)</u>
Additional premium reserves		(5,536,262)	3,923,984
Policy acquisition costs	9	(43,650,573)	(49,684,259)
Other underwriting expenses		<u>(26,073,765)</u>	<u>(21,064,106)</u>
TOTAL UNDERWRITING COSTS AND EXPENSES		<u>(686,992,262)</u>	<u>(602,261,884)</u>
NET UNDERWRITING INCOME		<u>132,761,909</u>	<u>154,726,824</u>

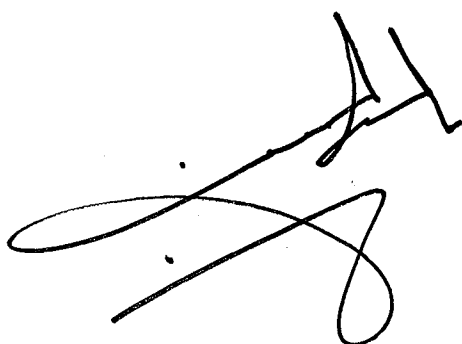
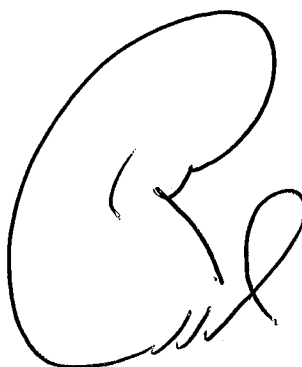
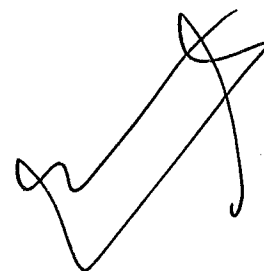




The accompanying notes form an integral part of these financial statements.

AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE COMPANY)
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

	<i>Note</i>	2019 SR	2018 SR <i>(Restated-Note 3)</i>
OTHER OPERATING (EXPENSES) / INCOME			
Allowance for doubtful debts	8	(22,233,473)	(5,088,882)
General and administrative expenses	21	(77,590,280)	(79,181,135)
Murabaha income on deposits	22	29,643,931	22,061,031
Realized gain/(loss)/(impairment) on investments	22	2,291,425	(2,981,333)
Dividend and investment income	22	5,485,065	4,843,895
Investment expenses		(607,852)	(588,794)
Finance cost	13	(74,105)	-
Others		81,238	3,605,364
TOTAL OTHER OPERATING EXPENSES, NET		(63,004,051)	(57,329,854)
Total income for the year before surplus attribution and zakat and income tax			
		69,757,858	97,396,970
Surplus attributed to the insurance operations		(5,449,616)	(9,261,070)
Total income for the year before zakat and income tax		64,308,242	88,135,900
Zakat and income tax expense	24	(14,000,000)	(18,000,000)
Total income for the year attributable to the shareholders		50,308,242	70,135,900
Total income for the year attributable to the shareholders and insurance operations			
		55,757,858	79,396,970
Earnings per share			
Weighted average number of outstanding shares	27	40,000,000	40,000,000
Basic and diluted earnings per share	27	1.26	1.75

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

**AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE COMPANY)
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>2019</u>	<u>2018</u>
	<u>SR</u>	<u>SR</u>
		<i>(Restated-Note 3)</i>
Total income for the year attributable to the shareholders and insurance operations	55,757,858	79,396,970
Other comprehensive income		
<i>Items that are classified or will be reclassified to statement of income in subsequent years</i>		
Unrealized fair value changes in available-for-sale investments	(221,047)	1,728,837
Realization of (gain)/ loss/ impairment on sale of available for sale investment	(2,209,739)	4,225,519
<i>Items that will not be reclassified to statement of income in subsequent years</i>		
Actuarial (loss) / gain on end of service indemnities	(4,060,337)	1,786,971
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	49,266,735	87,138,297
Total comprehensive income attributable to the insurance operations	(1,389,279)	(11,048,041)
Total comprehensive income for the year attributable to the shareholders	47,877,456	76,090,256

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

AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE COMPANY)
(A SAUDI JOINT STOCK COMPANY)

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

<u>2019</u>	Notes	Share capital SR	Statutory reserve SR	Retained earnings SR	Fair value reserve on investments SR	Total SR
Balance at the beginning of the year		275,000,000	43,281,433	107,140,055	6,990,823	432,412,311
Net income for the year attributable to shareholders		-	-	50,308,242	-	50,308,242
Transfer to statutory reserves		-	10,061,649	(10,061,649)	-	-
Capital increase through bonus Shares	1	125,000,000	(29,254,253)	(95,745,747)	-	-
Unrealized fair value changes in available-for-sale investments	7	-	-	-	(221,047)	(221,047)
Realization of (gain)/ loss / impairment on sale of available for sale investment		-	-	-	(2,209,739)	(2,209,739)
Balance at the end of the year		400,000,000	24,088,829	51,640,901	4,560,037	480,289,767

<u>2018</u>	Notes	Share capital SR	Statutory reserve SR	Retained earnings SR	Fair value reserve on investments SR	Total SR
Balance at the beginning of the year		275,000,000	29,254,253	51,031,335	1,036,467	356,322,055
Net income for the year attributable to shareholders		-	-	70,135,900	-	70,135,900
Transfers to statutory reserves		-	14,027,180	(14,027,180)	-	-
Unrealized fair value changes in available-for-sale investments	7	-	-	-	1,728,837	1,728,837
Realization of loss on sale of available-for-sale investment		-	-	-	4,225,519	4,225,519
Balance at the end of the year		275,000,000	43,281,433	107,140,055	6,990,823	432,412,311

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

AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE COMPANY)
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 <u>SR</u>	2018 <u>SR</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Total income for the year before surplus attribution and zakat and income tax	69,757,858	97,396,970
Adjustments for non-cash items:		
Depreciation of property and equipment	2,180,588	1,926,243
Depreciation charge of right to use assets	610,892	-
Gain on disposal of property and equipment	(81,238)	(12,342)
Allowance for doubtful debts	22,233,473	5,088,882
Realized (gain)/loss/impairment on investments	(2,291,425)	2,981,333
Dividends reinvested	(373,845)	(420,612)
Finance cost	74,105	-
Provision for end-of-service indemnities	2,327,721	2,911,499
Changes in operating assets and liabilities:		
Premiums and reinsurers' receivable	(22,776,279)	(35,976,733)
Reinsurers' share of unearned premiums	1,096,471	26,507,528
Reinsurers' share of outstanding claims	15,800,876	83,891,305
Reinsurers' share of claims Incurred but not reported	18,903,805	17,674,989
Deferred policy acquisition costs	(416,643)	1,143,368
Due from related parties	-	130,647
Prepaid expenses and other assets	10,812,768	7,735,074
Accounts payables	(10,492,995)	8,795,778
Accrued and other liabilities	4,583,591	(9,932,954)
Reinsurers' balances payable	(1,118,966)	1,076,728
Unearned premiums	(14,231,349)	89,438,775
Unearned reinsurance commission	1,377,475	(907,456)
Outstanding claims	(29,238,526)	(59,313,180)
Claims incurred but not reported	(34,560,294)	(8,404,308)
Additional premium reserves	5,536,262	(3,923,984)
Other technical reserves	(10,857,863)	8,547,151
	<u>28,856,462</u>	<u>236,354,701</u>
End-of-service indemnities paid	(543,905)	(1,822,452)
Surplus paid to policy holders	(1,037)	-
Zakat and income tax paid	(38,945,338)	(6,905,322)
Net cash used in operating activities	<u>(10,633,818)</u>	<u>227,626,927</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions/disposals in investments, net	(12,047,070)	(25,796,188)
Additions in long term/fixed income deposits	276,749,697	(359,096,029)
Addition in statutory deposit	(12,500,000)	-
Lease payment	(650,000)	-
Additions/disposals in property and equipment, net	(9,744,214)	(1,076,729)
Net cash generated from/(used in) investing activities	<u>241,808,413</u>	<u>(385,968,946)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>231,174,595</u>	<u>(158,342,019)</u>
Cash and cash equivalents at the beginning of the year	<u>151,889,704</u>	<u>310,231,723</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>383,064,299</u>	<u>151,889,704</u>
Non Cash Information		
Unrealized gain on available for sale investments	(221,047)	1,728,837
Realization of (gain)/ loss/ impairment on sale of available-for-sale-investment	(2,209,739)	4,225,519
Impact on adoption of IFRS 16 (Note 3)	2,239,931	-
Prepaid rent transferred to right of use assets (IFRS 16 adoption)	433,333	-
Surplus transferred to undistributed surplus account (liability)	5,364,738	4,610,011
Surplus transferred to customers' accounts	<u>3,895,295</u>	<u>2,793,508</u>

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

**AL-ETIHAD COOPERATIVE INSURANCE COMPANY
(FORMERLY TRADE UNION COOPERATIVE INSURANCE COMPANY)
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Al-Etihad Cooperative Insurance Company (formerly Trade Union Cooperative Insurance Company) (A Saudi Joint Stock Company incorporated in Kingdom of Saudi Arabia), "the Company", was formed pursuant to Royal Decree No. M/25 dated 15 Rabea I 1428H corresponding to 3 April 2007. The Company operates under Commercial Registration no. 2051036304 dated 21 Muharram 1429H corresponding to 30 January 2008. The registered address of the Company's head office is as follows:

Al-Etihad Cooperative Insurance Company
(Formerly Trade Union Cooperative Insurance Company)
Head Office
King Fahad Road
P.O. Box 1022
Khobar 31952, Saudi Arabia

The purpose of the Company is to transact cooperative insurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies (the "Law") and its implementing regulations in the Kingdom of Saudi Arabia. Its principal lines of business include medical, motor, property, engineering, general accident and others.

On 31 July 2003, corresponding to 2 Jumada II 1424 H, the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On 23 Rabea I 1429H, corresponding to 31 March 2008, the Saudi Arabian Monetary Authority ("SAMA"), as the principal authority responsible for the application and administration of the Insurance Law and its Implementing Regulations, granted the Company a license to transact insurance activities in the Kingdom of Saudi Arabia.

On April 18, 2018 corresponding to 2 Sha'ban 1439, an Extraordinary General Assembly meeting was held to approve changing the name of the Company from "Trade Union Cooperative Insurance Company" to "Al-Etihad Cooperative Insurance Company". SAMA's approval on the change was obtained on November 5, 2017 corresponding to 16 Safar 1439H. During the year all legal requirements were completed.

Al-Etihad Cooperative Insurance Company announced its receipt on Tuesday 30 Jamada Al Awal, 1440H corresponding to February 5, 2019 of the letter of the Saudi Arabian Monetary Agency No. 34002/89 containing its decision to prevent the Company from accepting new subscribers in motor insurance as of the date of the letter due to the existence of a number of violations related to the settlement of motor claims and customer care. The Company announced its receipt on Tuesday 23 Ramadan, 1440H corresponding to May 28, 2019 of the letter of the Saudi Arabian Monetary Agency No. 58658/89 containing its decision to lift this suspension.

The Company announced the recommendation of the Board of Directors on Jumada Al Thani 15, 1440H corresponding to February 20, 2019, to increase the capital of the company through the grant of shares from SR 275 million to SR 400 million by issuance of bonus issue. The reason for the increase is to support the capital base of the company and to enhance its ability to afford a greater proportion of insurance premiums and planning new insurance products while maintaining the margin of solvency at an appropriate level and able to bear expansion plans in the near future. The number of shares granted per share will be 5 shares per 11 shares. The nature and value of the reserves to be used in the capitalization issue are SR 95,745,747 from the retained earnings account and SR 29,254,253 from the statutory reserve. The Company received approvals from SAMA as on April 29, 2019. During the year the bonus shares have been distributed.

**AL-ETIHAD COOPERATIVE INSURANCE COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The financial statements of the company for the year ended December 31, 2018 were prepared in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 - 'Income Taxes' and IFRIC 21 - 'Levies' so far as these relate to zakat and income tax).

On July 23, 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 and its interpretations as issued by the International Accounting Standards Board ("IASB").

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) and the effects of this change are disclosed in note 24 to the financial statements.

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of investments in held for trading and investments available for sale and defined benefit obligation which is recognized at the present value of future obligation using the projected unit credit method. The Company's statement of financial position is not presented using a current/non-current classification. Except for property and equipment, intangibles, statutory deposit, goodwill, end-of-service indemnities, accrued income on statutory deposit and engineering related unearned premiums, unearned reinsurance commission, deferred policy acquisition cost, outstanding claims, claims incurred but not reported and technical reserves, all other assets and liabilities are of short-term nature, unless, stated otherwise.

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly under note 35. Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholder's operations which are presented in note 35 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, other comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company level financial statements in compliance with IFRS, the balances and transactions of the insurance operations are combined with those of the shareholders' operations. Interoperation balances, transactions and unrealized gains or losses, if any, are eliminated in full. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019**

2. BASIS OF PREPARATION (Continued)

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 Riyal, except where otherwise indicated.

The Company follows a fiscal year ending December 31.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are summarized below. These policies have been consistently applied to each of the years presented except for adoption of the new standards, interpretations and amendments to existing standards mentioned below, which are effective from period beginning on or after January 1, 2019

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

The Company has applied, for the first time, IFRS 16 Leases that requires restatement of previous financial statements. As required, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, however do not have an impact on the financial statement of the Company.

3.1.1 IFRS 16 – Leases

The date of initial application of IFRS 16 for the Company is January 1, 2019. The Company has adopted IFRS 16 using the modified retrospective approach, hence, restatement of the comparative information is not required.

IFRS 16 – Leases, applicable for the period beginning on or after January 1, 2019 supersedes IAS 17 Leases, 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 standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model, except for short term leases and lease of low value asset.

Impact of the new definition of a lease

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3.1.1 IFRS 16 – Leases (Continued)

Impact of the new definition of a lease (Continued)

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The effect of adoption IFRS 16 as at January 1, 2019 (increase/(decrease)) is as follows:

Assets	SAR
Right-of-use assets	2,239,931
Prepaid rent	(433,333)
Total assets	1,806,598
Liabilities	
Lease liability	1,806,598
Total liabilities	1,806,598
Total adjustment on equity:	
Retained earnings	-

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and leases liabilities. It resulted in a decrease in rent expense and an increase amortization expense and in interest expense.

Nature of the effect of adoption of IFRS 16

The Company has lease contracts mainly for rented properties. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company, otherwise it was classified as an operating lease. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under prepayments and accrued and other liabilities, respectively. Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

In case of leases previously accounted for as operating leases, the Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3.1.1 IFRS 16 – Leases (Continued)

Nature of the effect of adoption of IFRS 16 (Continued)

Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Set out below are the new accounting policies of the Company upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and restoration cost. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over underlying assets' useful life. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Incremental borrowing rate is the rate that the individual lessee would pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is premeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability of each year.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3.1.1 IFRS 16 – Leases (Continued)

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts to be recognized in the statement of financial position and statement of income mainly relate to the carrying amounts of the Company's right-of-use assets and lease liabilities along with the related movements during the year ended December 31, 2019 are set out below:

Statement of financial position and statement of income

	<u>SAR</u>
Right-of-use assets	1,629,039
Lease liability	1,230,703
Depreciation	610,892
Finance cost	74,105

3.1.2 Adoption of other New Standards, amendments and interpretations

<u>Standard</u>	<u>Description</u>
IFRIC 23	Uncertainty over Income Tax Treatments
IAS 19	Amendments to IAS 19 – Plan amendment, curtailment of settlement.
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS 2015-2017 cycle

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements except for the application of IFRS 16 which is detailed above.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 New Standards, amendments and interpretations not yet applied by the Company

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 become effective.

<i>Standard/ Interpretation</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
IFRS 3	Definition of a business – Amendments to IFRS 3 Definition of Material – Amendments to IAS 1 and	January 1, 2020
IAS 1 and IAS 8	IAS 8	January 1, 2020
IFRS 17	Insurance Contracts	January 1, 2022
IFRS 9	Financial Instruments	January 1, 2022

The Company does not expect any significant impact on the financial statements except for the application of IFRS 17 and IFRS 9 as mentioned below.

IFRS 17 – Insurance Contracts

Overview

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

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

- 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).

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 New Standards, amendments and interpretations not yet applied by the Company (Continued)

IFRS 17 – Insurance Contracts (Continued)

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 Measurement Model (GMM) is based on the following “building blocks”:

- a) the fulfilment 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;
- b) the Contractual Service Margin (CSM). The CSM represents the unearned profit for a group of insurance contracts and will be recognized as the entity provides services in the future. The CSM cannot be negative at inception; any net negative amount of the fulfilment cash flows at inception will be recorded in profit or loss immediately.

At the end of each subsequent reporting period the carrying amount of a group of insurance contracts is remeasured to be the sum of:

- 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. Since 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 change in discount rates will be reported in either profit or loss or other comprehensive income, determined by any 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, in addition under GMM, the CSM is also adjusted for:

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 New Standards, amendments and interpretations not yet applied by the Company (Continued)

IFRS 17 – Insurance Contracts (Continued)

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 Measurement Model for the group of contracts 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 Measurement Model remains applicable for the measurement of the liability for 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 proposing certain amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting. The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4 is currently January 1, 2021. Under the current exposure draft, it is proposed to amend the IFRS 17 effective date to reporting periods beginning on or after January 1, 2022. This is a deferral of 1 year compared to the previous date of January 1, 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 intends 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 and reinsurance, together with amendments to presentation and disclosures.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 New Standards, amendments and interpretations not yet applied by the Company (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 in the process of assessing the financial impact of implementing IFRS 17 and this work is schedule for completion by March 31, 2020.
Data Impact / IT Systems	<ul style="list-style-type: none"> • New chart of accounts to be developed for PAA/ GMM • Actuarial and accounting data will be needed at more granular level • Discount rates will need to be stored for group of contracts and tracked for interest accretion calculation under GMM • Confidence interval numbers to be sourced for risk adjustment • Embedded risk adjustment calculation in the actuarial system • Identification of key inputs for onerous contracts test as well as defining ‘facts and circumstance’ for PAA contracts • Calculation and tracking of contractual service margin • Calculation of coverage period of risk attaching reinsurance contract
Process Impact	<ul style="list-style-type: none"> • Finance, actuarial, underwriting and IT processes to be built suitable for IFRS 17 together with new set of controls and governance framework • For recognition, advance premium receipts to be compared to contract inception date • New reconciliation processes to be put in place between accounting, actuarial and underwriting data sources • Cash receipts for premiums need to be tracked at policy level • Setting up new accounting policies each suitable for measurement model and technical decisions for each area • Monitor terms and conditions attaching to insurance and reinsurance contracts • New expense allocation process acquisition costs, claims settlement costs and underwriting costs to be put in place to identify profitability at a contract level. • System to track coverage period for future products need to be put in place
Impact on RI Arrangements	<ul style="list-style-type: none"> • Insurance contract liabilities / assets is required to be reported gross of reinsurance and a separate reinsurance asset / liability shall be reported • The cash flows (after factoring any expected credit loss) shall be reported gross (before reinsurance) and undiscounted • Cancellation clauses to be reviewed to assess the impact on measurement models relevant for these contracts
Impact on Policies and Control Frameworks	Policies may need to be changed to accommodate requirements of IFRS 17. Policies and control framework will be required to reflect the aggregation requirements. IFRS 17 requirements for onerous contracts will affect the different policies and frameworks such as accounting and audit. Control frameworks such as liquidity management will need to allow for future cash flows projections.

The Company has started with their implementation process and have set up a project team supervised by a steering committee.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 New Standards, amendments and interpretations not yet applied by the Company (Continued)

IFRS 9 – Financial Instruments

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

a) Classification and measurement:

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost, at fair value through other comprehensive income or at 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 are recycled through profit or loss upon sale, if both conditions are met:

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

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

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

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

b) Impairment:

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 New Standards, amendments and interpretations not yet applied by the Company (Continued)

IFRS 9 – Financial Instruments (Continued)

c) Hedge accounting:

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

Effective date

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

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 January 1, 2021. The IASB is proposing to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to January 1, 2022. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; or
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 January 01, 2017:

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 New Standards, amendments and interpretations not yet applied by the Company (Continued)

IFRS 9 – Financial Instruments (Continued)

Impact assessment

As at December 31, 2019, the Company has total financial assets and insurance related assets amounting to SR 1,329 million and SR 125 million, respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SR 1,204 million (2018: SR 1,253 million). The company does not have any unit linked investments held at fair value through statement of income as at December 31, 2019. Other financial assets consist of available for sale investments amounting to SR 125 million (2018: SR 113 million). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Investment in funds classified under available for sale investments will be at FVSI under IFRS 9. Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 32. The Company financial assets have low credit risk as at December 31, 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Change in the accounting for zakat and income tax:

As mentioned above, the basis of preparation has been changed for the year ended December 31, 2019 as a result of the issuance of latest instructions from SAMA in July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA in 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 (see Note 2) and the effects of the above change are disclosed in note 24 to the financial statements. The change has resulted in reduction of reported income of the Company for year ended December 31, 2018 by SR 18 million. The change has had no impact on the statement of cash flows for the year ended December 31, 2018.

Accounting Policy:

Income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income, based on the applicable income tax rate for each jurisdiction.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the year is the tax payable on the current period's taxable income based on the applicable income tax rate.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Change in the accounting for zakat and income tax (Continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (Continued)

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company include deductions related to transfer pricing and the taxation authorities may challenge those 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 statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

3.4 Summary of Significant Accounting Policies

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

Product classification

Insurance contracts

Insurance contracts are those contracts when 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 comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts

Investment contracts are those contracts that transfer significant financial risk but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variables, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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 expired. Investment contracts can, however be reclassified as insurance contracts after inception if insurance risk becomes significant.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Goodwill

Goodwill is initially measured at excess of the fair value of the consideration paid over the fair value of the identifiable assets and liabilities acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Goodwill is tested for impairment annually as and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Property and equipment

Property and equipment are initially recorded at cost and are carried subsequently at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. Depreciation is charged to the statement of income on a straight-line basis based on the following estimated useful lives:

	<u>Years</u>
Leasehold improvements	10
Furniture, fixtures and office equipment	4 - 10
Motor vehicles	4

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.

The 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.

Intangible assets

Intangible assets are initially recorded at cost and are subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The intangible asset comprises of software and related implementation costs. All these costs relating to the software package are deferred and amortized using the straight-line method over a period of five years. The amortization expense on intangible assets is recognised in the statement of income.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Financial instruments (Continued)

Policy acquisition costs

Commission paid to internal sales staff and incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are capitalised as an intangible asset. The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts to which they relate as premiums are earned. The amortization is recorded in the "Policy Acquisition Cost" in the statement of income.

Financial instruments

Financial instruments is any contract gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments comprise financial assets and financial liabilities.

The Company's financial assets include cash and cash equivalents, investments held for trading, investments available for sale, premiums and insurance balances receivable, reinsurer's share of outstanding claims, amounts due from related parties, amounts due from shareholders and other assets.

Its financial liabilities consist of gross outstanding claims, reinsurance balances payable, accounts payable, amounts due to related parties, amounts due to shareholder's operations, statutory deposit commission income payable and other liabilities.

Fair values measurement

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

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

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Fair values measurement (Continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Trade date accounting

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

Investments

All investments, excluding those held for trading, are initially recognized at cost, being the fair value of the consideration given including transaction cost associated with the Investments.

Investments held for trading

Investments which are bought with the intention of resale in the short term are classified as trading investments. Such investments are measured and carried in the financial position at fair value. Unrealised gains and losses are included in the statement of income for the financial period.

Investments available for sale

These represent investments which are neither bought with the intention of being held to maturity nor for trading purposes. Such investments are stated at fair value. Changes in fair value are credited or charged to the statement of comprehensive income. Where there is objective evidence that investments may be impaired, the estimated recoverable amount of those investments is determined and any impairment loss for the difference between the recoverable amount and the carrying amount is recognized in the statement of income.

Determination of fair values of investments

For investment traded in active market, fair value is determined by reference to quoted market bid prices. For unquoted equity investments, fair value is determined by reference to the market value of similar investments or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information is available for such investments.

Where partial holdings are sold, the related carrying values of such investments are accounted for on a weighted average basis.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

De-recognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) The Company has transferred substantially all the risks and rewards of the asset, or
 - (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

Impairment of financial assets

Financial assets carried at amortized cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income.

Available-for-sale investments

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from shareholders' equity and recognized in the statement of income. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income of income.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Financial assets carried at cost

Impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGU, to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the statement of income.

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognised. The Company performs its annual impairment test of goodwill as at 31 December.

The recoverable amount of the non-life insurance business CGU and investment management services business CGU have been determined based on a value in use calculation. The calculation requires the Company to make an estimate of the expected future cash flows from each of the CGUs and discount these amounts using a suitable rate which reflects the risk of those cash flows in order to calculate the present value of those cash flows.

Previously recorded impairment losses for goodwill are not reversed in future periods.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets (Continued)

Premiums receivable and reinsurance receivable

Premiums receivable and reinsurance receivable are recognized when due and measured on initial recognition at the fair value of the considerations received or receivable and are stated at gross less allowance for any uncollectable amount (allowance for doubtful debts) and any impairment in value. Bad debts are written off as incurred. The carrying value of premiums receivable and reinsurance receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income. Premiums receivable and reinsurance receivable are derecognized when the de-recognition criteria for financial assets have been met.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for services received, whether or not billed to the Company.

Revenue recognition

Premium and reinsurance commissions

Premiums and commission are recorded in the statement of income over the terms of the policies to which they relate on a pro-rata basis. The portion of premiums, reinsurance share of premiums and reinsurance commissions that will be earned in the future is reported as unearned premiums and unearned reinsurance commissions, respectively, and is deferred based on the following methods:

- Premium written in last three months of the period in respect of marine cargo;
- Pre-defined calculation for engineering class of business for risks undertaken that extend beyond a single year. In accordance with this calculation, lower premiums are earned in the first year which gradually increase towards the end of the tenure of the policy; and
- Actual number of days for other lines of business.

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.

Interest income

Interest income from time deposits is recognized on an accrual basis.

Dividend income

Dividend income is recognised when the right to receive a dividend is established.

Claims

Gross claims consist of benefits and claims paid to policyholders and third parties, and related loss adjustments expenses, net of salvage and other recoveries and are charged to the statement of income as incurred changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses.

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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Claims (Continued)

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. 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 income of for that year. 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.

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Reinsurance

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. Contracts that do not meet these classification requirements are classified as financial assets.

The Company's reinsurance program is affected through proportional, non-proportional and facultative placements based on the Company's net retention policy, treaty limits, nature and size of the risks.

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

An impairment review is performed at each statement of financial position 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. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premium and claims on assumed reinsurance are recognised as revenue 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.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Reinsurance (Continued)

Premium and claims are presented on a gross basis.

Claims recoveries receivable from the reinsurers are recognised as an asset at the same time as the claims which give rise to the right of recovery are also recognised as a liability and are measured at the amount expected to be recovered.

Deferred policy acquisition costs ("DAC")

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition DAC is amortised over the period in which the related revenue is earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the statement of income.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of income. DAC is also considered in the liability adequacy test for each reporting period. DAC is derecognised when the related contracts are either settled or disposed of.

Salvage and subrogation reimbursement

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

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

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

Unearned reinsurance commission income

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable. Amortisation is recorded in the statement of income.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income net of any reimbursement.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions. The liability is not discounted for the time value of money. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of income by setting up a provision for premium deficiency.

End-of-service indemnities

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company primarily has end of service indemnities, which qualify as defined benefit plans. Accruals to defined benefit plans are recognised as an expense when employees have rendered service entitling them to the benefits. For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses and the effect of the changes to the asset ceiling, is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in statement of comprehensive income in the period in which they occur. Remeasurement recognised in statement of comprehensive income is reflected as a reserve under net surplus from insurance operations after shareholders' appropriation and will not be reclassified to statement of income. Past service cost is recognised in statement of income in the period of a plan amendment.

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals ("SR") at the exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are re-translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in statements of income and other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, cash at banks and time deposits with original maturities of three months or less, which are subject to an insignificant risk of changes in value.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Statutory reserve

In accordance with the Law on Supervision of Cooperative Insurance Companies and the by-laws of the Company, the Company shall set aside 20% of shareholders' net income in each year to the statutory reserve until it has built up a reserve equal to the share capital. This reserve is not available for dividend distribution.

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulation and are charged to the statement of changes in shareholders' equity. The zakat charge is computed on the Saudi shareholder's share of the zakat base. Income tax is computed on the foreign shareholder's share of adjusted net income. Additional amounts, if any, that may become due on finalization of an assessment are recorded in the year in which the assessment is finalised.

Operating leases

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the statement of income on a straight line basis over the term of the operating lease.

Offsetting financial assets and liabilities

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Summary of Significant Accounting Policies (Continued)

Segmental reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenue and incurs expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organised into business units based on their products and services and has six reportable operating segments as follows:

- Medical insurance including corporate, individual and group business insurance.
- Property insurance, which covers fire and allied perils, property all risks.
- Engineering, which provides coverage against the Contractors' All Risks (CAR), Erection All Risks (EAR), Machinery All Risks (MAR), etc.
- Motor insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- General accident which provides coverage against the loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity and
- Others which mainly includes the marine cargo and marine hull insurance.

Segments performance is evaluated based on profit or loss which in certain aspects is measured differently from profit and loss in the financial statements.

Other classes, which covers any other classes of insurance not included above. Operating segments do not include shareholders' operation of the Company.

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

Shareholders income is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity.

As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

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.

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.

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires the use of judgments and estimates 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 judgments and estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

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

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements.

Initial recognition of investments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Impairment of equity investments

The Company treats equity financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. A period of six 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.

Estimation and assumptions:

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below:

Fair value measurement of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS. (Continued)

Estimation and assumptions (Continued)

Valuation of insurance contract liabilities

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. For some types of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is the Company's past claims settlement experience can be used to project future claims settlement and hence ultimate claims costs. As such, these methods extrapolate the settlement of paid and incurred losses, average costs per claim and claim numbers based on the observed settlement of earlier years and expected loss ratios. Historical claims settlement is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future settlement.

In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims settlement data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgment is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

Impairment losses on receivables

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms. The Company classifies balances as "past due but not impaired (note 8) on the basis of the guidelines given by SAMA.

Deferred policy acquisition costs ("DAC")

Certain acquisition costs related to the sale of policies are recorded as DAC and are amortized in the statement of income over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment/write-offs in the statement of income.

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimation and assumptions (Continued)

Useful life of property and equipment

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

Goodwill impairment testing

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5. CASH AND CASH EQUIVALENTS

	<i>Insurance operations</i>		<i>Shareholders' operations</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cash at banks				
- Current accounts	76,056,722	77,285,037	15,670,513	7,097,651
- Money market fund	258,301,875	67,507,016	33,035,189	-
	334,358,597	144,792,053	48,705,702	7,097,651

Cash at banks and units in money market funds are placed with counterparties that have high credit reliability.

6. LONG TERM/FIXED INCOME DEPOSITS

Time deposits were placed with local banks with an original maturity of more than three months from the date of placement. These deposits earn commission income at an average rate of 2.7% to 6% (2018: 1.5% to 6%) per annum.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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7. INVESTMENTS

Investments comprise the following:

	Insurance operations		Shareholders' operations	
	2019 SR	2018 SR	2019 SR	2018 SR
Available-for-sale investments (A)	-	-	124,910,549	113,191,495
Investments held for trading (B)	-	-	-	-
Held to maturity (C)	-	-	19,687,500	19,125,000
	-	-	144,598,049	132,316,495

Investment securities are classified as follows:

A. Investments available-for-sale:

Category wise analysis is as follows:

Shareholders' Operations

	Domestic		International		Total	
	2019 SR	2018 SR	2019 SR	2018 SR	2019 SR	2018 SR
Equity securities	59,944,941	59,849,586	34,689,967	45,566,268	94,634,908	105,415,854
Mutual funds	30,000,000	-	275,641	7,775,641	30,275,641	7,775,641
Investments available for sale	89,944,941	59,849,586	34,965,608	53,341,909	124,910,549	113,191,495

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7. INVESTMENTS (Continued)

A. Investments available for sale (Continued):

Movement in investments available for sale is as follows:

Shareholders' Operations

	<i>Quoted Securities</i>	<i>Unquoted securities</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
At January 1, 2018	39,006,699	57,001,783	96,008,482
Acquisitions during the year	60,863,647	5,667,550	66,531,197
Disposals during the year	(46,930,623)	(5,592,633)	(52,523,256)
Realization of gains/(losses) on disposal-of-available for sale investments	5,335,043	(1,109,524)	4,225,519
Unrealized fair value changes in AFS	(309,806)	2,038,643	1,728,837
Realized (losses)/gains	(5,471,291)	2,271,395	(3,199,896)
Dividends re-invested	-	420,612	420,612
At December 31, 2018	52,493,669	60,697,826	113,191,495
Acquisitions during the year	48,255,033	31,875,001	80,130,034
Disposals during the year	(47,373,056)	(21,294,658)	(68,667,714)
Realization of losses on disposal of available-for- sale investments	-	(2,209,739)	(2,209,739)
Unrealized fair value changes in AFS	(673,303)	452,256	(221,047)
Realized gains	1,986	6,124,122	6,126,108
Impairment recognized during the year	-	(3,812,433)	(3,812,433)
Dividends re-invested	-	373,845	373,845
At December 31, 2019	52,704,329	72,206,220	124,910,549

B. Investments held for trading

	<i>Quoted securities</i>	<i>Unquoted Securities</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
At January 1, 2018	7,118,190	-	7,118,190
Acquisitions during the year	-	-	-
Disposals during the year	(7,322,017)	-	(7,322,017)
Unrealized losses on investments held for trading	-	-	-
Realized profits	203,827	-	203,827
At December 31, 2018	-	-	-
Acquisitions during the year	-	-	-
Disposals during the year	-	-	-
Unrealized losses on investments held for trading	-	-	-
Realized profits	-	-	-
At December 31, 2019	-	-	-

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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7. INVESTMENTS (Continued)

C. Investments held to maturity:

Shareholders' Operations

	Domestic		International		Total	
	2019 SR	2018 SR	2019 SR	2018 SR	2019 SR	2018 SR
Sukuks	12,187,500	7,500,000	7,500,000	11,625,000	19,687,500	19,125,000
Investments held to Maturity	12,187,500	7,500,000	7,500,000	11,625,000	19,687,500	19,125,000

Movements in investments held to maturity is as follows:

	Quoted securities SR	Unquoted securities SR	Total SR
At January 1, 2018	-	-	-
Acquisitions during the year	22,875,419	-	22,875,419
Disposals during the year	(3,750,000)	-	(3,750,000)
Realized losses	(419)	-	(419)
At December 31, 2018	19,125,000	-	19,125,000

	Quoted securities SR	Unquoted securities SR	Total SR
At January 1, 2019	19,125,000	-	19,125,000
Acquisitions during the year	4,709,180	-	4,709,180
Disposals during the year	(4,124,430)	-	(4,124,430)
Realized losses	(22,250)	-	(22,250)
At December 31, 2019	19,687,500	-	19,687,500

Management has performed a review of the investments available for sale to assess whether impairment has occurred in the value of these investments. Based on specific information, management is of the view that no further impairment is required in respect of the investments available for sale other than disclosed above.

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8. PREMIUMS AND REINSURANCE RECEIVABLE, NET

	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
Policyholders	276,409,049	236,397,627
Brokers and agents	19,171,520	19,380,476
Receivables from insurance and reinsurance companies	9,537,420	30,617,984
Premiums and reinsurance receivables from related parties (note 20)	206,547	47,465
Premiums and reinsurers' receivable – gross	305,324,536	286,443,552
Less: allowance for doubtful debts, net	(124,830,405)	(102,596,932)
Premiums and reinsurers' receivable – net	180,494,131	183,846,620
The movements in the allowance for doubtful debts are as follows:		
	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
As at January 1	102,596,932	97,508,050
Allowance for doubtful debts for the year	22,233,473	5,088,882
As at December 31	124,830,405	102,596,932

The aging analysis of unimpaired premiums and insurance balances receivable at the year-end is set out below:

2019	Neither past due nor impaired		Past due net of impaired			Total
	Amounts in SR	Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days	
Premiums receivable		99,269,772	42,493,714	18,554,457	11,022,880	171,340,823
Brokers and agents		3,438,437	86,916	959,847	252,286	4,737,486
Receivables from insurance and reinsurance companies		2,470,783	335,369	568,279	834,844	4,209,275
Related parties		206,547	-	-	-	206,547
December 31, 2019		105,385,539	42,915,999	20,082,583	12,110,010	180,494,131

2018	Neither past due nor impaired		Past due net of impaired			Total
	Amounts in SR	Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days	
Premiums receivable		104,360,406	23,700,010	18,829,398	5,747,256	152,637,070
Brokers and agents		5,016,028	23,015	41,741	234,320	5,315,104
Receivables from insurance and reinsurance companies		23,502,166	1,563,282	115,825	665,708	25,846,981
Related parties		47,465	-	-	-	47,465
December 31, 2018		132,926,065	25,286,307	18,986,964	6,647,284	183,846,620

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8. PREMIUMS AND REINSURANCE RECEIVABLES, NET (Continued)

Premiums and reinsurance balances receivables comprise a large number of customers and related parties mainly within the Kingdom of Saudi Arabia as well as reinsurance companies. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual, company or broker, accounts for more than 11% of the premiums receivable as at December 31, 2019 (2018: 16.9%). In addition, the five largest receivables account for 33% of the premiums receivable as at December 31, 2019 (2018: 35.8%).

Unimpaired premiums receivable, receivables from insurance and reinsurance companies 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 are, therefore, unsecured.

9. TECHNICAL RESERVES

9.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
Gross outstanding claims	239,979,427	273,063,198
Less: Realizable value of salvage and subrogation	(54,632,589)	(58,477,834)
	185,346,838	214,585,364
Claims incurred but not reported	129,434,499	163,994,793
Additional premium reserve	22,756,206	17,219,944
Other technical reserve	6,167,162	17,025,025
	343,704,705	412,825,126
Less:		
- Reinsurers' share of outstanding claims	(65,545,868)	(81,346,744)
- Reinsurers' share of claims incurred but not reported	(14,164,512)	(33,068,317)
Net outstanding claims and reserves	263,994,325	298,410,065

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9. TECHNICAL RESERVES

9.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	Year ended December 31, 2019		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	488,953,035	(23,229,716)	465,723,319
Premium written during the year	861,936,426	(81,550,838)	780,385,588
Premium earned during the year	(876,167,775)	82,647,309	(793,520,466)
Balance as at the end of the year	474,721,686	(22,133,245)	452,588,441

	Year-ended December 31, 2018		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	399,514,260	(49,737,244)	349,777,016
Premium written during the year	929,775,986	(91,964,954)	837,811,032
Premium earned during the year	(840,337,211)	118,472,482	(721,864,729)
Balance as at the end of the year	488,953,035	(23,229,716)	465,723,319

9.3 Movement in deferred policy acquisition costs

Movement in deferred policy acquisition costs comprise of the following:

	2019 SR	2018 SR
Balance as at the beginning of the year	22,750,148	23,893,516
Incurred during the year	44,067,216	48,540,891
Amortized during the year	(43,650,573)	(49,684,259)
Balance as at the end of the year	23,166,791	22,750,148

10. CLAIMS DEVELOPMENT

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with 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 cumulative claims estimate and cumulative payments are in Saudi Riyal.

As required by IFRS, in setting claims provisions the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus.

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10. CLAIMS DEVELOPMENT (Continued)

a) Claims development table gross of reinsurance:

2019 <i>Accident year or Underwriting year</i>	<i>Before 2015</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Estimate of ultimate claims cost gross of reinsurance:							
- At the end of the accident year		511,829,045	651,105,806	493,141,139	490,980,616	723,510,782	723,510,782
- One year later		610,362,744	603,514,242	528,540,538	539,207,353	-	539,207,353
- Two years later		586,226,451	610,281,842	494,464,575	-	-	494,464,575
- Three years later		578,051,861	602,485,060	-	-	-	602,485,060
- Four years later		589,988,235	-	-	-	-	589,988,235
Reserve in respect of prior years	29,600,013	-	-	-	-	-	29,600,013
Current estimate of cumulative claims	29,600,013	589,988,235	602,485,060	494,464,575	539,207,353	723,510,782	2,979,256,018
Cumulative payments to date	-	(560,968,324)	(579,777,748)	(478,648,542)	(502,105,583)	(542,974,484)	(2,664,474,681)
Liability recognised in the statement of financial position	29,600,013	29,019,911	22,707,312	15,816,033	37,101,770	180,536,298	314,781,337
Outstanding claims and reserves							<u>314,781,337</u>

2018 <i>Accident year or Underwriting year</i>	<i>Before 2014</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Estimate of ultimate claims cost gross of reinsurance:							
- At the end of the accident year	-	845,550,575	626,147,912	785,544,610	575,902,500	596,271,554	596,271,554
- One year later	-	769,809,736	613,947,391	722,119,658	532,785,843	-	532,785,843
- Two years later	-	752,862,765	583,466,454	641,665,022	-	-	641,665,022
- Three years later	-	748,024,536	589,258,018	-	-	-	589,258,018
- Four years later	-	750,383,212	-	-	-	-	750,383,212
Reserve in respect of prior years	12,785,772	-	-	-	-	-	12,785,772
Current estimate of cumulative claims	12,785,772	750,383,212	589,258,018	641,665,022	532,785,843	596,271,554	3,123,149,421
Cumulative payments to date	-	(737,469,463)	(559,623,201)	(576,675,376)	(473,778,604)	(397,022,620)	(2,744,569,264)
Liability recognised in the statement of financial position	12,785,772	12,913,749	29,634,817	64,989,646	59,007,239	199,248,934	378,580,157
Outstanding claims and reserves							<u>378,580,157</u>

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10. CLAIMS DEVELOPMENT (Continued)

b) Claims development table net of reinsurance:

2019 <i>Accident year or Underwriting year</i>	<i>Before 2015</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Estimate of ultimate claims cost net of reinsurance:							
- At the end of the accident year		435,347,257	518,187,614	391,264,753	492,777,304	698,293,634	698,293,634
- One year later		523,656,225	551,827,051	454,094,648	476,021,069	-	476,021,069
- Two years later		506,701,590	557,390,213	427,903,943	-	-	427,903,943
- Three years later		512,697,801	535,122,808	-	-	-	535,122,808
- Four years later		511,677,187	-	-	-	-	511,677,187
Reserve in respect of prior years	15,696,522						15,696,522
Current estimate of cumulative claims	15,696,522	511,677,187	535,122,808	427,903,943	476,021,069	698,293,634	2,664,715,163
Cumulative payments to date	-	(499,136,952)	(520,453,496)	(416,311,616)	(459,497,126)	(534,245,016)	(2,429,644,206)
Liability recognised in the statement of financial position	15,696,522	12,540,235	14,669,312	11,592,327	16,523,943	164,048,618	235,070,957
Outstanding claims and reserves							235,070,957

2018 <i>Accident year or Underwriting year</i>	<i>Before 2014</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Estimate of ultimate claims cost net of reinsurance:							
- At the end of the accident year	-	627,303,432	515,673,505	607,522,273	475,295,289	530,306,409	530,306,409
- One year later	-	582,296,829	523,619,503	556,587,940	454,979,352	-	454,979,352
- Two years later	-	574,543,958	502,986,795	555,439,489	-	-	555,439,489
- Three years later	-	572,233,733	511,722,901	-	-	-	511,722,901
- Four years later	-	573,635,079	-	-	-	-	573,635,079
Reserve in respect of prior years	(829,272)	-	-	-	-	-	(829,272)
Current estimate of cumulative claims	(829,272)	573,635,079	511,722,901	555,439,489	454,979,352	530,306,409	2,625,253,958
Cumulative payments to date	-	(566,973,979)	(497,047,325)	(518,619,388)	(413,801,209)	(364,646,961)	(2,361,088,862)
Liability recognised in the statement of financial position	(829,272)	6,661,100	14,675,576	36,820,101	41,178,143	165,659,448	264,165,096
Outstanding claims and reserves							264,165,096

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11. PREPAID EXPENSES AND OTHER ASSETS

	Insurance operations		Shareholders' operations	
	2019 SR	2018 SR	2019 SR	2018 SR
Receivable against salvage items	6,010,860	4,182,720	-	-
Commission receivable	6,056,293	6,849,301	677,471	796,183
Margin deposits	-	800,000	-	-
Margin deposit against letter of guarantee	-	-	-	10,653,639
Other deferrals	8,467,523	6,761,825	-	-
Prepaid expenses	3,875,140	3,567,227	-	-
Other	5,613,843	8,336,336	-	-
	30,023,659	30,497,409	677,471	11,449,822

12. PROPERTY AND EQUIPMENT

	Leasehold improvements SR	Furniture, fixtures and office equipment SR	Motor vehicles SR	Capital work-in- progress SR	Total SR
Cost:					
At January 1, 2018	3,610,189	16,456,036	777,820	-	20,844,045
Additions	248,940	1,169,766	-	-	1,418,706
Disposals	-	(836,486)	(230,000)	-	(1,066,486)
At December 31, 2018	3,859,129	16,789,316	547,820	-	21,196,265
Additions	1,291,628	1,272,384	15,000	7,268,202	9,847,214
Disposals	-	-	(562,820)	-	(562,820)
At December 31, 2019	5,150,757	18,061,700	-	7,268,202	30,480,659
Accumulated Depreciation:					
At January 1, 2018	(2,207,524)	(10,619,352)	(688,388)	-	(13,515,264)
Charge for the year	(195,644)	(1,719,351)	(11,248)	-	(1,926,243)
Disposals	-	572,378	164,473	-	736,851
At December 31, 2018	(2,403,168)	(11,766,325)	(535,163)	-	(14,704,656)
Charge for the year	(498,730)	(1,675,963)	(5,895)	-	(2,180,588)
Disposals	-	-	541,058	-	541,058
At December 31, 2019	(2,901,898)	(13,442,288)	-	-	(16,344,186)
Net book value:					
At December 31, 2019	2,248,859	4,619,412	-	7,268,202	14,136,473
At December 31, 2018	1,455,961	5,022,991	12,657	-	6,491,609

Capital work-in-progress represents advance payment for new ERP system

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13. RIGHT OF USE ASSETS AND LEASE LIABILITIES

	2019 SR
Right of use assets	
Balance as on January 1, 2019 (before IFRS 16)	-
On adoption of IFRS 16 under modified approach	2,239,931
Balance as on January 1, 2019 (after IFRS 16)	2,239,931
Additions during the year	-
Depreciation for the year	(610,892)
Balance as on December 31, 2019	1,629,039
Lease liabilities	
Balance as on January 1, 2019 (before IFRS 16)	-
On adoption of IFRS 16 under modified approach	1,806,598
Balance as on January 1, 2019 (after IFRS 16)	1,806,598
Finance cost for the year	74,105
Payments made during the year	(650,000)
Balance as on December 31, 2019	1,230,703

The above right of use assets and lease liabilities pertain to office on lease rental.

Expenses pertain to short term and low value lease are SR 2.8 million.

14. GOODWILL

The Company commenced its insurance operations on January 1, 2009. The Company's shareholders approved the transfer of insurance portfolio and net assets of Trade Union Insurance Company B.S.C. (closed) to the Company effective January 1, 2009 upon approval from the respective authorities. Such transfer resulted in goodwill of SR 4.5 million.

As at the reporting date, impairment testing, based on expected discounted cash flows was performed. The assumptions used involve a considerable degree of estimation on the part of management. Actual conditions may differ from assumptions and thus actual cash flows may be different to those expected with a potential material effect on the recoverability of amounts. The most significant assumptions used in the determination of expected discounted cash flows for the next 5 years are:

- Weighted average cost of capital of 10%; and
- Average expected growth rate of 8% on earned premium.

Although management believes that the assumptions used to evaluate potential impairment are reasonable, with a significant portion based on the actual performance achieved in the past, such assumptions are inherently subjective.

Based on the assumptions made, the expected discounted future cash flows exceeded the carrying amount of goodwill and accordingly no impairment has been recognized.

A sensitivity analysis has been performed and an increase of 1% of the weighted average cost of capital and a decrease of 0.5% of the average expected growth rate on earned premium have no impact on the result of impairment tests.

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15. STATUTORY DEPOSIT

The statutory deposit represents 10% of the paid up share capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. Saudi Arabian Monetary Agency ("SAMA") is entitled to the earnings of this statutory deposit and it cannot be withdrawn without its consent. During the year ended December 31, 2019, the amount of statutory deposit was increased by Saudi Riyals 12.5 million (refer note1) which is in line with the increase in share capital.

In accordance with the instruction received from SAMA vide their circular dated March 1, 2016, the Company has disclosed the commission earned on the statutory deposit as at December 31, 2019 as an asset and a liability in these financial statements.

16. UNEARNED REINSURANCE COMMISSION

	<u>2019</u>	<u>2018</u>
	<u>SR</u>	<u>SR</u>
At January 1	3,553,941	4,461,397
Reinsurance commission received during the year	12,392,828	10,283,387
Reinsurance commission earned during the year	(11,015,353)	(11,190,843)
At December 31	<u>4,931,416</u>	<u>3,553,941</u>

17. ACCRUED AND OTHER LIABILITIES

	<u>Insurance operations</u>		<u>Shareholders' operations</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Due to related parties (Note 20)	2,441,251	2,498,462	-	-
Accrued expenses	4,249,764	5,437,127	1,594,989	1,400,000
Undistributed surplus payable (prior years)	12,936,573	7,573,787	-	-
Withholding tax payable	232,071	248,318	-	-
VAT payable	3,921,778	3,992,135	-	-
Claims payable to policy holders	33,846,491	33,621,095	-	-
Other liabilities	22,037,853	16,543,745	65,577	63,349
	<u>79,665,781</u>	<u>69,914,669</u>	<u>1,660,566</u>	<u>1,463,349</u>

18. ACCUMULATED SURPLUS PAYABLE

	<u>2019</u>	<u>2018</u>
	<u>SR</u>	<u>SR</u>
Opening surplus distribution payable	9,261,070	7,403,519
Total income attributed to the insurance operations during the year	5,449,616	9,261,070
Surplus paid/adjusted	(3,896,332)	(2,793,508)
Transferred to payables	(5,364,738)	(4,610,011)
Closing surplus distribution payable	<u>5,449,616</u>	<u>9,261,070</u>

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19. END-OF-SERVICE INDEMNITIES

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

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

	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
Present value of defined benefit obligation	<u>15,001,591</u>	<u>9,157,438</u>
	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
January 1,	9,157,438	9,855,362
Charged during the year	2,327,721	2,911,499
Actuarial loss / (gain) charged to other comprehensive income	4,060,337	(1,786,971)
Paid during the year	(543,905)	(1,822,452)
At December 31	<u>15,001,591</u>	<u>9,157,438</u>

19.2 Charge to statement of income a for the year:

	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
Current service cost	1,890,304	2,547,968
Interest cost	437,417	363,531
Cost recognized in profit or loss	<u>2,327,721</u>	<u>2,911,499</u>

19.3 Principal actuarial assumptions

	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
Discount factor used	3.00%	4.50%
Long term Salary increase rate	3.00%	2.50%
Mortality rates	WHO SA16 - 75%	WHO SA 16 - 75%
Weighted average duration of defined benefit obligation	10.47	9.10
Rates of employees turnover	Moderate	Moderate

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19. END-OF-SERVICE INDEMNITIES (Continued)

19.4 Sensitivity analysis on present value of defined benefit obligations plan are as below:

	<i>December 31, 2019</i>		<i>December 31, 2018</i>	
	<i>Percentage (%)</i>	<i>Amount (SR)</i>	<i>Percentage (%)</i>	<i>Amount (SR)</i>
Discount rate				
Increase	0.50%	14,247,988	+0.5%	8,756,230
Decrease	-0.50%	15,822,292	-0.5%	9,591,771
Expected changes of salary				
Increase	0.50%	15,522,364	+0.5%	9,598,358
Decrease	-0.50%	14,513,779	-0.5%	8,746,785

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting year) has been applied as when calculating the end-of-service indemnities recognized within the statement of financial position.

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties represent shareholders, companies related to shareholders ("affiliates") and key management personnel and the entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors.

The following are the details of major related parties' transactions during the year and the related balances:

<i>Related parties</i>	<i>Nature of transactions</i>	<i>2019 SR</i>	<i>2018 SR</i>
Board of Directors	Reinsurance premiums ceded	309,130	608,664
	Reinsurers' share of gross claims	18,891	79,848
	Gross written premium	573,249	541,980
	Claim expenses	150	547,409
	Amounts paid/charged to related parties	6,437	1,416,934
	Remuneration	1,400,000	1,400,000
	Meeting fee and expenses	106,118	93,209

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20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Balances due from/(to) related parties are comprised of the followings:

<i>Related parties</i>	<i>Balances due from / (to) related parties</i>	
	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
Affiliates		
Trade Activities Company	(2,441,251)	(2,498,462)

<i>Related parties</i>	<i>Premiums and reinsurance receivables</i>		<i>Reinsurance payables</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Board members	206,547	47,465	(252,455)	(349,150)
Total	206,547	47,465	(252,455)	(349,150)

- Amounts due from/ due to, pertain to transactions conducted with affiliates.
- Prices and terms of payment for these transactions are approved by the management.

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

	BOD members (Executives)	BOD members (Non- Executive)	Top Executives including the CEO and CFO
2019			
Salaries and compensation	-	-	5,882,600
Allowances	-	93,209	51,110
Annual remuneration	-	1,400,000	2,179,602
End of service indemnities	-	-	537,485
Total	-	1,493,209	8,650,797
Headcount	-	7	5
2018			
Salaries and compensation	-	-	5,538,800
Allowances	-	93,209	62,400
Annual remuneration	-	1,400,000	2,834,556
End of service indemnities	-	-	471,738
Total	-	1,493,209	8,907,494
Headcount	-	7	5

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21. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,			
	Insurance operations		Shareholders' operations	
	2019	2018	2019	2018
	SR	SR	SR	SR
Employees' salaries and costs	56,838,708	54,616,337	-	-
Provision for value added tax	640,889	569,666	587	3,480
Employees' end-of-service benefits (note 19)	2,327,721	2,911,499	-	-
Professional fees	1,730,844	2,211,100	-	-
Rent	2,821,739	3,982,186	-	-
Depreciation on property and equipment	2,180,588	1,926,243	-	-
Depreciation on Right of use Asset	610,892	-	-	-
Promotion and advertising	87,082	62,020	25,726	24,088
Stationery	988,927	932,156	-	-
Repairs and maintenance	435,111	338,838	-	-
Travel and transport	333,979	575,998	37,118	-
Utilities	417,865	421,983	-	-
Board of directors and other committees remuneration and expenses	-	-	1,612,871	1,538,513
Others	6,226,764	9,030,892	272,869	36,136
	75,641,109	77,578,918	1,949,171	1,602,217

22. INVESTMENT INCOME

	Insurance operations		Shareholders' operations	
	2019	2018	2019	2018
	SR	SR	SR	SR
Available for sale				
Realized gain/(loss) on investments	-	-	6,126,108	(2,980,914)
Impairment on available for sale investments	-	-	(3,812,433)	-
Dividend and investment income	-	-	2,690,032	3,053,493
Investment held for trading				
Dividend and investment income	-	216,327	-	-
Held to maturity				
Murabaha income	-	-	758,922	681,956
Realized loss on investments	-	-	(22,250)	(419)
Cash and short term deposit				
Murabaha income	658,488	604,743	-	17,410
Dividend and investment income	2,795,033	1,574,075	-	-
Long term deposit				
Murabaha income	16,148,183	14,551,163	12,078,338	6,205,759
	19,601,704	16,946,308	17,818,717	6,977,285

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23. OTHER UNDERWRITING INCOME

	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
Policy issuance fees	5,429,914	5,646,707
Profit sharing on reinsurance treaties	3,065,736	15,339,664
Company share of Manafeth income	2,215,634	2,369,077
Others	4,507,068	577,688
	<u>15,218,352</u>	<u>23,933,136</u>

24. ZAKAT AND INCOME TAX

The principal elements of the zakat base are as follows:

	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
Non-current assets	234,895,350	329,937,226
Non-current liabilities	19,533,380	12,786,560
Net income before surplus attribution and zakat and income tax	69,757,858	97,396,970
Goodwill	4,496,500	4,496,500
Opening shareholders' equity	432,412,311	356,322,055

Provision for Zakat and income tax

Provision for zakat has been made at 2.5% of approximate Zakat base attributable to the Saudi shareholders of the Company.

Provision for income tax has been made at 20% of the adjusted net income attributable to the foreign shareholders of the Company.

Movement in the provision for zakat and income tax during the year

	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	51,620,542	40,525,864
Provision for the year	14,000,000	18,000,000
Paid during the year	(38,945,338)	(6,905,322)
At the end of the year	<u>26,675,204</u>	<u>51,620,542</u>

The movement zakat provision is as follows:

	<i>2019</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	50,750,515	39,597,209
Provision for the year	13,651,400	17,551,541
Paid during the year	(38,399,172)	(6,398,235)
At the end of the year	<u>26,002,743</u>	<u>50,750,515</u>

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24. ZAKAT AND INCOME TAX (Continued):

The movement income tax provision is as follows:

	2019	2018
	SR	SR
At the beginning of the year	870,027	928,655
Provision for the year	348,600	448,459
Paid during the year	(546,166)	(507,087)
At the end of the year	672,461	870,027

The following is the shareholding percentage in the financial statements as at the end of the year:

	2019	2018
	%	%
Shareholding subject to zakat	97.51	97.51
Shareholding subject to income tax	2.49	2.49

Status of zakat and income tax certificate

The Company has submitted its zakat and tax returns up to the year ended December 31, 2018.

In 2014, the Company received zakat assessments for the years 2007 to 2012 from the General Authority of Zakat and Tax (GAZT) claiming zakat and income tax liability amounting to SR 30.9 million and SR 21.4 million for withholding tax. In addition, during 2017, GAZT issued an assessment for years 2013 and 2014 claiming an additional zakat differences amounting to SR 4.3 million and SR 4.8 million respectively. Later to that, GAZT issued another assessment for the years 2013-2015 claiming a total amount of SR 18.9 million consisting of SR 3.4 million for Zakat and income tax and SR 15.5 million for withholding tax. The Company had appealed against these assessments in prior years.

However, the Company had paid an amount of SR 46.9 million, which represents the withholding tax differences amounting to SR 36.9 million and SR 10 million represented down payment on the account of penalties, to avoid the increase of delay penalties.

In 2019, the Company received an approval on the settlement of pending appeals and assessments related to zakat, income taxes and withholding tax for the year from 2007 up to 2015 amounting to SR. 29.5 million.

Additionally, the zakat assessments of Trade Union Insurance Company (B.S.C.) (closed) have been finalized by the GAZT for the years 2000 to 2008 claiming zakat and income tax liability amounting to SR 10.6 million and withholding tax dues amounting to SR 8.9 million. Management has filed an objection against these assessments and the primary objection committee concluded the same in favor of GAZT. However, the management filed an objection to the Appeal Committee of Zakat and Income Tax following the regulatory procedures.

In 2015, the GAZT has issued an adjusted assessment for the same years 2000-2008 claiming the same amount as per the Preliminary Committee's decision. The Company has appealed against these assessments and management expects to receive a favorable ruling. Subsequently, the Company paid an additional amount of SR 8.8 million and the case is still under discussion of the Appellate Committee.

The Company has submitted its zakat and tax returns up to the year ended December 31, 2018 assessments of the years 2016 to 2018 is under review of GAZT.

Payment has been made with the provision of continuation of the appeals, keeping the right to refund or reconcile the excess payment when the company receives a favorable ruling for the cases.

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24. ZAKAT AND INCOME TAX (Continued)

Effect of change in accounting policies for zakat and income tax

The change in the accounting treatment for zakat and income tax (as explained in Note 3.3) has the following impact on the line items of the statements of income and changes in equity:

As at year ended December 31, 2018:

Financial statement impacted	Account	Before the restatement for the year ended December 31, 2018:	Effect of Restatement	As restated as at and for the year ended December 31, 2018:
Statement of changes in equity	Provision for zakat and income tax (retained earnings)	18,000,000	(18,000,000)	-
Statement of income	Zakat and income tax expenses	-	18,000,000	18,000,000
Statement of income	Earnings per share	2.20	(0.35)	1.75

25. SHARE CAPITAL

The authorized, issued and paid-up share capital is SR 400 million at December 31, 2019 consisting of 40 million shares (December 31, 2018: SR 275 million consisting of 27.5 million shares) of SR 10 each. During the year, the Company has issued bonus shares amounting to SR 125 million consisting of 12.5 million shares of SR 10 each through utilization of statutory reserve and retained earnings (refer Note1).

Shareholding structure of the Company is as below.

	<i>December 31, 2019</i>		
	<i>Authorized and issued</i>	<i>Paid up</i>	
	<i>No. of Shares</i>	<i>SR</i>	
Trade Union Holding Co. - Bahrain	8,944,000	89,440,000	89,440,000
Al Ahleia Insurance Co. - Kuwait	4,000,000	40,000,000	40,000,000
Others	27,056,000	270,560,000	270,560,000
	40,000,000	400,000,000	400,000,000
	<i>December 31, 2018</i>		
	<i>Authorized and issued</i>	<i>Paid up</i>	
	<i>No. of Shares</i>	<i>SR</i>	
Trade Union Holding Co. - Bahrain	6,149,000	61,490,000	61,490,000
Al Ahleia Insurance Co. - Kuwait	2,750,000	27,500,000	27,500,000
Others	18,601,000	186,010,000	186,010,000
	27,500,000	275,000,000	275,000,000

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26. STATUTORY RESERVE

In accordance with the Implementing Regulations for Insurance Companies in Saudi Arabia and the by-laws of the Company, the Company has to establish a statutory reserve through the appropriation of 20% of net income in each year until the reserve equals 100% of the share capital.

27. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing net income for the year by the weighted average number of outstanding shares during the year. The basic and diluted earnings per share for the corresponding year was adjusted to reflect the bonus issue.

28. COMMITMENTS AND CONTINGENCIES

Legal proceedings

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

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29. 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.

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

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

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

The solvency margin as at December 31, 2019 is 218%. Further, the Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at December 31, 2019 consists of paid-up share capital of SAR 400 million, statutory reserve of SAR 24.09 million and retained earnings of SR 51.64 million (December 31, 2018: paid-up share capital of SR 275 million, statutory reserve of SR 43.28 million and retained earnings of SAR 107.14 million) in the statement of financial position.

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

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30. SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, operating segment has been approved by Board of Directors in their function as Chief Operating Decision Maker ("CODM") in order to allocate resources to the segments and to assess its performance.

For management purposes, the Company is organized into business segments classified as: Medical, Property, Engineering, Motor, Casualty and Others. Others include marine and other general insurance. These segments are the basis on which the Company reports its primary segment information.

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

Segment results do not include general and administrative expenses, interest income and commission income, dividend income and realized loss, net, other income, allowance for doubtful debts, and unrealized (losses)/ gains on investments held for trading.

Segment assets do not include cash and cash equivalents, investments held for trading, available for sale and held to maturity, premiums and insurance receivable, prepaid expenses and other assets, amounts due from related parties, amounts due from shareholders' operations, time deposits, property and equipment, right of use assets and goodwill and shareholders' operations assets. Accordingly, they are included in unallocated assets.

Segment liabilities and accumulated surplus do not include accounts payables, reinsurance balances payable, accrued expenses, other liabilities, lease liabilities, due to related parties, accrued commission income payable to SAMA, amounts due to shareholders' operations and end-of-service indemnities and shareholders' liabilities. 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.

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

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30. SEGMENTAL INFORMATION (Continued)

	For the twelve months ended December 31, 2019			
	Medical	Motor	Property and casualty	Total
	SAR			
REVENUES				
Gross premiums written				
Individual	-	162,534,698	1,640,209	164,174,907
Micro Entities	89,823,424	1,755,493	607,511	92,186,428
Small Entities	15,664,278	10,642,694	5,989,925	32,296,897
Medium Entities	14,675,649	20,930,175	22,584,567	58,190,391
Large Organizations	89,367,578	401,651,093	24,069,132	515,087,803
	209,530,929	597,514,153	54,891,344	861,936,426
Reinsurance premiums ceded – local	-	(440,506)	(1,660,010)	(2,100,516)
Reinsurance premiums ceded – foreign	(350,111)	(8,443,735)	(44,493,760)	(53,287,606)
Excess of loss premium	(12,116,178)	(11,683,825)	(2,362,713)	(26,162,716)
Net premiums written	197,064,640	576,946,087	6,374,861	780,385,588
Changes in unearned premiums, net	(40,712,916)	43,085,369	10,762,425	13,134,878
Net premiums earned	156,351,724	620,031,456	17,137,286	793,520,466
Reinsurance commission income	-	2,573,733	8,441,620	11,015,353
Other underwriting income	2,507,329	9,235,835	3,475,188	15,218,352
TOTAL REVENUES	158,859,053	631,841,024	29,054,094	819,754,171
UNDERWRITING COSTS AND EXPENSES				
Gross claims paid	(147,942,285)	(522,788,683)	(12,035,868)	(682,766,836)
Reinsurers' share of claims paid	20,972,493	3,990,660	6,120,019	31,083,172
Net claims and other benefits paid	(126,969,792)	(518,798,023)	(5,915,849)	(651,683,664)
Changes in outstanding claims, net	(9,268,391)	25,906,908	(3,200,867)	13,437,650
Changes in claims incurred but not reported	8,526,593	4,925,014	2,204,882	15,656,489
Change in other technical reserves movement	251,577	10,030,828	575,458	10,857,863
Net claims and other benefits incurred	(127,460,013)	(477,935,273)	(6,336,376)	(611,731,662)
Additional premium reserves	(10,211,300)	60,591	4,614,447	(5,536,262)
Policy acquisition costs	(13,577,990)	(24,635,156)	(5,437,427)	(43,650,573)
Other underwriting expenses	(11,341,102)	(14,435,602)	(297,061)	(26,073,765)
TOTAL UNDERWRITING COSTS AND EXPENSES	(162,590,405)	(516,945,440)	(7,456,417)	(686,992,262)
NET UNDERWRITING (LOSS)/ INCOME	(3,731,352)	114,895,584	21,597,677	132,761,909
OTHER OPERATING (EXPENSES)/ INCOME				
Allowance for doubtful debts				(22,233,473)
General and administrative expenses				(77,590,280)
Murabaha income on deposits				29,643,931
Realized gain/(loss)/(impairment) on investments				2,291,425
Dividend and investment income				5,485,065
Investment expenses				(607,852)
Finance cost				(74,105)
Others				81,238
Total other operating expenses, net				(63,004,051)
Total income for the year before surplus attribution and zakat and income tax				69,757,858
Surplus attributed to the insurance operations				(5,449,616)
Total income for the year before Zakat and income tax				64,308,242
Zakat and income tax expense				(14,000,000)
Total income for the year attributable to the shareholders				50,308,242

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30. SEGMENTAL INFORMATION (Continued)

	As at December 31, 2019						
	Insurance operations		Property and casualty operations	Total insurance operations		Shareholders' operations	Total SAR
	Medical SAR	Motor SAR		SAR	SAR		
Assets							
Reinsurers' share of unearned premiums	-	4,214,236	17,919,009	22,133,245	-	22,133,245	
Reinsurers' share of outstanding claims	2,908,139	19,986,510	42,651,219	65,545,868	-	65,545,868	
Reinsurers' share of claims incurred but not reported	-	1,012,735	13,151,777	14,164,512	-	14,164,512	
Deferred policy acquisition costs	8,706,335	11,830,012	2,630,444	23,166,791	-	23,166,791	
Unallocated assets	-	-	-	897,782,644	-	1,361,893,422	
Total assets	11,614,474	37,043,493	76,352,449	1,022,793,060	464,110,778	1,486,903,838	
Liabilities							
Unearned premiums	122,859,120	323,331,355	28,531,211	474,721,686	-	474,721,686	
Unearned reinsurance commission	-	1,158,925	3,772,491	4,931,416	-	4,931,416	
Outstanding claims	33,808,540	74,285,202	77,253,096	185,346,838	-	185,346,838	
Claims incurred but not reported	7,899,515	103,098,057	18,436,927	129,434,499	-	129,434,499	
Additional premium reserves	10,211,300	10,017,693	2,527,213	22,756,206	-	22,756,206	
Other technical reserves	248,038	4,207,220	1,711,904	6,167,162	-	6,167,162	
Unallocated liabilities	-	-	-	150,388,705	-	183,256,264	
Total liabilities	175,026,513	516,098,452	132,232,842	973,746,512	32,867,559	1,006,614,071	

Geographical segments

All the assets and liabilities of the Company are located in the Kingdom of Saudi Arabia except for certain investments held in countries domiciled in the Gulf Cooperation Council ("GCC").

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30. SEGMENTAL INFORMATION (Continued)

	For the twelve months ended December 31, 2018			
	Medical	Motor	Property and casualty	Total
	SAR			
REVENUES				
Gross premiums written	173,849,274	699,277,543	56,649,169	929,775,986
Reinsurance premiums ceded – local	-	(1,142,624)	(2,889,730)	(4,032,354)
Reinsurance premiums ceded – foreign	(21,747,292)	(10,283,631)	(36,979,562)	(69,010,485)
Excess of loss premium	(2,650,000)	(13,557,115)	(2,715,000)	(18,922,115)
Net premiums written	149,451,982	674,294,173	14,064,877	837,811,032
Changes in unearned premiums, net	1,535,451	(131,779,672)	14,297,918	(115,946,303)
Net premiums earned	150,987,433	542,514,501	28,362,795	721,864,729
Reinsurance commission income	-	2,697,153	8,493,690	11,190,843
Other underwriting income	16,165,159	5,594,132	2,173,845	23,933,136
TOTAL REVENUES	167,152,592	550,805,786	39,030,330	756,988,708
UNDERWRITING COSTS AND EXPENSES				
Gross claims paid	(117,638,150)	(418,335,580)	(16,869,143)	(552,842,873)
Reinsurers' share of claims paid	38,746,386	8,542,872	12,512,070	59,801,328
Net claims and other benefits paid	(78,891,764)	(409,792,708)	(4,357,073)	(493,041,545)
Changes in outstanding claims, net	(7,793,957)	(12,251,385)	(4,532,784)	(24,578,126)
Changes in claims incurred but not reported	(1,093,946)	(6,944,858)	(1,231,877)	(9,270,681)
Change in other technical reserves movement	(499,615)	(7,016,809)	(1,030,727)	(8,547,151)
Net claims and other benefits incurred	(88,279,282)	(436,005,760)	(11,152,461)	(535,437,503)
Additional premium reserves	-	161,038	3,762,946	3,923,984
Policy acquisition costs	(17,648,556)	(25,747,444)	(6,288,259)	(49,684,259)
Other underwriting expenses	(12,485,334)	(8,173,762)	(405,010)	(21,064,106)
TOTAL UNDERWRITING COSTS AND EXPENSES	(118,413,172)	(469,765,928)	(14,082,784)	(602,261,884)
NET UNDERWRITING INCOME / (LOSS)	48,739,420	81,039,858	24,947,546	154,726,824
OTHER OPERATING (EXPENSES)/ INCOME				
Allowance for doubtful debts				(5,088,882)
General and administrative expenses				(79,181,135)
Murabaha income on deposits				22,061,031
Realized gain/(loss)/(impairment) on investments				(2,981,333)
Dividend and investment income				4,843,895
Investment expenses				(588,794)
Others				3,605,364
Total other operating expenses, net				(57,329,854)
Total income for the year before surplus attribution and Zakat and income tax				97,396,970
Surplus attributed to the insurance operations				(9,261,070)
Total income for the year before Zakat and income tax				88,135,900
Zakat and income tax expense				(18,000,000)
Total income for the year attributable to the Shareholders				70,135,900

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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30. SEGMENTAL INFORMATION (Continued)

	As at December 31, 2018						
	Insurance operations			Property and casualty SAR	Total insurance operations SAR	Shareholders' operations SAR	Total SAR
	Medical SAR	Motor SAR	SAR				
Assets							
Reinsurers' share of unearned premiums	4,444,800	5,151,596	13,633,320		23,229,716	-	23,229,716
Reinsurers' share of outstanding claims	5,735,217	16,235,399	59,376,128		81,346,744	-	81,346,744
Reinsurers' share of claims incurred but not reported	7,122,771	2,578,773	23,366,773		33,068,317	-	33,068,317
Deferred policy acquisition costs	6,492,538	13,895,338	2,362,272		22,750,148	-	22,750,148
Unallocated assets					981,333,292	405,775,698	1,387,108,990
Total assets	23,795,326	37,861,106	98,738,493		1,141,728,217	405,775,698	1,547,503,915
Liabilities							
Unearned premiums	86,591,004	367,354,084	35,007,947		488,953,035	-	488,953,035
Unearned reinsurance commission	-	1,287,639	2,266,302		3,553,941	-	3,553,941
Outstanding claims	27,367,227	96,440,999	90,777,138		214,585,364	-	214,585,364
Claims incurred but not reported	23,548,879	109,589,109	30,856,805		163,994,793	-	163,994,793
Additional premium reserves	-	8,101,554	9,118,390		17,219,944	-	17,219,944
Other technical reserves	499,615	14,238,048	2,287,362		17,025,025	-	17,025,025
Unallocated liabilities					153,046,489	56,713,013	209,759,502
Total liabilities	138,006,725	597,011,433	170,313,944		1,058,378,591	56,713,013	1,115,091,604

Geographical segments

All the assets and liabilities of the Company are located in the Kingdom of Saudi Arabia except for certain investments held in countries domiciled in the Gulf Cooperation Council ("GCC").

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31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction 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 management assessed that fair value of cash, bank balances and short-term deposits, receivables from related parties, accounts payable, reinsurance balances payable, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Determination of fair value and fair value hierarchy

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

- Level 1 – quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;
- Level 2 – quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3 – valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<i>December 31, 2019</i>			
	Level 1	Level 2	Level 3	Total
	SR	SR	SR	SR
Investments available for sale	82,704,330	30,833,294	11,372,925	124,910,549
	<u>82,704,330</u>	<u>30,833,294</u>	<u>11,372,925</u>	<u>124,910,549</u>

	<i>December 31, 2018</i>			
	Level 1	Level 2	Level 3	Total
	SR	SR	SR	SR
Investments available for sale	52,493,669	48,875,934	11,821,892	113,191,495
	<u>52,493,669</u>	<u>48,875,934</u>	<u>11,821,892</u>	<u>113,191,495</u>

During the year, there has been no transfer between level 1, level 2 and level 3.

Investments available for sale amounting to SR. 11,372,925 (2018: SR. 19,597,233) are carried at cost because the investments are not quoted in any active market nor there is any level of input directly or indirectly observable and there are no other significant observable inputs available. The management does not have any intention to dispose of this available for sale investment in the foreseeable future.

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32. RISK MANAGEMENT

Risk governance

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

Risk management structure

A cohesive organisational structure is established within the Company in order to identify, assess, monitor and control risks.

Board of Directors

The apex of risk governance is the centralised oversight of BOD providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Risk Management Committee

The Company has a Risk Management Committee in place. The Committee meets to review the reports of the Risk Manager to give advice and make recommendations on Company's enterprise-wide risk management to the BOD. The risks of each area are managed by the respective Line Managers and Departmental Heads. The Company continues to develop its risk management capability to ensure that an effective framework exists to support the management of all types of risk both currently and in future under SAMA's implementing rules and regulations. Elements of this framework include the regular identification and assessment of the key risks and controls as well as clearly defined ownership of both the risks and controls.

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32. RISK MANAGEMENT (Continued)

Senior management

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

Audit Committee and Internal Audit Department

Risk management processes throughout the Company are audited annually by the Internal Audit Department which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Audit Department discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

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

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

Insurance and reinsurance risk management

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under such contracts is the occurrence of the insured events and the severity of reported claims. The Company's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

Underwriting and retention policies, procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local markets are closely observed, reacting where necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

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32. RISK MANAGEMENT (Continued)

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly property, engineering, motor, casualty, and marine classes. These classes of insurance except for long tail engineering policies are generally regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

(i) Property

Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting therefrom, are underwritten either on a replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties and the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional as well as non-proportional treaties.

(ii) Engineering

The engineering business includes long tail Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Deterioration of Stock and Business Interruption in conjunction with MBD. The long tail EAR/CAR policies cover various projects for the whole project period. Selection of the risks and proper underwriting are the criteria for this profitable line of business. These are amply covered under the engineering proportional and non-proportional treaties.

(iii) Motor

For motor insurance contracts, the main elements of risk are claims arising out of insured vehicles as well as damage to third parties' properties. Further, death claims compensation has been made in accordance with the laws as applicable in the Kingdom of Saudi Arabia.

This risk is covered by per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

(iv) Casualty

For casualty class of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The extent of loss or damage is the main factor that influences the level of claims.

(v) Marine

In marine insurance, the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

Reinsurance arrangements have been made with reinsurers through proportional treaties as well as non-proportional treaties.

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32. RISK MANAGEMENT (Continued)

Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the reporting date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty. Actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors affect the estimates.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of IBNR at the statement of financial position date. The details of estimation of outstanding claims including IBNR are given under Notes 3 and 4.

Process used to determine assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

Concentration of insurance risk

The Company, with the introduction of any one risk definition and strictly following it in the underwriting process, eliminates concentration of risks. Elimination of location limit under the marine proportional treaty and having a third excess of losses ("XOL") layer to protect accumulation on the net retention amply to take care of concentration. On the casualty side, concentration of risk is very minimal and XOL treaty takes care of it amply. The Company does not have any material claims where the amount and timing of payment is not resolved within one year of the statement of financial position date.

Reinsurance risk

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

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32. RISK MANAGEMENT (Continued)

Regulatory framework risk

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

Credit risk

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

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into insurance and reinsurance contracts with recognised credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's investment portfolio is managed by the investment committee in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.
- There are no significant concentrations of credit risk within the Company.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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32. RISK MANAGEMENT (Continued)

Credit risk (Continued)

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

	Insurance operations		Shareholders' operations	
	2019 SR	2018 SR	2019 SR	2018 SR
Cash and cash equivalents	334,358,597	144,792,053	48,705,702	7,097,651
Statutory deposit	-	-	40,000,000	27,500,000
Long term/fixed income deposits	337,140,745	615,705,601	221,101,267	219,286,108
Accrued income on statutory deposit	-	-	4,531,789	3,629,122
Investments	-	-	144,598,049	132,316,495
Premiums and reinsurance receivable, net	180,494,131	183,846,620	-	-
Reinsurers' share of outstanding claims	65,545,868	81,346,744	-	-
Reinsurers' share of claims Incurred but not reported	14,164,512	33,068,317	-	-
Other assets	17,680,996	20,168,357	677,471	11,449,822
	949,384,849	1,078,927,692	459,614,278	401,279,198

The above financial assets include insurance related assets amounting to SR 79.71 million (2018: SR 114.42 million).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds invested in time deposits, available for sale and held to maturity.

Maturity profiles

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

	2019		Total SR
	Up to one year SR	More than one year SR	
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	334,358,597	-	334,358,597
Long term/fixed income deposits	307,140,745	30,000,000	337,140,745
Premiums and reinsurance balances receivable, net	180,494,131	-	180,494,131
Reinsurers' share of outstanding claims	65,545,868	-	65,545,868
Reinsurers' share of claims Incurred but not reported	14,164,512	-	14,164,512
Other assets	17,680,996	-	17,680,996
	919,384,849	30,000,000	949,384,849

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AT DECEMBER 31, 2019**

32. RISK MANAGEMENT (Continued)

Maturity profiles (Continued)

	2019		
	<i>Up to</i>	<i>More than</i>	<i>Total</i>
	<i>one year</i>	<i>one year</i>	
	<i>SR</i>	<i>SR</i>	<i>SR</i>
SHAREHOLDERS' FINANCIAL ASSETS			
Cash and cash equivalents	48,705,702	-	48,705,702
Long term/fixed income deposits	221,101,267	-	221,101,267
Statutory deposit	-	40,000,000	40,000,000
Investments	-	144,598,049	144,598,049
Accrued income on statutory deposit	-	4,531,789	4,531,789
Other assets	677,471	-	677,471
	270,484,440	189,129,838	459,614,278
TOTAL FINANCIAL ASSETS	1,189,869,289	219,129,838	1,408,999,127
	2018		
	<i>Up to</i>	<i>More than</i>	<i>Total</i>
	<i>one year</i>	<i>one year</i>	
	<i>SR</i>	<i>SR</i>	<i>SR</i>
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	144,792,053	-	144,792,053
Long term/fixed income deposits	455,705,601	160,000,000	615,705,601
Premiums and reinsurance receivable, net	183,846,620	-	183,846,620
Reinsurers' share of outstanding claims	81,346,744	-	81,346,744
Reinsurers' share of claims Incurred but not reported	33,068,317	-	33,068,317
Other assets	20,168,357	-	20,168,357
	918,927,692	160,000,000	1,078,927,692
	2018		
	<i>Up to</i>	<i>More than</i>	<i>Total</i>
	<i>one year</i>	<i>one year</i>	
	<i>SR</i>	<i>SR</i>	<i>SR</i>
SHAREHOLDERS' FINANCIAL ASSETS			
Cash and cash equivalents	7,097,651	-	7,097,651
Long term/fixed income deposits	219,286,108	-	219,286,108
Statutory deposit	-	27,500,000	27,500,000
Investments	-	132,316,495	132,316,495
Statutory deposit commission	-	3,629,122	3,629,122
Other assets	11,449,822	-	11,449,822
	237,833,581	163,445,617	401,279,198
TOTAL FINANCIAL ASSETS	1,156,761,273	323,445,617	1,480,206,890

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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32. RISK MANAGEMENT (Continued)

Maturity profiles (Continued)

	<i>2019</i>		
	<i>Up to one year SR</i>	<i>More than one year SR</i>	<i>Total SR</i>
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
Accounts payable	39,533,628	-	39,533,628
Reinsurance balances payable	12,084,964	-	12,084,964
Accrued and other liabilities	75,511,932	-	75,511,932
Gross outstanding claims	185,346,838	-	185,346,838
Claims incurred but not reported	129,434,499	-	129,434,499
	<u>441,911,861</u>	<u>-</u>	<u>441,911,861</u>
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued and other liabilities	1,660,566	-	1,660,566
Accrued commission income payable to SAMA	4,531,789	-	4,531,789
	<u>6,192,355</u>	<u>-</u>	<u>6,192,355</u>
TOTAL FINANCIAL LIABILITIES	<u>448,104,216</u>	<u>-</u>	<u>448,104,216</u>
	<i>2018</i>		
	<i>Up to one year SR</i>	<i>More than one year SR</i>	<i>Total SR</i>
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
Accounts payable	50,026,623	-	50,026,623
Reinsurance balances payable	13,203,930	-	13,203,930
Accrued and other liabilities	65,674,216	-	65,674,216
Gross outstanding claims	214,585,364	-	214,585,364
Claims incurred but not reported	163,994,793	-	163,994,793
	<u>507,484,926</u>	<u>-</u>	<u>507,484,926</u>
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued and other liabilities	1,463,349	-	1,463,349
Accrued commission income payable to SAMA	3,629,122	-	3,629,122
	<u>5,092,471</u>	<u>-</u>	<u>5,092,471</u>
TOTAL FINANCIAL LIABILITIES	<u>512,577,397</u>	<u>-</u>	<u>512,577,397</u>

Liquidity profile

All of the financial liabilities in the statement of financial position are valued at amortized cost.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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32. RISK MANAGEMENT (Continued)

Commission rate risk

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the Company to cash flow commission risk, whereas fixed commission rate instruments expose the Company to fair value interest risk.

The Company is exposed to commission rate risk on certain of its time deposits, term deposits, money market fund and investments available for sale. The Company limits commission rate risk by monitoring changes in commission rates.

The following table demonstrates the sensitivity of statement of shareholder's comprehensive income to reasonably possible changes in commission rates, with all other variables held constant.

The sensitivity of the statement of shareholder's comprehensive income is the effect of the assumed changes in commission rates on the Company's income for the year, based on the floating rate financial assets and financial liabilities held as at December 31:

	Change in basis points	Effect on comprehensive income for the year SR
2019	10	± 716,023
2018	10	±742,305

Market price risk

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

The Company limits market risk by maintaining a diversified portfolio and by monitoring developments in equity market. The Company does not have significant market risk.

Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the investment department of the Company. The unquoted equity price risk exposure arises from the Company's investment portfolio.

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32. RISK MANAGEMENT (Continued)

Market price risk (Continued)

The effect on net surplus in the statement of income and effect on total comprehensive income for the year in the statement of comprehensive income as a result of a change in the fair value of the available for sale investments at December 31, 2019 due to a reasonable possible change in the equity prices, with all other variables held as constant is as follows:

<i>Change in equity price</i>	<i>2019</i>		<i>2018</i>	
	<i>Insurance operations' SR</i>	<i>Shareholders operations SR</i>	<i>Insurance operations' SR</i>	<i>Shareholders operations SR</i>
+5	-	6,245,527	-	5,659,575
-5	-	(6,245,527)	-	(5,659,575)

Capital management

Capital requirements are set and regulated by SAMA. 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 maximise 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.

Operational Risk

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

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

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

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33. COMPARATIVE BALANCES

As explained in Note 2, these financial statements were presented previously in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax (Also see Note 3.3).

34. SUBSEQUENT EVENT

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses, economic activity and increase in insurance claims mainly relating to the medical line of business in those jurisdictions. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The impact of this outbreak on the reserving of IBNR will be considered into the Company's estimates of future ultimate claim liability in 2020.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on March 3, 2020 corresponding to 8 Rajab 1441 H.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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36. SUPPLEMENTARY INFORMATION

As required by the Implementing Regulations, the statement of financial position, statement of income and statement of cash flows are separately disclosed for both insurance operations and shareholder's operations are as follows:

a) Statement of financial position

ASSETS	Note	December 31, 2019			December 31, 2018		
		Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
		SR	SR	SR	SR	SR	SR
Cash and cash equivalents	5	334,358,597	48,705,702	383,064,299	144,792,053	7,097,651	151,889,704
Premiums and reinsurers' receivable - net	8	180,494,131	-	180,494,131	183,846,620	-	183,846,620
Reinsurers' share of unearned premiums	9	22,133,245	-	22,133,245	23,229,716	-	23,229,716
Reinsurers' share of outstanding claims	9	65,545,868	-	65,545,868	81,346,744	-	81,346,744
Reinsurers' share of claims Incurred but not reported	9	14,164,512	-	14,164,512	33,068,317	-	33,068,317
Deferred policy acquisition costs	9	23,166,791	-	23,166,791	22,750,148	-	22,750,148
Investments	7	-	144,598,049	144,598,049	-	132,316,495	132,316,495
Due from insurance operations		-	49,046,548	49,046,548	-	83,349,626	83,349,626
Due from related parties		-	-	-	-	-	-
Prepaid expenses and other assets	11	30,023,659	677,471	30,701,130	30,497,409	11,449,822	41,947,231
Long term/ fixed income deposits	6	337,140,745	221,101,267	558,242,012	615,705,601	219,286,108	834,991,709
Property and equipment	12	14,136,473	-	14,136,473	6,491,609	-	6,491,609
Right of use assets	13	1,629,039	-	1,629,039	-	-	-
Goodwill	14	-	4,496,500	4,496,500	-	4,496,500	4,496,500
Statutory deposit	15	-	40,000,000	40,000,000	-	27,500,000	27,500,000
Accrued income on statutory deposit		-	4,531,789	4,531,789	-	3,629,122	3,629,122
TOTAL ASSETS		1,022,793,060	513,157,326	1,535,950,386	1,141,728,217	489,125,324	1,630,853,541
Less: inter-operations elimination		-	(49,046,548)	(49,046,548)	-	(83,349,626)	(83,349,626)
TOTAL ASSETS AS PER STATEMENT OF FINANCIAL POSITION		1,022,793,060	464,110,778	1,486,903,838	1,141,728,217	405,775,698	1,547,503,915

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36. SUPPLEMENTARY INFORMATION (Continued)
a) Statement of financial position (Continued)

LIABILITIES	Note	December 31, 2019		December 31, 2018		
		Insurance operations SR	Shareholders' operations SR	Insurance operations SR	Shareholders' operations SR	Total SR
Accounts payable		39,533,628	-	50,026,623	-	50,026,623
Accrued and other liabilities	17	79,665,781	1,660,566	69,914,669	1,463,349	71,378,018
Lease liability		1,230,703	-	-	-	-
Reinsurers' balances payable		12,084,964	-	13,203,930	-	13,203,930
Unearned premiums	9	474,721,686	-	488,953,035	-	488,953,035
Unearned reinsurance commission	16	4,931,416	-	3,553,941	-	3,553,941
Outstanding claims	9	185,346,838	-	214,585,364	-	214,585,364
Claims incurred but not reported	9	129,434,499	-	163,994,793	-	163,994,793
Additional premium reserves	9	22,756,206	-	17,219,944	-	17,219,944
Other technical reserves	9	6,167,162	-	17,025,025	-	17,025,025
Due to shareholders' operations		49,046,548	-	83,349,626	-	83,349,626
End-of-service indemnities	18	15,001,591	-	9,157,438	-	9,157,438
Zakat and income tax	23	-	26,675,204	-	51,620,542	51,620,542
Accrued commission income payable to SAMA		-	4,531,789	-	3,629,122	3,629,122
TOTAL LIABILITIES		1,019,921,022	32,867,559	1,130,984,388	56,713,013	1,187,697,401
Less: Interoperations elimination		(49,046,548)	-	(83,349,626)	-	(83,349,626)
TOTAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION		970,874,474	32,867,559	1,047,634,762	56,713,013	1,104,347,775
Accumulated surplus payable	17	5,449,616	-	9,261,070	-	9,261,070
Re-measurement actuarial (loss) / gain on end of service indemnities		(2,577,578)	-	1,482,759	-	1,482,759
TOTAL ACCUMULATED SURPLUS AND RESERVES		2,872,038	-	10,743,829	-	10,743,829
EQUITY						
Share capital	25	-	400,000,000	-	275,000,000	275,000,000
Statutory reserve	26	-	24,088,829	-	43,281,433	43,281,433
Retained earnings		-	51,640,901	-	107,140,055	107,140,055
Fair value reserve on investments		-	4,560,037	-	6,990,823	6,990,823
TOTAL EQUITY		-	480,289,767	-	432,412,311	432,412,311
TOTAL LIABILITIES, ACCUMULATED SURPLUS AND SHAREHOLDERS' EQUITY		973,746,512	513,157,326	1,058,378,591	489,125,324	1,547,503,915

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36. SUPPLEMENTARY INFORMATION (Continued)

B) Statement of income

	<i>Year ended December 31, 2019</i>			<i>Year ended December 31, 2018</i>		
	Insurance operations SR	Shareholders' operations SR	Total SR	Insurance operations SR	Shareholders' operations SR	Total SR
REVENUES						
Gross written premiums	861,936,426	-	861,936,426	929,775,986	-	929,775,986
Reinsurance premiums ceded - Local	(2,100,516)	-	(2,100,516)	(4,032,354)	-	(4,032,354)
Reinsurance premiums ceded – Foreign	(53,287,606)	-	(53,287,606)	(69,010,485)	-	(69,010,485)
Excess of loss premium	(26,162,716)	-	(26,162,716)	(18,922,115)	-	(18,922,115)
Net premiums written	780,385,588	-	780,385,588	837,811,032	-	837,811,032
Changes in unearned premiums, net	13,134,878	-	13,134,878	(115,946,303)	-	(115,946,303)
Net premiums earned	793,520,466	-	793,520,466	721,864,729	-	721,864,729
Reinsurance commission income	11,015,353	-	11,015,353	11,190,843	-	11,190,843
Other underwriting income	15,218,352	-	15,218,352	23,933,136	-	23,933,136
TOTAL REVENUES	819,754,171	-	819,754,171	756,988,708	-	756,988,708
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	(682,766,836)	-	(682,766,836)	(552,842,873)	-	(552,842,873)
Reinsurers' share of claims paid	31,083,172	-	31,083,172	59,801,328	-	59,801,328
Net claims and other benefits paid	(651,683,664)	-	(651,683,664)	(493,041,545)	-	(493,041,545)
Changes in outstanding claims, net	13,437,650	-	13,437,650	(24,578,126)	-	(24,578,126)
Changes in claims incurred but not reported	15,656,489	-	15,656,489	(9,270,681)	-	(9,270,681)
Change in other technical reserves movement	10,857,863	-	10,857,863	(8,547,151)	-	(8,547,151)
Net claims and other benefits incurred	(611,731,662)	-	(611,731,662)	(535,437,503)	-	(535,437,503)
Additional premium reserves	(5,536,262)	-	(5,536,262)	3,923,984	-	3,923,984
Policy acquisition costs	(43,650,573)	-	(43,650,573)	(49,684,259)	-	(49,684,259)
Other underwriting expenses	(26,073,765)	-	(26,073,765)	(21,064,106)	-	(21,064,106)
TOTAL UNDERWRITING COSTS AND EXPENSES	(686,992,262)	-	(686,992,262)	(602,261,884)	-	(602,261,884)
NET UNDERWRITING INCOME	132,761,909	-	132,761,909	154,726,824	-	154,726,824

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AT DECEMBER 31, 2019**

36. SUPPLEMENTARY INFORMATION (Continued)

B) Statement of income (continued)	SAR					
	Year ended December 31, 2019			Year ended December 31, 2018		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
<u>OTHER OPERATING (EXPENSES)/ INCOME</u>						
Allowance for doubtful debts	(22,233,473)	-	(22,233,473)	(5,088,882)	-	(5,088,882)
General and administrative expenses	(75,641,109)	(1,949,171)	(77,590,280)	(77,578,918)	(1,602,217)	(79,181,135)
Murabaha income on deposits	16,806,671	12,837,260	29,643,931	15,155,906	6,905,125	22,061,031
Realized gain/(loss)/(impairment) on investments	-	2,291,425	2,291,425	-	(2,981,333)	(2,981,333)
Dividend and investment income	2,795,033	2,690,032	5,485,065	1,790,402	3,053,493	4,843,895
Investment expenses	-	(607,852)	(607,852)	-	(588,794)	(588,794)
Finance cost	(74,105)	-	(74,105)	-	-	-
Others	81,238	-	81,238	3,605,364	-	3,605,364
TOTAL OTHER OPERATING EXPENSES, NET	(78,265,745)	15,261,694	(63,004,051)	(62,116,128)	4,786,274	(57,329,854)
TOTAL INCOME FOR THE YEAR BEFORE SURPLUS ATTRIBUTION AND ZAKAT AND INCOME TAX	54,496,164	15,261,694	69,757,858	92,610,696	4,786,274	97,396,970
Surplus transferred to Shareholders	(49,046,548)	49,046,548	-	(83,349,626)	83,349,626	-
TOTAL INCOME FOR THE YEAR BEFORE ZAKAT AND INCOME TAX	5,449,616	64,308,242	69,757,858	9,261,070	88,135,900	97,396,970
Zakat and income tax expense	-	(14,000,000)	(14,000,000)	-	(18,000,000)	(18,000,000)
TOTAL INCOME FOR THE YEAR	5,449,616	50,308,242	55,757,858	9,261,070	70,135,900	79,396,970

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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36. SUPPLEMENTARY INFORMATION (Continued)

c) Statement of comprehensive income	Year ended December 31, 2019			Year ended December 31, 2018		
	Insurance operations SR	Shareholders' operations SR	Total SR	Insurance operations SR	Shareholders' operations SR	Total SR
NET RESULT FROM INSURANCE OPERATIONS AFTER TRANSFER OF SURPLUS TO SHAREHOLDERS	5,449,616	50,308,242	55,757,858	9,261,070	70,135,900	79,396,970
Other comprehensive income						
<i>Items that are classified or will be reclassified to statement of income in subsequent years</i>						
Unrealized fair value changes in available-for-sale investments	-	(221,047)	(221,047)	-	1,728,837	1,728,837
Realization of (gain)/ loss/ impairment on sale of available-for-sale investment	-	(2,209,739)	(2,209,739)	-	4,225,519	4,225,519
<i>Items that will not be reclassified to statement of income in subsequent years</i>						
Actuarial (loss) / gain on end of service indemnities	(4,060,337)	-	(4,060,337)	1,786,971	-	1,786,971
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,389,279	47,877,456	49,266,735	11,048,041	76,090,256	87,138,297

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36. SUPPLEMENTARY INFORMATION (Continued)

d) Statement of cash flows (Continued)

	Year ended December 31, 2019			Year ended December 31, 2018		
	Insurance operations SR	Shareholders' operations SR	Total SR	Insurance operations SR	Shareholders' operations SR	Total SR
CASH FLOWS FROM OPERATING ACTIVITIES						
Total income for the year before surplus attribution and zakat and income tax	5,449,616	64,308,242	69,757,858	9,261,070	88,135,900	97,396,970
Adjustments for non-cash items:						
Depreciation of property and equipment	2,180,588	-	2,180,588	1,926,243	-	1,926,243
Depreciation charge of right to use assets	610,892	-	610,892	-	-	-
Gain on disposal of property and equipment	(81,238)	-	(81,238)	(12,342)	-	(12,342)
Allowance for doubtful debts	22,233,473	-	22,233,473	5,088,882	-	5,088,882
Realized (gain)/loss/impairment on investments	-	(2,291,425)	(2,291,425)	-	2,981,333	2,981,333
Dividend reinvested	-	(373,845)	(373,845)	-	(420,612)	(420,612)
Finance cost	74,105	-	74,105	-	-	-
Provision for end-of-service indemnities	2,327,721	-	2,327,721	2,911,499	-	2,911,499
Changes in Operating Assets and Liabilities						
Premiums and reinsurers' receivable	(22,776,279)	-	(22,776,279)	(35,976,733)	-	(35,976,733)
Reinsurers' share of unearned premiums	1,096,471	-	1,096,471	26,507,528	-	26,507,528
Reinsurers' share of outstanding claims	15,800,876	-	15,800,876	83,891,305	-	83,891,305
Reinsurers' share of claims Incurred but not reported	18,903,805	-	18,903,805	17,674,989	-	17,674,989
Deferred policy acquisition costs	(416,643)	-	(416,643)	1,143,368	-	1,143,368
Due From Related Parties	-	-	-	130,647	-	130,647
Prepaid expenses and other assets	40,417	10,772,351	10,812,768	8,065,263	(330,189)	7,735,074
Accounts payable	(10,492,995)	-	(10,492,995)	8,795,778	-	8,795,778
Accrued and other liabilities	4,386,374	197,217	4,583,591	(9,898,836)	(34,118)	(9,932,954)
Reinsurers' balances payable	(1,118,966)	-	(1,118,966)	1,076,728	-	1,076,728
Unearned premiums	(14,231,349)	-	(14,231,349)	89,438,775	-	89,438,775
Unearned commission income	1,377,475	-	1,377,475	(907,456)	-	(907,456)
Outstanding claims	(29,238,526)	-	(29,238,526)	(59,313,180)	-	(59,313,180)
Claims incurred but not reported	(34,560,294)	-	(34,560,294)	(8,404,308)	-	(8,404,308)
Additional premiums reserve	5,536,262	-	5,536,262	(3,923,984)	-	(3,923,984)
Other technical reserve	(10,857,863)	-	(10,857,863)	8,547,151	-	8,547,151
	(43,756,078)	72,612,540	28,856,462	146,022,387	90,332,314	236,354,701
End of service indemnities paid	(543,905)	-	(543,905)	(1,822,452)	-	(1,822,452)
Surplus paid to policy holders	(1,037)	-	(1,037)	-	-	-
Zakat and income tax paid	-	(38,945,338)	(38,945,338)	-	(6,905,322)	(6,905,322)
Due from insurance operations	-	34,303,078	34,303,078	-	(16,717,959)	(16,717,959)
Due to shareholders' operations	(34,303,078)	-	(34,303,078)	16,717,959	-	16,717,959
Net cash generated (used in)/ from operating activities	(78,604,098)	67,970,280	(10,633,818)	160,917,894	66,709,033	227,626,927

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36. SUPPLEMENTARY INFORMATION (Continued)

d) Statement of cash flows (Continued)

	Year ended December 31, 2019			Year ended December 31, 2018		
	Insurance operations SR	Shareholders' operations SR	Total SR	Shareholders' operations SR	Total SR	Shareholders' operations SR
CASH FLOW FROM INVESTING ACTIVITIES						
Additions/disposals in investments, net	-	(12,047,070)	(12,047,070)	7,118,190	(32,914,378)	(25,796,188)
Additions in long term/fixed income deposits	278,564,856	(1,815,159)	276,749,697	(329,765,276)	(29,330,753)	(359,096,029)
Addition in statutory deposit	-	(12,500,000)	(12,500,000)	-	-	-
Lease payment	(650,000)	-	(650,000)	-	-	-
Additions/disposals in property and equipment, net	(9,744,214)	-	(9,744,214)	(1,076,729)	-	(1,076,729)
Net cash generated from/ (used in) investing activities	268,170,642	(26,362,229)	241,808,413	(323,723,815)	(62,245,131)	(385,968,946)
NET CHANGE IN CASH AND CASH EQUIVALENTS						
	189,566,544	41,608,051	231,174,595	(162,805,921)	4,463,902	(158,342,019)
Cash and cash equivalents at the beginning of the year	144,792,053	7,097,651	151,889,704	307,597,974	2,633,749	310,231,723
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	334,358,597	48,705,702	383,064,299	144,792,053	7,097,651	151,889,704