UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
31 DECEMBER 2020

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2020

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

P.O. Box 15651
Jeddah - 21454
Kingdom of Saudi Arabia
License No. 520/11/323

PricewaterhouseCoopers
5th floor, Jameel Square
P.O. Box 16415
Jeddah 21464
Kingdom of Saudi Arabia
License No. 25

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

Opinion

We have audited the financial statements of **United Cooperative Assurance Company** (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements including 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 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the 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.

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

Key Audit Matters (continued)

Valuation of ultimate claim liability arising from insurance contracts As at 31 December 2020, gross outstanding claims and reserves including claims incurred but not reported (IBNR), premium deficiency reserve (PDR) and other technical reserves amounted to SAR 271.8 million. The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on best-estimate of the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs. The Company principally uses an external actuary ("management's expert") to provide them with the estimate of such liabilities. A number of methods were used to determine these provisions which were based on explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We have considered this as a key audit matter due to the estimation uncertainty and subjectivity involved in the assessment of ultimate claim liabilities arising from insurance contracts, including the uncertainties caused by the Covid-19 pandemic. Refer to notes 3(c) to the financial statements for the accounting policy adopted by the Company and note 2(e) for the significant accounting judgements, estimates and assumptions involved in the initial recognition and subsequent measurement of insurance contract liabilities. Also, refer note 13, 21 and 22 for movement in outstanding claims, IBNR, PDR and other technical reserves.	We performed the following procedures: ● Obtained understanding, evaluated and tested key controls around the claims handling and provision setting processes; ● Performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves; ● Evaluated the competence, capabilities and objectivity of the management's expert based on their professional qualifications and experience and assessed their independence; ● Obtained sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, and tested on sample basis the accuracy of underlying claims data utilized by the management's expert in estimating the IBNR by comparing it to the accounting and other records; ● Challenged management's methods and assumptions, through assistance of our internal actuarial expert to understand and evaluate the Company's actuarial practices and provisions established and gained comfort over the actuarial report issued by management's expert, by performing the following: o Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences; o Assessed key actuarial assumptions including claims ratios and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and o Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivity analysis performed. ● Assessed the adequacy and appropriateness of the related disclosures and presentation in the financial statements.

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

Key Audit Matters (continued)

Carrying amount of goodwill As at 31 December 2020, the Company has a goodwill amounting to Saudi Riyals 78.4 million which arose pursuant to the acquisition of UCA Insurance Bahrain B.S.C(c) insurance operations in the Kingdom of Saudi Arabia effective from 31 December 2008. In accordance with IAS 36 "Impairment of assets", an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment. Goodwill is monitored by management at the level of only one cash-generating unit ("CGU") (being the Company itself). Management carried out an impairment exercise as at 31 December 2020 in respect of goodwill by determining a recoverable amount based on value-in-use derived from a discounted cash flow model, which was based on the business plan prepared by the Company's management. This exercise did not identify any impairment loss to be recognized. Management also engaged an external expert to perform a detailed goodwill impairment assessment on the basis of business plan shared by them. We considered impairment testing of goodwill performed by the management to be a key audit matter since the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of management. The critical judgmental elements of management's assessment are: a) assumptions concerning the expected economic conditions, especially growth in the market to which insurance operations relate; and b) growth in gross premiums written, long-term growth rate and discount rate used in the value-in-use model. Refer to note 3(ee) to the financial statements for the accounting policy, note 2(e) for the significant accounting judgements, estimates and assumptions involved and note 24 for the related disclosures in the financial statements.	We performed the following procedures towards management's assessment of goodwill impairment: ● Evaluated the competence, capabilities and objectivity of the management's external expert based on their professional qualifications and experience and assessed their independence; ● Assessed the methodology used by management to determine a recoverable value based on the value-in-use of the CGU and compared it to that required by IAS 36. We also tested the arithmetical accuracy of the model and logical integrity of the underlying calculation in the model; ● Tested the accuracy and relevance of the inputs used in the value-in-use calculations and assessed reasonableness of the business plan by comparison to the Company's historical results and performance against budgets; ● Reviewed the methodology applied that underpins the value-in-use calculations and key assumptions used including discount rates and terminal growth rates; ● Engaged our internal valuation expert to assist in the review of the methodology of the value-in-use calculations and assessing the reasonableness of the discount rate and long-term growth rate used; and ● Reviewed the sensitivity analyses performed over key assumptions, principally terminal growth rate and discount rate, in order to assess the potential impact of a range of possible outcomes. We also reviewed the adequacy and appropriateness of the disclosures to the accompanying financial statements in relation to testing goodwill for possible impairment.

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

Other Information

Management is responsible for the other information. The other information consists of the information included in the Company's 2020 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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, that are 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, 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) is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORTTO THE SHAREHOLDERS OF UNITED COOPERATIVE ASSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

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

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional 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 TO THE SHAREHOLDERS OF UNITED COOPERATIVE ASSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

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.

Al-Bassam & Co.
(Certified Public Accountants)

Ibrahim A. Al Bassam
Certified Public Accountant
License No. 337

C.R.1010385804
license 520/11/323
Al-Bassam & Co.
Certified Public Accountants

PricewaterhouseCoopers
(Certified Public Accountants)

Mufaddal A. Ali
Certified Public Accountant
License No. 447

PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

31 March 2021
18 Shaaban 1442H
Jeddah, Kingdom of Saudi Arabia

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes	31 December 2020	31 December 2019
		SAR'000	
ASSETS			
Cash and cash equivalents	4	**61,735**	257,653
Short term deposits	4	**22,656**	23,496
Premiums and reinsurers' receivable – net	5	**239,606**	202,452
Reinsurers' share of unearned premiums	21	**209,598**	137,914
Reinsurers' share of outstanding claims	13, 21	**41,720**	45,581
Reinsurers' share of claims incurred but not reported	13, 21	**126,264**	112,881
Deferred policy acquisition cost	7	**12,645**	6,444
Investments	6	**288,366**	190,948
Prepaid expenses and other assets	8	**68,487**	37,756
Property and equipment – net	9	**10,346**	7,008
Intangible assets	10	**4,598**	-
Right-of-use assets – net	23	**7,556**	-
Goodwill	24	**78,400**	78,400
Statutory deposit	16	**60,000**	60,000
Accrued commission income on statutory deposit	16	**4,904**	3,824
TOTAL ASSETS		**1,236,881**	1,164,357

Chief Financial Officer

Chief Executive Officer

Director

The accompanying notes from 1 to 36 form an integral part of these financial statements

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION – (continued)
AS AT 31 DECEMBER 2020

	Notes	31 December 2020	31 December 2019
		SAR'000	
LIABILITIES			
Policyholders payable		**5,396**	13,419
Accrued and other liabilities	14	**46,614**	67,724
Reinsurers balances payable		**156,440**	178,413
Unearned premiums	21	**302,452**	163,093
Unearned reinsurance commission	11	**34,994**	27,769
Outstanding claims	13	**62,921**	66,652
Claims incurred but not reported	13	**169,749**	162,673
Premium deficiency reserve	21	**25,748**	18,760
Other technical reserves	22	**13,378**	9,604
Employees' defined benefit obligations	26	**10,288**	9,475
Lease liabilities	23	**6,397**	-
Surplus from insurance operations	1	**37,053**	37,053
Zakat and income tax payable	29	**21,750**	28,936
Accrued commission income on statutory deposit payable to SAMA	16	**4,904**	3,824
TOTAL LIABILITIES		**898,084**	787,395
Fair value reserve on investments - insurance operations		**3,734**	15
TOTAL LIABILITIES AND INSURANCE OPERATIONS RESERVE		**901,818**	787,410
EQUITY			
Share capital	30	**400,000**	400,000
Statutory reserve	15	**31,944**	31,944
Accumulated losses		**(108,025)**	(64,145)
Fair value reserve on investments		**9,020**	7,637
Re-measurement reserve of employees' defined benefit obligations		**2,124**	1,511
TOTAL EQUITY		**335,063**	376,947
TOTAL LIABILITIES, INSURANCE OPERATIONS RESERVE AND EQUITY		**1,236,881**	1,164,357
COMMITMENTS AND CONTINGENCIES	17		

Chief Financial Officer

Chief Executive Officer

Director

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	31 December 2020	31 December 2019
		SAR'000	
REVENUES			
Gross premiums written		**616,861**	420,292
Reinsurance premiums ceded			
- Local		**(30,604)**	(21,537)
- Foreign		**(380,697)**	(341,103)
		(411,301)	(362,640)
Excess of loss expenses			
- Local		**(818)**	(360)
- Foreign		**(4,635)**	(3,014)
		(5,453)	(3,374)
Net premiums written		**200,107**	54,278
Changes in unearned premiums – net	12	**(67,675)**	21,122
Net premiums earned		**132,432**	75,400
Reinsurance commissions earned	11	**39,872**	41,233
TOTAL REVENUES		**172,304**	116,633
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	13	**151,457**	153,228
Reinsurers' share of claims paid	13	**(59,581)**	(92,990)
Net claims paid		**91,876**	60,238
Changes in outstanding claims – net		**130**	(2,346)
Changes in claims incurred but not reported – net		**(6,307)**	(24,053)
Net claims incurred	13	**85,699**	33,839
Premium deficiency reserve		**6,988**	2,306
Other technical reserves		**3,774**	(26,935)
Policy acquisition cost	7	**16,521**	9,868
Other underwriting expenses		**2,790**	2,549
TOTAL UNDERWRITING COSTS AND EXPENSES		**115,772**	21,627
NET UNDERWRITING RESULT		**56,532**	95,006

Chief Financial Officer

Chief Executive Officer

Director

STATEMENT OF INCOME – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	31 December 2020	31 December 2019
		SAR'000	
OTHER OPERATING (EXPENSES) / INCOME			
General and administrative expenses	18	**(86,806)**	(101,470)
(Provision for) / release of provision for doubtful receivables	5	**(5,823)**	2,745
Board remuneration		**(1,441)**	(883)
Amortization of held to maturity investments		**-**	286
Investments income	19	**10,382**	11,015
Realized gain on investments		**4,246**	6,103
Other income	20	**7,030**	3,753
TOTAL OTHER OPERATING EXPENSES – NET		**(72,412)**	(78,451)
(LOSS) / INCOME FOR THE YEAR BEFORE ALLOCATION		**(15,880)**	16,555
NET INCOME ATTRIBUTED TO THE INSURANCE OPERATIONS		**-**	(1,016)
NET (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS BEFORE ZAKAT AND INCOME TAX		**(15,880)**	15,539
Zakat	29	**(27,900)**	(7,900)
Income tax	29	**(100)**	(100)
		(28,000)	(8,000)
NET (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(43,880)**	7,539
(Loss) / earnings per share (Expressed in SAR per share)			
Weighted average number of ordinary shares outstanding (in thousands)		**40,000**	40,000
Basic and diluted (loss) / earnings per share for the year (SAR)	32	**(1.10)**	0.19

Chief Financial Officer | Chief Executive Officer | Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	31 December 2020	31 December 2019
		SAR'000	
NET (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(43,880)**	8,555
Other comprehensive income (loss) / income			
Items that will not be reclassified to statement of income in subsequent periods			
Re-measurement gains on employees' defined benefit obligations	26	**613**	1,075
Items that are or may be reclassified to statements of income in subsequent periods			
Available-for-sale investments:			
- Net change in fair value of available-for-sale investments	6	**5,102**	7,686
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(38,165)**	17,316
TOTAL COMPREHENSIVE LOSS / (INCOME) ATTRIBUTED TO THE INSURANCE OPERATIONS		**(4,332)**	(2,192)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(42,497)**	15,124

Chief Financial Officer   Chief Executive Officer   Director

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

2020	**Share capital**	**Statutory reserve**	**Accumulated losses**	**Fair value reserve on investments**	**Re-measurement reserve of employees' defined benefit obligations**	**Total equity**
				SAR'000		
Balance as at 31 December 2019	**400,000**	**31,944**	**(64,145)**	**7,637**	**1,511**	**376,947**
Total comprehensive (loss) / income for the year						
Net loss for the year attributable to the shareholders	-	-	**(43,880)**	-	-	**(43,880)**
Remeasurement gains on employees' defined benefit obligations	-	-	-	-	**613**	**613**
Net change in fair values of available-for-sale investments	-	-	-	**1,383**	-	**1,383**
Total comprehensive (loss) / income for the year attributable to the shareholders	-	-	**(43,880)**	**1,383**	**613**	**(41,884)**
Balance as at 31 December 2020	**400,000**	**31,944**	**(108,025)**	**9,020**	**2,124**	**335,063**

2019	Share capital	Statutory reserve	Accumulated losses	Fair value reserve on investments	Re-measurement reserve of employees' defined benefit obligations	Total equity
				SAR'000		
Balance as at 31 December 2018	400,000	31,944	(71,684)	52	436	360,748
Total comprehensive income for the year						
Net income for the year attributable to the shareholders	-	-	7,539	-	-	7,539
Net change in fair values of available-for-sale investments				7,585		7,585
Remeasurement gains on employees' defined benefit obligations	-	-	-	-	1,075	1,075
Total comprehensive income for the year attributable to the shareholders	-	-	7,539	7,585	1,075	16,199
Balance as at 31 December 2019	400,000	31,944	(64,145)	7,637	1,511	376,947

Chief Financial Officer

Chief Executive Officer

Director

The accompanying notes from 1 to 36 form an integral part of these financial statements

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	31 December 2020	31 December 2019
		SAR'000	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / income for the year before zakat and income tax		**(15,880)**	16,555
Adjustments for non-cash items:			
Depreciation of property and equipment	9	**2,736**	2,095
Depreciation of right-of-use assets	23	**2,052**	-
Finance cost on lease liabilities	23	**187**	-
Provision for / (release of provision for) doubtful receivables	5	**5,823**	(2,745)
Realized gain on disposal of investments	6	**(4,246)**	(6,103)
Gain on disposal of property and equipment		-	(71)
Amortization of held to maturity investments		-	(286)
Provision for employees' defined benefit obligations	26	**4,077**	5,650
		(5,251)	15,095
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		**(42,977)**	(29,971)
Reinsurers' share of unearned premiums	12	**(71,684)**	(43,164)
Reinsurers' share of outstanding claims		**3,861**	42,588
Reinsurers' share of claims incurred but not reported		**(13,383)**	22,756
Deferred policy acquisition costs		**(6,201)**	(745)
Prepaid expenses and other assets		**(30,731)**	9,445
Accrued commission income on statutory deposit		**(1,080)**	(1,189)
Policyholders payable		**(8,023)**	(5,942)
Accrued and other liabilities		**(21,110)**	11,641
Reinsurers balances payable		**(21,973)**	56,186
Unearned premiums	12	**139,359**	22,042
Unearned reinsurance commission		**7,225**	8,474
Outstanding claims		**(3,731)**	(44,934)
Claims incurred but not reported		**7,076**	(46,808)
Premium deficiency reserve		**6,988**	2,306
Other technical reserves		**3,774**	(26,935)
Accrued commission income on statutory deposit payable to SAMA		**1,080**	1,189
		(56,781)	(7,966)
Employees' defined benefit obligations paid	26	**(2,651)**	(13,118)
Zakat and income tax paid	29	**(35,186)**	(1,552)
Net cash used in operating activities		**(94,618)**	(22,636)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	6	**(149,901)**	(43,576)
Proceeds from sale of investments	6	**61,831**	251,458
Short term deposits		**840**	(23,496)
Proceeds from disposal of property and equipment		-	71
Purchase of property and equipment	9	**(6,074)**	(7,201)
Addition to Intangible assets	10	**(4,598)**	-
Net cash (used in) / generated from investing activities		**(97,902)**	177,256

Chief Financial Officer | Chief Executive Officer | Director

The accompanying notes from 1 to 36 form an integral part of these financial statements

STATEMENT OF CASH FLOWS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	31 December 2020	31 December 2019
		SAR'000	
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in statutory deposit		-	13,500
Payment of lease liabilities	23	(3,398)	-
Net cash (used in) / generated from financing activities		(3,398)	13,500
Net changes in cash and cash equivalents		(195,918)	168,120
Cash and cash equivalents, at the beginning of the year		257,653	89,533
Cash and cash equivalents, at the end of the year		61,735	257,653
NON-CASH INFORMATION			
Net change in fair value of available-for-sale investments	6	5,102	7,686
Remeasurement gains on employees' defined benefit obligations	26	613	1,075

Chief Financial Officer	Chief Executive Officer	Director

1. GENERAL

United Cooperative Assurance Company ("the Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030179955 dated 6 Jamad-al-Thani 1429H, corresponding to 6 June 2008. Registered Office address of the Company is Al-Mukmal Centre (1st and 4th floor), Prince Saud Al Faisal Street, Al Khalidiyah District, P. O. Box 5019, Jeddah 21422, Kingdom of Saudi Arabia.

The activities of the Company are to transact cooperative insurance and reinsurance operations and related activities in the Kingdom of Saudi Arabia. On 29 Rabi Al Thani 1429H (5 May 2008), the Company received a license number (NMT/19/200812) from the Saudi Central Bank ("SAMA") which is currently valid up to 30 Dhul Hijja 1442H corresponding to 9 August 2021 to engage in insurance and reinsurance business in Saudi Arabia. The Company started its operations on 1 January 2009.

On 11 February 2020 corresponding to 17 Jamad-ul-Thani 1441H, the Company has received SAMA approval upon the Company's request for the cancellation of its Reinsurance License. From the date of SAMA Approval, the Company has not assumed any reinsurance business.

In accordance with the by-laws of the Company, the surplus arising from the insurance operations is distributed as follows:

Transfer to shareholders' operations	90%
Transfer to insurance operations	10%
	100%

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

In accordance with Article 70 of SAMA implementing regulations, the Company proposes to distribute, subject to the approval of SAMA, its annual net policyholders' surplus directly to policyholders at a time, and according to criteria, as set by its Board of Directors.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of presentation and measurement

These financial statements have been prepared under going concern basis and historical cost convention except for the measurement at fair value of investments held as available-for-sale (AFS) investment and employees' defined benefit obligations which is recognized at the present value of future obligations using the projected unit credit method. The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as current: cash and cash equivalents, short term deposits, premiums and reinsurers' receivable - net, reinsurers' share of unearned premiums, deferred policy acquisition costs, deferred excess of loss premiums, prepaid expenses and other assets, policyholders payable, reinsurers balances payable, accrued and other liabilities, unearned premiums, unearned reinsurance commission, outstanding claims, claims incurred but not reported, premium deficiency reserve, other technical reserves and Zakat and income tax payable. All other financial statement line items would generally be classified as non-current unless stated otherwise.

2. BASIS OF PREPARATION – (continued)

(b) Basis of presentation and measurement – (continued)

The Company presents its statement of financial position broadly in order of liquidity. As required by Saudi Arabian Insurance Regulations "SAMA Implementing Regulations" the Company maintains separate books of accounts for "Insurance operations" and "Shareholders' operations". Accordingly, assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors. The physical custody of all assets related to the insurance operations and shareholders' operations are held by the Company.

The statement of financial position, statements of income and statement of comprehensive income and cash flows of the insurance operations and shareholders' operations which are presented in note 33 have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA Implementing Regulations and is not required by IFRS as endorsed in KSA. SAMA Implementing Regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations.

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

(c) Functional and presentation currency

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

(d) Fiscal year

The Company follows a fiscal year ending 31 December.

(e) Critical accounting judgments estimates and assumptions

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

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

In preparing these financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty including the risk management policies were re-assessed against the backdrop of the COVID-19 pandemic. For further details, please see note 35 to these financial statements. Management will continue to assess the situation and reflect any required changes in future reporting periods.

Set out below are the accounting judgements and estimates that are critical in the preparation of these financial statements:

2. BASIS OF PREPARATION – (continued)

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

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates are made at the end of the reporting year both for the expected ultimate cost of claim reported and for the expected ultimate costs of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property and engineering claims. Management reviews its provisions for claims incurred on a monthly basis, and IBNR on a quarterly basis. The provision for outstanding claims as well as IBNR, premium deficiency reserves, and other technical reserves, as at 31 December, is also verified by an independent actuary.

The provision for claims incurred but not reported ("IBNR") is an estimation of claims which are expected to be reported subsequent to the date of the statement of financial position, for which the insured event has occurred prior to the date of the statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims is that of using the past claims settlement trends to predict future claims settlement trends. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. These provisions are not discounted for the time value of money.

A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. The actuary had also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

ii) Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. A period of 12 months or longer is considered to be prolonged and a decline of 30% from the original cost is considered significant as per the Company's policy for equity instruments and mutual funds. 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.

In the case of sukuk investment classified as available-for-sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

2. BASIS OF PREPARATION – (continued)

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

iii) Impairment of receivables

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The Company is exposed to disputes with, and the possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

iv) Deferred acquisition costs

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

v) Useful lives of property and equipment and intangible assets

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

vi) Premium deficiency reserve

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

vii) Fair value of financial instruments

The fair value for financial instruments traded in active markets at the reporting date are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

2. BASIS OF PREPARATION – (continued)

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

viii) Going concern

On 8 November 2020 corresponding to 22 Rabi Al Awwal 1442H, the Company announced on Tadawul that as on 30 September 2020, the Company's accumulated losses reached 22% of its share capital. As of 31 December 2020, the Company's accumulated losses reached 27% of its share capital (2019: 16%).

During the year, the Company incurred net loss amounting to SAR 43.88 million (2019: net profit of SAR 7.54 million) and has a negative operating cash flow. These conditions raised uncertainty on the Company's ability to continue as a going concern. However, management of the Company has prepared a business plan and is confident of having positive outcome of the strategy and believes that the Company's operations shall continue for foreseeable future under the normal course of business and is satisfied that the going concern basis of preparation of the financial statements is appropriate. Accordingly, the financial statements have been prepared on the going concern basis.

ix) Impairment of non-financial assets including goodwill

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. For goodwill, the Company tests annually whether goodwill has suffered any impairment. Recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. 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 the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations. Effects of such assumptions and inputs are discussed in note 24.

x) Employees defined benefit obligations

The employees' defined benefits obligation is determined by an independent actuary using the projected unit credit method as recommended in IAS 19 "Employee benefits". The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using interest rates of sovereign debt instruments that are denominated in Saudi Riyals and have maturity periods approximating that of the Employees defined benefit obligations.

The present value of the defined benefit obligation depends on several factors that are determined by the actuary using assumptions such as discount rate, expected future salary increases, mortality rates and staff turnover etc. These estimates are subject to significant uncertainty due to their long-term nature and are reviewed at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Company for the preparation of these financial statements are in accordance with IFRS as endorsed in the KSA and are consistent with those used for the preparation of the annual financial statements for the year ended 31 December 2019 and new amended IFRS and interpretations issued by IFRS Interpretations Committee (IFRS IC) as mentioned in note 3(a) which had no significant impact on the financial position or financial performance of the Company.

The accounting policies used in the preparation of the financial statements are consistently applied to all the year presented unless stated otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board ("IASB"), as endorsed in the Kingdom of Saudi Arabia have been effective from 1 January 2020 and accordingly adopted by the Company, as applicable:

Standard/ Amendments	***Description***	***Effective for annual years beginning on or after***	***Summary of the amendment***
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020	The amendments provided a new definition of material and clarified that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.
Amendments to IFRS 3	Definition of a Business	1 January 2020	The amendment clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.
Amendment to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reforms	1 January 2020	The amendments provide certain reliefs in relation to interest rate benchmark reforms. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2020	These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.
Revised Conceptual Framework for Financial Reporting	Amendments to Conceptual Framework for Financial Reporting	1 January 2020	The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.
IFRS 16	COVID-19 Related Rent Concessions	1 June 2020	The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment applies to annual reporting periods beginning on or after 1 June 2020 and earlier application is permitted.

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

(b) Standards issued but not yet effective

Standards, interpretation and amendments issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they are effective.

Standard/ Interpretation	Description	Effective from periods beginning on or after the following date	Summary of the amendment
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	1 January 2022	IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements IFRS 9: The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference.
IFRS 17	Insurance Contracts (note below)	1 January 2023	This is comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005.
IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022	The narrow-scope amendments to IAS 1 'Presentation of Financial Statements, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to January 1, 2023.
IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022	The amendment to IAS 16 "Property, Plant and Equipment (PP&E)" prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.
IFRS 3	Reference to the Conceptual Framework	1 January 2022	Minor amendments were made to IFRS 3 "Business Combinations" to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021	The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

IFRS 9 - Financial Instruments
This standard was published on 24 July 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, fair value through other comprehensive income or fair value through profit or loss. A financial asset is measured at amortized cost if both:

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

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

- 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
- the contractual terms of cash flows are SPPI.

Debt financial 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, both debt and equity instrument at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

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

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

IFRS 9 - Financial Instruments – (continued)

Effective date

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

1. Apply a temporary exemption from implementing IFRS 9 until the earlier of

- the effective date of a new insurance contract standard; or
- annual reporting periods beginning on or after 1 January 2021. On 17 March 2020, the International Accounting Standards Board ("IASB") decided to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 from 1 January 2021 to 1 January 2023. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; or

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

The Company has performed a detailed assessment beginning 1 January 2017: (1) The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and (2) the total carrying amount of the company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company 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 annual financial statements.

Impact assessment

As at 31 December 2020, the Company has total financial assets and insurance related assets amounting to SAR 883.82 million (2019: SAR 925.04 million) and SAR 640.81 million (2019: SAR 634.59 million), respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SAR 106.89 million (2019: SAR 292.48 million). Other financial assets consist of available for sale investments amounting to SAR 287.79 million (2019: SAR 184.32 million).

As at 31 December 2020 these debt securities are measured at fair value of SAR 261 million (2019: SAR 164.20 million) with changes in fair value during the year of SAR 4.49 million (2019: SAR 6.6 million). Other financial assets have a fair value of SAR 27.35 million (2019: SAR 24.59 million) as at 31 December 2020 with a fair value change during the year of SAR 0.62 million (2019: SAR 1.02 million). Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 34.

The Company financial assets have low credit risk as at 31 December 2020 and 2019. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9: However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

IFRS 17 – Insurance Contracts

Overview

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

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

a. embedded derivatives, if they meet certain specified criteria;
b. distinct investment components; and
c. any promise to transfer distinct goods or non-insurance services.

These components should be accounted for separately in accordance with the related standards (IFRS 9 and IFRS 15).

Measurement

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

The **General model** is based on the following “building blocks”:

a. the 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 but the CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss. Interest is also accreted on the CSM at rates locked in at initial recognition of a contract (i.e. discount rate used at inception to determine the present value of the estimated cash flows). Moreover, the CSM will be released into profit or loss based on coverage units, reflecting the quantity of the benefits provided and the expected coverage duration of the remaining contracts in the group.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

IFRS 17 – Insurance Contracts – (continued)

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

I. changes in the entity's share of the fair value of underlying items; and
II. changes in the effect of the time value of money and financial risks not relating to the underlying items.

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

Effective date
The IASB issued an Exposure Draft Amendments to IFRS 17 proposing certain amendments to IFRS 17 during June 2019 and received comments from various stakeholders. On 17 March 2020, the IASB completed its discussions on the amendments to IFRS 17 - Insurance Contracts that were proposed for public consultation in June 2019. It decided that the effective date of the Standard will be deferred to annual reporting periods beginning on or after 1 January 2023. The IASB expects to issue the amendments to IFRS 17 during 2020. 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 in accounting policies for insurance contracts together with amendments to presentation and disclosures.

Impact
The Company is currently in design phase of IFRS 17 implementation which requires developing and designing new processes and procedures for the business including any system developments required under IFRS 17 and detailed assessment of business requirements. Following are the main areas under design phase and status of the progress made so far by the Company.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

IFRS 17 – Insurance Contracts – (continued)

***Impact* – (continued)**

Impact area	Summary of impact
Financial impact	During the financial impact exercised carried out as part of phase 2 of IFRS 17 Implementation, the Company has assessed the financial impact of the application and implementation of IFRS 17 and concluded that impact on adoption of IFRS 17 is immaterial as majority of the portfolio are eligible for PAA measurement model.
Data impact	IFRS 17 has additional data requirements during the phase 2. The Company has carried out a detailed benchmarking exercise and identified the data required for IFRS 17 and come up with a data dictionary required under phase 3.
IT systems impact	The Company is already in the process of implementing a new upgraded IT system which will facilitate the implementation of IFRS 17. As part of the system exercise, the Company has onboarded Wilson Tower Watson (WTW) as their solution vendor for IFRS 17.
Process impact	The Company carried out an operational impact assessment exercise to assess the operational impact of implementing IFRS 17. Since, majority of the Company's contracts would be measured under the premium allocation approach, the process impact is expected to be moderate.
Impact on Reinsurance arrangements	Detailed assessment has also been performed on the Company's reinsurance arrangements and concluded that all RI arrangements are eligible for PAA, company has opted to apply PAA for eligible products.
Impact on policies and control frameworks	The Company is in the process of updating Accounting and Finance Policies and Procedures to cover the new and additional requirement: • Unbundling • Level of aggregation • Measurement models • Risk Adjustment Methodologies • New presentation and disclosure requirement The revised manual to be followed by Finance function to ensure that financial statements are in conformity with International Financial Reporting Standards 17 (IFRS 17) on effective date.

Following are the main areas under design phase and status of the progress made so far by the Company:

Major areas of design phase	Summary of progress
Governance and control framework	The Company has put in place a comprehensive IFRS 17 governance program which includes establishing oversight steering committee for monitoring the progress of implementation and assigning roles and responsibilities to various stakeholders
Operational area	The Company is in progress of designing operational aspects of the design phase which includes establishing comprehensive data policy and data dictionary. Also the Company is finalizing architectural designs for various sub-systems. The Company has progressed through assessment of business requirements and selected WTW as IFRS 17 solution vendor while finalizing various process needed for transition and assessment of new resources needed.
Technical and financial area	The Company has completed various policy papers encompassing various technical and financial matters after concluding on policy decisions required under the IFRS 17 standard. The policy decisions are taken after due deliberations among various stakeholders. Currently majority of policy papers have been approved by the Company's IFRS 17 project steering committee.
IT Systems	The Company is already in the process of implementing a new upgraded IT system which will facilitate the implementation of IFRS 17. As part of the system exercise, the Company has onboarded Wilson Tower Watson (WTW) as their solution vendor for IFRS 17.
Assurance plan	The Company is working along with other stakeholders to finalize the assurance plan for transitional and post-implementation periods.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

a) Insurance contracts

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

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

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

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

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

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

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

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

Engineering insurance covers two principal types:

(a) "Contractor's All Risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, bridges, sewage works and reservoirs.

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b) Revenue recognition

Recognition of premium and commission revenue

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

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

- Pre-defined calculation for Engineering class of business for risks undertaken that extend beyond a single year. In accordance with this calculation, lower premiums are earned in the first year which gradually increases towards the end of the tenure of the policy; and

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

Commission income

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

Investment income

Investment income on debt instruments and murabaha deposits are accounted for on an effective interest basis.

Dividend income

Dividend income on equity instruments classified under available-for-sale investments is recognized when the right to receive payment is established.

c) Claims

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

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

d) Salvage and subrogation reimbursement

Some insurance contracts permit the Company to sell (usually damaged) assets acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of the asset. Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from the third party.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

e) Reinsurance contracts held

In line with other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. All of the reinsurance is affected under treaty, facultative and excess-of-loss reinsurance contracts.

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 3(c) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

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

f) Deferred policy acquisition costs

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

g) Liability adequacy test

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

h) Premium and reinsurance receivables

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

i) Investments

i. Available-for-sale investments

Available-for-sale investments (AFS) include equity and debt securities. Equity investments classified as available-for-sale investments are those which are neither classified as held for trading nor designated at fair value through income statement. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Such investments are initially recorded at cost, being the fair value of the consideration given including transaction costs directly attributable to the acquisition of the investment and subsequently measured at fair value. Any unrealised gains or losses arising from changes in fair value are recognised through the statement of comprehensive income until the investments are derecognised or impaired whereupon any cumulative gains or losses previously recognised in equity are reclassified to statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

i) Investments – (continued)

ii. Held as fair value through statement of Income (FVSI)

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

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

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

iii. Held to maturity

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

Reclassification:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

j) De-recognition of financial instruments

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

k) Offsetting

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

l) Trade date accounting

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

m) Impairment of financial assets

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

Evidence of impairment may include:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

m) Impairment of financial assets – (continued)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

n) Intangible assets

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

o) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount or 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. Land is not depreciated. The cost of other items of property and equipment is depreciated on the straight line method to allocate the cost over estimated useful lives, as follows:

- Motor vehicle 4 years
- Furniture and fittings 4 years
- Computers and office equipment 4 years
- Leasehold improvements 3 years

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

Capital work-in-progress includes property that is being developed for future use. When commissioned, capital work-in-progress will be transferred to the respective category within property and equipment, and depreciated in accordance with the Company's policy.

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

p) Leases

For leases other than short-term leases or lease of low-value assets, the Company recognises a right of use of asset and a lease liability at the lease commencement date. The right of use is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses and adjusted with certain re-measurements of lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured when there is a change in the future lease payments arising from the change in an index or rate, a change in the estimate of the amount expected to be payable under residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or termination option is reasonably not to be exercised.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

q) Impairment of non-financial assets

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

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

r) Employees' defined benefit obligations

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

s) Zakat and income tax

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders' share of net adjusted income for the year. Zakat and income tax is accrued on a quarterly basis. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

t) 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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

u) Cash and cash equivalents

Cash and cash equivalents comprise of balances with banks.

v) Cash flow statement

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

w) Foreign currencies

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

x) Operating segments

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

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

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

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

y) Statutory reserve

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

z) Fair values

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

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

aa) Accrued and other liabilities

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

bb) Provisions

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

cc) Statutory deposit

The statutory deposit shall be 15% percent of the paid-up capital. The Company has placed the statutory deposit amount in a bank designated by SAMA. SAMA shall be entitled to the earnings on statutory deposit which is payable by the Company to SAMA and appearing as 'Accrued commission income on statutory deposit'.

dd) Surplus from insurance operations

Ten-percent (10%) of the net surplus from insurance operations shall be distributed to the policyholders directly, or in the form of reduction in premiums for the next year. The remaining ninety-percent (90%) of the net surplus shall be transferred to the shareholders

ee) 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. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognized in the statement of income. Impairment losses relating to goodwill cannot be reversed in future periods.

4. CASH AND CASH EQUIVALENTS AND SHORT TERM DEPOSITS

i. CASH AND CASH EQUIVALENTS

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

	31 December 2020 SAR'000	31 December 2019 SAR'000
Insurance operations		
Bank balances	**51,356**	216,199
Shareholders' operations		
Bank balances	**10,379**	41,454
Total	**61,735**	257,653

ii. SHORT TERM DEPOSITS

	31 December 2020 SAR'000	31 December 2019 SAR'000
Insurance operations		
Short term deposits	**22,656**	23,496

a. Short term deposits represent deposits with local commercial banks registered in Saudi Arabia that have investment grade credit rating and have an original maturity of more than three months from the date of acquisition.

b. These deposits earn commission at an average rate of 2.35% per annum as at 31 December 2020 (2019: 2.35%)

5. PREMIUMS AND REINSURERS' RECEIVABLE – NET

	31 December 2020 SAR'000	31 December 2019 SAR'000
Policyholders	**162,637**	117,361
Brokers and agents	**3,510**	210
Related parties (note 28)	**156,398**	146,663
Receivables from reinsurers	**6,804**	22,138
	329,349	286,372
Provision for doubtful receivables	**(89,743)**	(83,920)
Premiums and reinsurers' receivable – net	**239,606**	202,452

5. PREMIUMS AND REINSURERS' RECEIVABLE – NET – (continued)

Movement in the provision for doubtful premiums and reinsurers' receivable during the year is as follows:

	31 December 2020 SAR'000	31 December 2019 SAR'000
Balance at the beginning of the year	**83,920**	86,665
Provision for the year	**5,823**	-
Release of provision for the year	**-**	(2,745)
Balance at the end of the year	**89,743**	83,920

Ageing analysis of unimpaired net premiums and reinsurers' receivable is as follows:

As at 31 December 2020 *Amount in SAR '000*	**Neither past due nor impaired**	**Past due including impaired**			
		91 to 180 days	**181 to 365 days**	**Above 365 days**	**Total**
Premiums and reinsurers' receivable	**78,462**	**15,730**	**20,356**	**58,403**	**172,951**
Premiums receivable – related parties	**94,969**	**13,243**	**14,593**	**33,593**	**156,398**
Provision for doubtful debts	**-**	**(4,334)**	**(7,788)**	**(77,621)**	**(89,743)**
Premiums and reinsurers' receivable, net	**173,431**	**24,639**	**27,161**	**14,375**	**239,606**

As at 31 December 2019 *Amount in SAR '000*	Neither past due nor impaired	Past due but including impaired			
		91 to 180 days	181 to 365 days	Above 365 days	Total
Premiums and reinsurers' receivable	40,946	22,027	24,152	52,584	139,709
Premiums receivable – related parties	91,906	5,288	13,858	35,611	146,663
Provision for doubtful debts	-	(3,204)	(8,652)	(72,064)	(83,920)
Premiums and reinsurers' receivable – net	132,852	24,111	29,358	16,131	202,452

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

Five largest customers account for 49% (2019: Five accounted for 56%) of outstanding premiums receivable as at 31 December 2020.

Management considers its external customers to be individual policyholders. One customer of the Company accounts for 19% of the gross premiums written for the year ended 31 December 2020 (2019: 30%). The total premiums attributable to the said customer was SAR 127.4 million for the year (2019: SAR 117 million), included mainly in the engineering segment. It is not the practice of the Company to obtain collateral over these balances, which are therefore, unsecured.

Reinsurers' receivable represents net claims due from reinsurers under facultative deals and treaty arrangements. These reinsurers are based inside and outside the Kingdom of Saudi Arabia.

6. INVESTMENTS

Available-for-sale investments

	31 December 2020 SAR'000	31 December 2019 SAR'000
Insurance operations (note 6.1)	**115,088**	227
Shareholders' operations (note 6.2)	**173,278**	190,721
	288,366	190,948

6.1 Insurance operations

Movement during the year is as follows:

	31 December 2020 SAR'000	31 December 2019 SAR'000
Opening balance	**227**	3,894
Purchases during the year	**111,142**	20,000
Disposals during the year	**-**	(103,391)
Transfer from held to maturity investments (note 6.3)	**-**	78,486
Realized gain on disposals of investments	**-**	1,137
Changes in fair value of investments	**3,719**	101
Closing balance	**115,088**	227
These investments comprise of the following:		
Investment in sukuks	**114,859**	-
Investment in mutual funds	**229**	227
	115,088	227

6.2 Shareholders' operations

Movement during the year is as follows:

	31 December 2020 SAR'000	31 December 2019 SAR'000
Opening balance	**190,721**	26,277
Purchases during the year	**38,759**	23,576
Disposals during the year	**(61,831)**	(24,613)
Transfer from held to maturity investments (note 6.3)	**-**	157,585
Realized gain on disposals of investments	**4,246**	311
Changes in fair value of investments	**1,383**	7,585
Closing balance	**173,278**	190,721
These investments comprise of the following:		
Investment in equity shares (note 6.4)	**6,580**	6,613
Investment in sukuks	**146,149**	164,205
Investment in mutual funds	**20,549**	19,903
	173,278	190,721

6. INVESTMENTS – (continued)

6.3 During 2019, the Company had sold few held to maturity investments before the maturity dates. Hence, the Company reclassified all of its held to maturity investments into available-for-sale investments category.

6.4 This includes 3.85% (31 December 2019: 3.85%) shareholding in Najm for Insurance Services Company, a Saudi Closed Joint Stock Company which is carried at cost. In the absence of reliable financial information, management believes that fair values cannot be ascertained reliably. Therefore, this investment has been carried at cost.

6.5 All investments are placed in the Kingdom of Saudi Arabia.

7. DEFERRED POLICY ACQUISITION COST

	31 December 2020 SAR'000	31 December 2019 SAR'000
As at 1 January	**6,444**	5,699
Incurred during the year	**22,722**	10,613
Amortised during the year	**(16,521)**	(9,868)
As at 31 December	**12,645**	6,444

8. PREPAID EXPENSES AND OTHER ASSETS

	31 December 2020 SAR'000	31 December 2019 SAR'000
Insurance operations		
Deposit against letter of guarantees (note 17 and 29)	**23,496**	22,096
VAT receivables (note 29)	**12,273**	-
Claim recoveries	**9,700**	5,447
Prepaid expenses	**8,517**	1,393
Deferred third party administrator (TPA) fee	**2,544**	1,536
Accrued interest on investments	**830**	-
Advances to staff	**718**	1,406
Others	**9,371**	4,807
	67,449	36,685
Shareholders' operations		
Accrued interest	**1,038**	1,071
Total	**68,487**	37,756

9. PROPERTY AND EQUIPMENT - NET

2020	Motor vehicles SAR'000	Furniture and fittings SAR'000	Computers and office equipment SAR'000	Leasehold improvements SAR'000	Capital work in progress SAR'000	2020 Total SAR'000
Cost:						
As at 1 January	**393**	**8,663**	**17,906**	**5,502**	**-**	**32,464**
Additions	**-**	**40**	**2,181**	**-**	**3,853**	**6,074**
Transfers	**-**	**497**	**-**	**2,248**	**(2,745)**	**-**
Disposals	**-**	**(346)**	**(702)**	**-**	**-**	**(1,048)**
As at 31 December	**393**	**8,854**	**19,385**	**7,750**	**1,108**	**37,490**
Depreciation:						
As at 1 January	**280**	**8,310**	**11,907**	**4,959**	**-**	**25,456**
Charge for the year	**31**	**135**	**2,297**	**273**	**-**	**2,736**
Disposals	**-**	**(346)**	**(702)**	**-**	**-**	**(1,048)**
As at 31 December	**311**	**8,099**	**13,502**	**5,232**	**-**	**27,144**
Net book value:						
At 31 December 2020	**82**	**755**	**5,883**	**2,518**	**1,108**	**10,346**

2019	Motor vehicles SAR'000	Furniture and fittings SAR'000	Computers and office equipment SAR'000	Leasehold improvements SAR'000	Capital work in progress SAR'000	2019 Total SAR'000
Cost:						
As at 1 January	431	8,633	11,914	4,877	-	25,855
Additions	119	288	6,169	625	-	7,201
Disposals	(157)	(258)	(177)	-	-	(592)
As at 31 December	393	8,693	17,906	5,502	-	32,464
Depreciation:						
As at 1 January	431	8,424	10,268	4,830	-	23,953
Charge for the year	6	144	1,816	129	-	2,095
Disposals	(157)	(258)	(177)	-	-	(592)
As at 31 December	280	8,310	11,907	4,959	-	25,456
Net book value:						
At 31 December 2019	113	353	5,999	543	-	7,008

10. INTANGIBLE ASSETS

The Company has an ongoing software development project for which it has incurred a cost of SAR 4.6 million in current year (2019: Nil) in terms of development cost.

11. UNEARNED REINSURANCE COMMISSION

	31 December 2020 SAR'000	31 December 2019 SAR'000
As at 1 January	**27,769**	19,295
Commission received during the year	**47,097**	49,707
Commission earned during the year	**(39,872)**	(41,233)
As at 31 December	**34,994**	27,769

12. MOVEMENT IN UNEARNED PREMIUMS

	31 December 2020 SAR'000	31 December 2019 SAR'000
Gross unearned premiums as at 1 January	**163,093**	141,051
Gross unearned premiums as at 31 December	**(302,452)**	(163,093)
Movement in gross unearned premiums	**(139,359)**	(22,042)
Reinsurers' share of unearned premiums as at 1 January	**(137,914)**	(94,750)
Reinsurers' share of unearned premiums as at 31 December	**209,598**	137,914
Movement in reinsurers' share of unearned premiums	**71,684**	43,164
Movement in unearned premiums – net	**(67,675)**	21,122

13. CLAIMS

	31 December 2020 SAR'000	31 December 2019 SAR'000
Gross claims paid	**151,457**	153,228
Outstanding claims at the end of the year	**62,921**	66,652
Claims incurred but not reported at the end of the year	**169,749**	162,673
	384,127	382,553
Outstanding claims at the beginning of the year	**(66,652)**	(111,587)
Claims incurred but not reported at the beginning of the year	**(162,673)**	(209,481)
Gross claims incurred	**154,802**	61,485
Reinsurance recoveries	**(59,581)**	(92,990)
Reinsurers' share of outstanding claims at the end of the year	**(41,720)**	(45,581)
Reinsurers' share of claims incurred but not reported at the end of the year	**(126,264)**	(112,881)
	(227,565)	(251,452)
Reinsurers' share of outstanding claims at the beginning of the year	**45,581**	88,169
Reinsurers' share of claims incurred but not reported at the beginning of the year	**112,881**	135,637
Reinsurers' share of claims	**(69,103)**	(27,646)
Net claims incurred	**85,699**	33,839

13. CLAIMS – (continued)

Claims Development Table

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

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

Claims triangulation analysis is by accident years spanning a number of financial years is as follows:

As at 31 December 2020

Accident year	**2016 & earlier**	**2017**	**2018**	**2019**	**2020**	**Total**
	SAR'000					
Estimate of ultimate claims cost:						
At the end of accident year	**1,514,974**	**310,521**	**282,050**	**148,124**	**235,192**	
One year later	**1,453,296**	**265,368**	**250,264**	**123,635**	**-**	
Two years later	**1,381,404**	**244,958**	**246,555**	**-**	**-**	
Three years later	**1,314,220**	**241,040**	**-**	**-**	**-**	
Four years later	**1,232,194**	**-**	**-**	**-**	**-**	
Current estimate of cumulative claims	**1,232,194**	**241,040**	**246,555**	**123,635**	**235,192**	**2,078,616**
Cumulative payments to date	**(1,218,118)**	**(206,388)**	**(209,860)**	**(83,782)**	**(127,798)**	**(1,845,946)**
Liability recognised in statement of financial position	**14,076**	**34,652**	**36,695**	**39,853**	**107,394**	**232,670**

As at 31 December 2019

Accident year	2015 & earlier	2016	2017	2018	2019	Total
	SAR'000					
Estimate of ultimate claims cost:						
At the end of accident year	1,582,843	675,010	310,521	282,050	148,124	
One year later	1,401,436	622,004	265,368	250,080	-	
Two years later	1,369,611	571,936	244,958	-	-	
Three years later	1,315,640	556,885	-	-	-	
Four years later	1,518,502	-	-	-	-	
Current estimate of cumulative claims	1,518,502	556,885	244,958	250,080	148,124	2,718,549
Cumulative payments to date	(1,494,612)	(519,310)	(204,391)	(201,360)	(69,551)	(2,489,224)
Liability recognised in statement of financial position	23,890	37,575	40,567	48,720	78,573	229,325

14. ACCRUED AND OTHER LIABILITIES

	31 December 2020 SAR'000	31 December 2019 SAR'000
Insurance brokers	**13,076**	5,700
Withholding tax payable	**7,956**	25,769
Commission and incentives payable	**6,444**	3,677
Surveyor fee	**5,779**	2,854
Payables to hospitals	**5,545**	16,416
VAT payable	**2,007**	4,421
Accrued expenses	**608**	251
Garages payables	**528**	632
Supervision and inspection fee payable	**497**	744
Third party administrator (TPA) fees	**222**	49
CCHI fees payable	**89**	94
Others	**2,782**	6,350
	45,533	66,957
Shareholders' operations		
Accrued expenses	**740**	696
Other creditors	**341**	71
	1,081	767
Total	**46,614**	67,724

15. STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net income from shareholders' operations shall be set aside as a statutory reserve until this reserve amounts to 100% of share capital. As the Company has accumulated losses at year end, no transfer to statutory reserve has been made during the year. The reserve is not available for distribution to the shareholders until the liquidation of the Company.

16. STATUTORY DEPOSIT

	31 December 2020 SAR'000	31 December 2019 SAR'000
Shareholders' Operations		
Statutory deposit	**60,000**	60,000

In compliance with Article 58 of the Implementing Regulations of the Saudi Central Bank ("SAMA"), the Company deposited an amount equivalent to 15% of its paid up share capital, amounting to SAR 60 million in a bank designated by SAMA. This statutory deposit cannot be withdrawn without the consent of SAMA and commission accruing on this deposit is payable to SAMA.

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

17. COMMITMENTS AND CONTINGENCIES

	31 December 2020 SAR'000	31 December 2019 SAR'000
Letters of guarantee issued in favour of GAZT	**22,096**	22,096
Letters of guarantee issued in favour of non-government customers	**1,400**	-
	23,496	22,096

a. The Company has capital commitments outstanding as at 31 December 2020 amounting to SAR 19.65 million (31 December 2019: Nil) in respect of software development project.

b. As at 31 December 2020, the Company's bankers have given guarantees to non-government customers amounting to SAR 1.40 million (2019: Nil) in respect of motor insurance and to the General Authority of Zakat and Tax (GAZT) amounting to SAR 22.09 million (2019: SAR 22.09 million) in respect of a disputed assessment order (also see note 29.3) which is deposited with a bank and is included in prepaid expenses and other assets (also see note 8).

c. Refer note 29 for the status of zakat and tax assessments.

18. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2020 SAR'000	31 December 2019 SAR'000
Insurance operations		
Employee costs	**55,616**	73,872
Legal and professional fees	**4,330**	2,488
Office supplies	**4,137**	1,971
Depreciation	**2,736**	2,095
Rent	**2,292**	6,488
Communication expenses	**2,101**	1,794
Depreciation of right-of-use assets (note 23)	**2,052**	-
Office expenses	**1,767**	1,506
Marketing and advertising	**696**	236
Professional services	**603**	282
Training and education	**462**	149
Utilities	**361**	275
Finance cost on lease liability	**187**	-
Investment expenses	**34**	840
Withholding tax provision	**-**	2,440
Others	**7,898**	5,814
	85,272	100,250
Shareholders' operations		
Professional fees	**867**	584
Others	**667**	636
	1,534	1,220
Total	**86,806**	101,470

19. INVESTMENTS INCOME

Insurance operations	31 December 2020 SAR'000	31 December 2019 SAR'000
Commission income on deposits	**560**	504
Commission income on investments	**3,849**	3,943
	4,409	4,447
Shareholders' operations		
Dividend income	**535**	308
Commission income on investments	**5,438**	6,260
	5,973	6,568
Total	**10,382**	11,015

20. OTHER INCOME

	31 December 2020 SAR'000	31 December 2019 SAR'000
Share of surplus from Al Manafeth (note 20.1)	**1,167**	2,677
Share of surplus from Umrah and Hajj scheme (note 20.2)	**4,318**	-
Others	**1,545**	1,076
	7,030	3,753

20.1 This represents the Company's share in the surplus arising from the Al Manafeth Third Party Liability Insurance Fund (the Fund). The Company with twenty-four other insurance companies operating in the Kingdom of Saudi Arabia, entered into an agreement with 'The Company for Cooperative Insurance' (Tawuniya) effective from 1 January 2015, initially for three years, for participating in the insurance of foreign vehicles entering Kingdom of Saudi Arabia through all its borders except from the Kingdom of Bahrain. As per the agreement, Tawuniya will receive 4.25% of Fund's gross written premiums to cover the related indirect expense along with 15% management fee of the net results of the Fund's portfolio. The remaining results after the aforesaid distribution is due to be shared equally by Tawuniya and twenty five insurance companies including the Company. The agreement is renewed for the years 2019 and 2020.

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

21. TECHNICAL RESERVES

21.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	31 December 2020 SAR'000	31 December 2019 SAR'000
Outstanding claims	**62,921**	66,652
Claims incurred but not reported	**169,749**	162,673
	232,670	229,325
Premium deficiency reserve	**25,748**	18,760
Other technical reserves	**13,378**	9,604
	271,796	257,689
Less:		
- Reinsurers' share of outstanding claims	**(41,720)**	(45,581)
- Reinsurers' share of claims incurred but not reported	**(126,264)**	(112,881)
	(167,984)	(158,462)
Net outstanding claims and reserves	**103,812**	99,227

21.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	31 December 2020		
	Gross	**Reinsurance SAR'000**	**Net**
Balance as at the beginning of the year	**163,093**	**(137,914)**	**25,179**
Premium written / (ceded) during the year	**616,861**	**(416,754)**	**200,107**
Premium earned during the year	**(477,502)**	**345,070**	**(132,432)**
Balance as at the end of the year	**302,452**	**(209,598)**	**92,854**

	31 December 2019		
	Gross	Reinsurance SAR'000	Net
Balance as at the beginning of the year	141,051	(94,750)	46,301
Premium written / (ceded) during the year	420,292	(366,014)	54,278
Premium earned during the year	(398,250)	322,850	(75,400)
Balance as at the end of the year	163,093	(137,914)	25,179

22. OTHER TECHNICAL RESERVES

	31 December 2020 SAR'000	31 December 2019 SAR'000
Unallocated expense loss reserve	**6,508**	5,604
Reinsurance recapture provision (note 22.1)	**1,583**	4,000
Reinsurance accrual reserve (note 22.2)	**5,287**	-
	13,378	9,604

22.1 During 2018, one of the medical reinsurer wrote a letter to the Company, enumerated their concerns over some of the terms of Medical Quota Share agreement, and offered a commutation of 95% of Net Loss Ratio. The Company had disagreement with them and contested their observations. However, during 2018 as recommended by the appointed actuary, the Company booked the related reserves as cautious measure. During 2019, the reinsurer has agreed with the Company regarding the medical quota share agreement and settled the outstanding settlement amount due to the Company. Based on the new arrangement, the Company booked an provision amount of SAR 1.58 million (2019: SAR 4 million).

22.2 A reinsurance accrual reserve has been determined to provide for the possible adverse adjustment to the reinsurance commission income in the future.

23. LEASES

23.1 RIGHT-OF-USE ASSETS – NET

Building	**31 December 2020 SAR'000**	31 December 2019 SAR'000
Cost:		
At beginning of the year	**-**	-
Additions during the year	**9,608**	-
At end of the year	**9,608**	-
Accumulated depreciation:		
At beginning of the year	**-**	-
Additions during the year	**2,052**	-
At end of the year	**2,052**	-
Net book value	**7,556**	-

23.2 LEASE LIABILTIES

	31 December 2020 SAR'000	31 December 2019 SAR'000
At beginning of the year	**-**	-
Additions during the year	**9,608**	-
Finance cost	**187**	-
Payments during the year	**(3,398)**	-
At end of the year	**6,397**	-

24. GOODWILL

Effective 31 December 2008, the Company acquired the insurance operations of UCA Insurance Bahrain BSC ('the seller') in the Kingdom of Saudi Arabia for a total consideration of SAR 656.95 million with a goodwill of SAR 78.4 million. The goodwill amount payable to the seller was paid in full subsequent to 2008, after obtaining SAMA approvals.

The Company tests whether goodwill has suffered any impairment on an annual basis. Determining whether goodwill is impaired requires an estimation of the recoverable amount based on a value in use calculation using discounted cash flows (DCF) projections from financial budgets prepared by the management for next five years. Cash flows beyond five years' period are extrapolated using the estimated long-term growth rate.

The assumptions used in arriving at the recoverable amount using the DCF 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 budgeted growth rate for gross premiums to be written in the forecast period has been estimated to be at compound annual growth rate of 17%. The weighted average cost of capital and long-term growth rate has been estimated at 14% and 2%, respectively.

Based on the assumptions made, the value in use calculated above exceeded the carrying amount of goodwill and hence no impairment was recognized. Based on the management experts' assessment of value in use, the management believes that no reasonable possible change in any of the above assumptions would cause the carrying value to materially exceed its recoverable amount at the reporting date.

The most significant assumptions used in determination of value in use calculations are weighted average cost of capital and long-term growth rate.

A sensitivity analysis has been performed and an addition of 1% to the weighted average cost of capital and a reduction of 0.5% in the long-term growth rate have insignificant impact on the results of the impairment tests.

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

Determination of fair value and fair value hierarchy

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

Level 1: quoted 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 the fair values of financial assets, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation to fair value. The fair value is also the carrying value of these financial assets.

During the year, there was no transfer between Level 1, 2 and 3.

25. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

31 December 2020

	Level 1	**Level 2**	**Level 3**	**Total**
	SAR' 000	**SAR' 000**	**SAR' 000**	**SAR' 000**
Financial assets measured at fair value				
Equity securities and mutual funds				
- Insurance operations	**229**	**-**	**-**	**229**
- Shareholders' operations	**25,206**	**-**	**-**	**25,206**
Debt securities				
- Insurance operations	**114,859**	**-**	**-**	**114,859**
- Shareholders' operations	**40,055**	**106,094**	**-**	**146,149**
	180,349	**106,094**	**-**	**286,443**

31 December 2019

	Level 1	Level 2	Level 3	Total
	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Financial assets measured at fair value				
Equity securities and mutual funds				
- Insurance operations	227	-	-	227
- Shareholders' operations	24,593	-	-	24,593
Debt securities				
- Insurance operations	-	-	-	-
- Shareholders' operations	60,260	103,945	-	164,205
	85,080	103,945	-	189,025

Available-for-sale investment amounting to SAR 1.9 million (2019: SAR 1.9 million) is carried at cost as its fair value cannot be measured reliably.

The valuation technique and methods adopted by the Company for fair valuation of level 2 and level 3 financial assets are as follows.

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Unquoted sukuks	Fair value using portfolio manager's valuation	Not applicable	Not applicable

26. EMPLOYEES' DEFINED BENEFIT OBLIGATIONS

	31 December 2020 SAR'000	31 December 2019 SAR'000
Present value of defined benefit obligation	**10,288**	9,475

26.1 Movement of defined benefit obligation

	31 December 2020 SAR'000	31 December 2019 SAR'000
Opening balance	**9,475**	18,018
Charge to statement of income	**4,077**	5,650
Charge to statement of other comprehensive income	**(613)**	(1,075)
Payment of benefits during the year	**(2,651)**	(13,118)
Closing balance	**10,288**	9,475

26.2 Reconciliation of present value of defined benefit obligation

	31 December 2020 SAR'000	31 December 2019 SAR'000
Opening balance	**9,475**	18,018
Current service costs	**3,856**	5,128
Financial costs	**221**	522
Actuarial gain from experience adjustments	**(613)**	(1,075)
Benefits paid during the year	**(2,651)**	(13,118)
	10,288	9,475

26.3 Principal actuarial assumptions

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

	31 December 2020	31 December 2019
Valuation discount rate	**2.11%**	2.50%
Expected rate of increase in salary level across different age bands	**3.11%**	3.50%

26. EMPLOYEES' DEFINED BENEFIT OBLIGATIONS – (continued)

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

	31 December 2020 SAR'000	31 December 2019 SAR'000
Valuation discount rate		
- Increase by 1%	**(626)**	(613)
- Decrease by 1%	**714**	707
Expected rate of increase in salary level across different age bands		
- Increase by 1%	**699**	692
- Decrease by 1%	**(626)**	(613)

	31 December 2020 SAR'000	31 December 2019 SAR'000
Projected future benefit payment (5 years)		
2020	**-**	1,974
2021	**1,717**	716
2022	**1,394**	1,141
2023	**838**	610
2024	**740**	516
2025	**719**	-

The average duration of the defined benefit plan obligation is 6.51 years.

27. OPERATING SEGMENTS

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2019.

Segment assets do not include cash and cash equivalents, short-term deposits, net premiums and reinsurers' receivable, prepaid expenses and other assets, investments, property and equipment, right-of-use assets, intangible assets, goodwill, statutory deposit and accrued commission income on statutory deposit. Accordingly, they are included in unallocated assets. Segment liabilities do not include policyholders' payables, reinsurers' balance payable, lease liabilities, zakat and income tax payable, surplus from insurance operations, accrued and other liabilities , employees' defined benefit obligations and accrued commission income on statutory deposit payable to SAMA. 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.

Segment performance is evaluated on the basis of underwriting results from each segment and therefore, operating expenses are not allocated to each segment and are monitored at the Company level.

The segment information provided to the Company's Board of Directors for the reportable segments for the Company's total assets and liabilities at 31 December 2020 and 31 December 2019, its total revenues, expenses, and net income for the years then ended, are as follows:

27. OPERATING SEGMENTS – (continued)

	As at 31 December 2020 SAR'000							
	Medical	Motor	Energy	Engineering	Others	Total insurance operations	Shareholders' operations	Total
Assets								
Reinsurers' share of unearned premiums	9,672	31,837	-	140,588	27,501	209,598	-	209,598
Reinsurers' share of outstanding claims	5,653	3,844	-	5,549	26,674	41,720	-	41,720
Reinsurers' share of claims incurred but not reported	1,650	18,679	21,396	39,762	44,777	126,264	-	126,264
Deferred policy acquisition costs	1,576	5,640	-	3,731	1,698	12,645	-	12,645
Unallocated assets						518,655	327,999	846,654
Total assets						908,882	327,999	1,236,881
Liabilities								
Unearned premiums	21,202	106,134	-	142,870	32,246	302,452	-	302,452
Unearned reinsurance commission	-	7,512	-	23,408	4,074	34,994	-	34,994
Outstanding claims	10,279	16,810	-	6,487	29,345	62,921	-	62,921
Claims incurred but not reported	4,536	50,693	21,771	41,949	50,800	169,749	-	169,749
Premium deficiency reserve	2,734	22,630	-	-	384	25,748	-	25,748
Other technical reserves	1,825	8,242	544	1,130	1,637	13,378	-	13,378
Unallocated liabilities and insurance operations reserve						264,841	27,735	292,576
Total liabilities and insurance operations reserve						874,083	27,735	901,818

27. OPERATING SEGMENTS – (continued)

	As at 31 December 2019 SAR'000							
	Medical	Motor	Energy	Engineering	Others	Total insurance operations	Shareholders' operations	Total
Assets								
Reinsurers' share of unearned premiums	6,554	7,596	-	104,260	19,504	137,914	-	137,914
Reinsurers' share of outstanding claims	2,424	4,811	-	6,155	32,191	45,581	-	45,581
Reinsurers' share of claims incurred but not reported	1,570	13,551	21,365	32,197	44,198	112,881	-	112,881
Deferred policy acquisition costs	625	839	-	3,837	1,143	6,444	-	6,444
Unallocated assets						486,067	375,470	861,537
Total assets						788,887	375,470	1,164,357
Liabilities								
Unearned premiums	13,478	18,990	-	106,911	23,714	163,093	-	163,093
Unearned reinsurance commission	-	1,617	-	22,162	3,990	27,769	-	27,769
Outstanding claims	4,339	19,803	-	6,815	35,695	66,652	-	66,652
Claims incurred but not reported	8,495	47,165	21,739	35,011	50,263	162,673	-	162,673
Premium deficiency reserve	8,077	10,343	-	-	340	18,760	-	18,760
Other technical reserves	4,242	4,020	37	347	958	9,604	-	9,604
Unallocated liabilities and insurance operations reserve						305,332	33,527	338,859
Total liabilities and insurance operations reserve						753,883	33,527	787,410

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2020					
	Medical SAR'000	**Motor SAR'000**	**Energy SAR'000**	**Engineering SAR'000**	**Others SAR'000**	**Total SAR'000**
REVENUES						
Gross premiums written						
- Individual	67	145,928	-	-	249	146,244
- Micro enterprises	9,971	10,909	-	870	7,473	29,223
- Small enterprises	21,031	41,226	-	5,425	16,226	83,908
- Medium enterprises	10,271	31,683	-	93,141	41,737	176,832
- Large enterprises	169	4,849	121,539	20,666	33,431	180,654
	41,509	234,595	121,539	120,102	99,116	616,861
Reinsurance premiums ceded						
- Local	(3,462)	(11,729)	-	(10,720)	(4,693)	(30,604)
- Foreign	(15,615)	(58,029)	(119,446)	(104,807)	(82,800)	(380,697)
	(19,077)	(69,758)	(119,446)	(115,527)	(87,493)	(411,301)
Excess of loss expenses						
- Local	-	(353)	-	-	(465)	(818)
- Foreign	-	(1,993)	-	-	(2,642)	(4,635)
	-	(2,346)	-	-	(3,107)	(5,453)
Net premiums written	22,432	162,491	2,093	4,575	8,516	200,107
Changes in unearned premiums - net	(4,604)	(62,903)	-	368	(536)	(67,675)
Net premiums earned	17,828	99,588	2,093	4,943	7,980	132,432
Reinsurance commissions earned	-	9,725	1,776	15,266	13,105	39,872
TOTAL REVENUES	17,828	109,313	3,869	20,209	21,085	172,304
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	22,097	114,994	-	5,076	9,290	151,457
Reinsurers' share of claims paid	(11,459)	(37,036)	-	(3,832)	(7,254)	(59,581)
Net claims paid	10,638	77,958	-	1,244	2,036	91,876
Changes in outstanding claims - net	2,711	(2,656)	-	278	(203)	130
Changes in claims incurred but not reported - net	(4,040)	(1,601)	-	(627)	(39)	(6,307)
Net claims incurred	9,309	73,701	-	895	1,794	85,699
Premium deficiency reserve	(5,343)	12,286	-	-	45	6,988
Other technical reserves	(2,416)	4,222	506	782	680	3,774
Policy acquisition costs	1,916	8,494	-	2,445	3,666	16,521
Other underwriting expenses	660	659	608	450	413	2,790
TOTAL UNDERWRITING COSTS AND EXPENSES	4,126	99,362	1,114	4,572	6,598	115,772
NET UNDERWRITING RESULT	13,702	9,951	2,755	15,637	14,487	56,532

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2020					
	Medical SAR'000	**Motor SAR'000**	**Energy SAR'000**	**Engineering SAR'000**	**Others SAR'000**	**Total SAR'000**
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses						**(86,806)**
Provision of doubtful receivables						**(5,823)**
Board remuneration						**(1,441)**
Investments income						**10,382**
Realized gain on investments						**4,246**
Other income						**7,030**
TOTAL OTHER OPERATING EXPENSES - NET						**(72,412)**
LOSS FOR THE YEAR BEFORE ALLOCATION						**(15,880)**
Net income for the year attributable to insurance operations						**-**
Net loss for the year attributable to the shareholders before zakat and income tax						**(15,880)**
Zakat						**(27,900)**
Income tax						**(100)**
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS						**(43,880)**

***27.1 Additional information**

	For the year ended 31 December 2020				
	Medical SAR'000	**Motor SAR'000**	**Property and casualty SAR'000**	**Protection and savings SAR'000**	**Total SAR'000**
REVENUES					
Gross premiums written					
- Individual	**67**	**145,928**	**249**	**-**	**146,244**
- Micro enterprises	**9,971**	**10,909**	**8,343**	**-**	**29,223**
- Small enterprises	**21,031**	**41,226**	**21,651**	**-**	**83,908**
- Medium enterprises	**10,271**	**31,683**	**134,878**	**-**	**176,832**
- Large enterprises	**169**	**4,849**	**175,636**	**-**	**180,654**
	41,509	**234,595**	**340,757**	**-**	**616,861**

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2019					
	Medical SAR'000	Motor SAR'000	Energy SAR'000	Engineering SAR'000	Others SAR'000	Total SAR'000
REVENUES						
Gross premiums written						
- Individual	3	12,558	-	-	238	12,799
- Micro enterprises	5,743	6,436	-	1,291	5,397	18,867
- Small enterprises	10,253	8,471	-	80,449	13,334	112,507
- Medium enterprises	12,081	7,643	-	16,859	36,728	73,311
- Large enterprises	1,494	5,444	131,785	36,421	27,664	202,808
	29,574	40,552	131,785	135,020	83,361	420,292
Reinsurance premiums ceded						
- Local	-	(1,427)	-	(15,375)	(4,735)	(21,537)
- Foreign	(14,663)	(14,691)	(129,517)	(114,968)	(67,264)	(341,103)
	(14,663)	(16,118)	(129,517)	(130,343)	(71,999)	(362,640)
Excess of loss expenses						
- Local	-	(67)	-	-	(293)	(360)
- Foreign	-	(379)	-	-	(2,635)	(3,014)
	-	(446)	-	-	(2,928)	(3,374)
Net premiums written	14,911	23,988	2,268	4,677	8,434	54,278
Changes in unearned premiums - net	4,303	17,057	-	564	(802)	21,122
Net premiums earned	19,214	41,045	2,268	5,241	7,632	75,400
Reinsurance commissions earned	-	8,824	2,072	14,876	15,461	41,233
TOTAL REVENUES	19,214	49,869	4,340	20,117	23,093	116,633
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	41,539	71,261	-	6,026	34,402	153,228
Reinsurers' share of claims paid	(24,312)	(31,008)	-	(5,743)	(31,927)	(92,990)
Net claims paid	17,227	40,253	-	283	2,475	60,238
Changes in outstanding claims - net	(2,507)	1,345	(3)	184	(1,365)	(2,346)
Changes in claims incurred but not reported - net	4,108	(29,210)	154	(657)	1,552	(24,053)
Net claims incurred	18,828	12,388	151	(190)	2,662	33,839
Premium deficiency reserve	3,337	4,783	-	(3,731)	(2,083)	2,306
Other technical reserves	(23,645)	(1,901)	(261)	(1,122)	(6)	(26,935)
Policy acquisition costs	1,402	2,954	-	2,557	2,955	9,868
Other underwriting expenses	573	378	659	469	470	2,549
TOTAL UNDERWRITING COSTS AND EXPENSES	495	18,602	549	(2,017)	3,998	21,627
NET UNDERWRITING RESULT	18,719	31,267	3,791	22,134	19,095	95,006

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2019					
	Medical SAR'000	Motor SAR'000	Energy SAR'000	Engineering SAR'000	Others SAR'000	Total SAR'000
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses						(101,470)
Reversal of provision for doubtful receivables						2,745
Board remuneration						(883)
Amortization of held to maturity investments						286
Investments income						11,015
Realized gain on investments						6,103
Other income						3,753
TOTAL OTHER OPERATING EXPENSES - NET						(78,451)
INCOME FOR THE YEAR BEFORE ALLOCATION						16,555
Net income for the year attributable to insurance operations						(1,016)
Net income for the year attributable to the shareholders' before zakat and income tax						15,539
Zakat						(7,900)
Income tax						(100)
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS						7,539

***27.2 Additional information**

	For the year ended 31 December 2019				
	Medical SAR'000	Motor SAR'000	Property and casualty SAR'000	Protection and savings SAR'000	Total SAR'000
REVENUES					
Gross premiums written					
- Individual	3	12,558	238	-	12,799
- Micro enterprises	5,743	6,436	6,688	-	18,867
- Small enterprises	10,253	8,471	93,783	-	112,507
- Medium enterprises	12,081	7,643	53,587	-	73,311
- Large enterprises	1,494	5,444	195,870	-	202,808
	29,574	40,552	350,166	-	420,292

28. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors.

28.1 TRANSACTIONS WITH RELATED PARTIES

The following are the details of the significant related parties' transactions during the year:

	Nature of transactions	Amount of transactions for the year ended	
		31 December 2020	31 December 2019
		SAR'000	SAR'000
Major shareholders			
Haji Hussien Ali Reza	Premium written	**5,650**	8,761
	Payments received and claims paid	**(7,818)**	(8,069)
Saudi Bin Laden – Group	Premium written	**114,167**	127,499
	Payments received and claims paid	**(103,793)**	(116,171)
Construction Produce COmpany	Premium written	**7,163**	7,491
	Payments received and claims paid	**(5,714)**	(7,543)
Entities controlled, jointly controlled or significantly influenced by related parties			
United Commercial Agencies	Payment made on behalf of Company	**(150)**	26
Law Office of Hassan Mahassni	Premium written	**654**	434
	Payments received and claims paid	**(589)**	(362)
Middle East Group	Premium written	**12**	-
	Payments received and claims paid	**(1)**	-

28.2 RELATED PARTIES BALANCES

	Balance receivable / (payable) as at	
	31 December 2020	31 December 2019
	SAR'000	SAR'000
Premium receivable		
Haji Hussien Ali Reza	**8,187**	10,355
Saudi Bin Laden – Group	**127,375**	117,001
Construction Product Company	**20,623**	19,174
Law Office of Hassan Mahassni	**197**	132
Middle East Group	**16**	1
	156,398	146,663
Other balances		
United Commercial Agencies	**697**	847
UCA Workshop	**(3)**	(3)
	694	844

Other balances are included in prepayments and other assets, policyholders payables and accrued expenses and other liabilities.

28. RELATED PARTY TRANSACTIONS AND BALANCES – (continued)

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

The following table shows the annual salaries, remuneration and allowances of the key management personnel for the year ended 31 December 2020 and 31 December 2019:

	31 December 2020	31 December 2019
	SAR'000	SAR'000
Salaries and other allowances	**5,231**	4,530
End of service benefits	**214**	147
	5,445	4,677
Remuneration to those charged with governance	**1,441**	883

29. ZAKAT AND INCOME TAX

29.1 Components of zakat base

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

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

	31 December 2020	31 December 2019
	SAR'000	SAR'000
Share capital	**400,000**	400,000
Statutory deposit	**(60,000)**	(60,000)
Statutory reserve	**31,944**	31,944
Accumulated losses	**(64,145)**	(71,684)
Fair value reserve	**9,020**	7,636
End of services benefits	**15,110**	18,018
Investments	**(1,923)**	(6,613)
Other opening provisions	**90,131**	90,490
Goodwill	**(78,400)**	(78,400)
Property and equipment – net	**(14,944)**	(7,008)
Deferred policy acquisition cost	**(12,645)**	(6,444)
Lease liabilities	**6,397**	-
Right-of-use assets	**(7,556)**	-
	312,989	317,939
(Loss) / income for the year	**(15,880)**	15,539
Provision for doubtful debts	**5,823**	-
End of services benefits	**4,077**	2,905
Other	**-**	2,440
Adjusted loss for the year	**(5,980)**	20,884
Zakat base	**307,009**	338,823
Attributable to Saudi Shareholders @ 99% (2019: 99%)	**303,939**	335,435
Zakat @ 2.578%	**7,836**	8,648
Income tax		
Attributable income to Non-Saudi Shareholder @ 1% (2019: 1%)	**-**	209
Income tax @ 20%	**-**	-
Zakat and income tax	**7,836**	8,857

29. ZAKAT AND INCOME TAX – (continued)

29.2 Provision for zakat and income tax

The movement in the zakat payable is as follows:

	31 December 2020	31 December 2019
	SAR'000	SAR'000
Balance at the beginning of the year	**28,136**	21,788
Charge for the current year	**7,900**	7,900
Charge for the prior years	**20,000**	-
Paid during the year	**(35,186)**	(1,552)
Balance at the end of the year	**20,850**	28,136

The movement in the income tax payable is as follows:

	31 December 2020	31 December 2019
	SAR'000	SAR'000
Balance at the beginning of the year	**800**	700
Charge for the current year	**100**	100
Balance at the end of the year	**900**	800
Total	**21,750**	28,936

29.3 Status of assessments

The Zakat is applicable on 99% of the shareholders while income tax on 1% of the shareholders.

The Company has filed its zakat and income tax declarations for the years ended 31 December 2009 to 2019 and obtained restricted zakat and tax certificates.

Assessment years 2005, 2006, 2007 and 2008

During 2017, the Company received the zakat assessments for the years 2005 to 2008 from the GAZT with regards to the insurance operations transferred from UCA Insurance Bahrain BSC claiming zakat liability amounting to SAR 6.01 million and withholding tax liability amounting to SAR 16.09 million. Management has filed an objection against the above assessments and is confident of receiving a favorable outcome. Further, the Company has issued a bank guarantee in favor of GAZT amounting to SAR 22.09 million (2019: SAR 22.09 million) against such assessments (see note 17). Management is of the view that any additional liability as a result of these assessments will eventually be charged to the shareholders of the UCA Insurance Bahrain BSC.

Assessment years to 2009, 2010 and 2011

During the year, GAZT issued an amended assessment based on the decision of the Preliminary Objection Committee and claimed additional delay fine amounting to SAR 2.40 million relating to 2009 to 2011 and the Company has appealed against such amended assessment.

Assessment years 2012 and 2013

During 2018, GAZT had issued assessments for the years 2012 and 2013 claiming additional zakat and income tax liability amounting to SAR 15.84 million. However, the Company objected to the assessments and is planning to meet the Dispute Resolution Committee of the GAZT to reach a final settlement.

29. ZAKAT AND INCOME TAX – (continued)

29.3 Status of assessments – (continued)

Assessment years 2014, 2015, 2016, 2017 and 2018

During the year, GAZT issued an assessment for the years 2014, 2015 and 2018 claiming additional zakat in addition to the delay fine amounting to SAR 25.65 million and withholding tax for the years 2016, 2017 and 2018 amounting to SAR 29.82 million. The Company settled the additional zakat amount of SAR 13.82 million and objected against the remaining amount and received a revised assessment for remaining amount of SAR 2.67 million which the Company has also settled after the year end. The Company also paid the withholding tax difference of SAR 18.93 million to settle against the additional assessment of SAR 29.82 million.

Also, during the year, GAZT issued an assessment claiming additional zakat, tax and delay fine for the years 2016 and 2017 amounting to SAR 10.38 and SAR 10.27 million, respectively. The Company paid an amount of SAR 12.55 million against these assessments and objected against the remaining amount and received a revised assessment for the remaining amount of SAR 4.69 million which the Company has also settled after the year end.

VAT assessment

On 25 August 2020, the Company received an assessment from GAZT to pay additional principal VAT of SAR 12.28 million for the years 2018 and 2019 as well as additional fines of SAR 20.25 million for those years. In order to avoid incurring additional fines the Company paid the principal VAT on 28 October 2020 without prejudice to its position and objected to the items issued for the evaluation. On 20 February 2021, the Company filed an appeal with the General Secretariat of Tax Committees (GSTC) against the decision of the GAZT for which management is confident of a favorable outcome.

The objected items are zero rated supplies, self-invoicing, and reinsurance commission.

The fines imposed on the assessments amounting to SAR 20.25 million for the years 2018 and 2019 were subsequently canceled as the Company has taken advantage of GAZT's initiative to stabilize the economy and boost the private sector.

30. SHARE CAPITAL

As at 31 December 2020 and 31 December 2019, the authorised, subscribed and paid up share capital of the Company is SAR 400,000,000, divided into 40,000,000 shares of SAR 10 each.

31. 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 SAR 100 million
- Premium Solvency Margin
- Claims Solvency Margin

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at 31 December 2020 consists of paid-up share capital of SAR 400 million, statutory reserve of SAR 31.94 million and accumulated losses of SAR 108.02 million (31 December 2019: paid-up share capital of SAR 400 million, statutory reserve of SAR 31.94 million and accumulated losses of SAR 64.14 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.

32. BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE

(Loss) / earnings per share for the year has been calculated by dividing the net (loss) / income for the year by the weighted average number of issued and outstanding shares for the year. As the Company does not issued any convertible securities, dilution of earning per share is not applicable.

33. SUPPLEMENTARY INFORMATION

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

a) Statement of financial position

	31 December 2020			31 December 2019		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
	SAR'000					
ASSETS						
Cash and cash equivalents	**51,356**	**10,379**	**61,735**	216,199	41,454	257,653
Short term deposits	**22,656**	**-**	**22,656**	23,496	-	23,496
Premiums and reinsurers' receivable – net	**239,606**	**-**	**239,606**	202,452	-	202,452
Reinsurers' share of unearned premiums	**209,598**	**-**	**209,598**	137,914	-	137,914
Reinsurers' share of outstanding claims	**41,720**	**-**	**41,720**	45,581	-	45,581
Reinsurers' share of claims incurred but not reported	**126,264**	**-**	**126,264**	112,881	-	112,881
Deferred policy acquisition costs	**12,645**	**-**	**12,645**	6,444	-	6,444
Investments	**115,088**	**173,278**	**288,366**	227	190,721	190,948
Due from insurance operations	**-**	**32,675**	**32,675**	-	33,493	33,493
Prepaid expenses and other assets	**67,449**	**1,038**	**68,487**	36,685	1,071	37,756
Property and equipment – net	**10,346**	**-**	**10,346**	7,008	-	7,008
Intangible assets	**4,598**	**-**	**4,598**	-	-	-
Right-of-use asset – net	**7,556**	**-**	**7,556**	-	-	-
Goodwill	**-**	**78,400**	**78,400**	-	78,400	78,400
Statutory deposit	**-**	**60,000**	**60,000**	-	60,000	60,000
Accrued commission income on statutory deposit	**-**	**4,904**	**4,904**	-	3,824	3,824
	908,882	**360,674**	**1,269,556**	788,887	408,963	1,197,850
Less: Inter-operations eliminations	**-**	**(32,675)**	**(32,675)**	-	(33,493)	(33,493)
TOTAL ASSETS	**908,882**	**327,999**	**1,236,881**	788,887	375,470	1,164,357

33. SUPPLEMENTARY INFORMATION – (continued)

a) Statement of financial position – (continued)

	31 December 2020			31 December 2019		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR'000			
LIABILITIES						
Policyholders payable	**5,396**	**-**	**5,396**	13,419	-	13,419
Accrued and other liabilities	**45,533**	**1,081**	**46,614**	66,957	767	67,724
Reinsurers balances payable	**156,440**	**-**	**156,440**	178,413	-	178,413
Unearned premiums	**302,452**	**-**	**302,452**	163,093	-	163,093
Unearned reinsurance commission	**34,994**	**-**	**34,994**	27,769	-	27,769
Outstanding claims	**62,921**	**-**	**62,921**	66,652	-	66,652
Claims incurred but not reported	**169,749**	**-**	**169,749**	162,673	-	162,673
Premium deficiency reserve	**25,748**	**-**	**25,748**	18,760	-	18,760
Other technical reserves	**13,378**	**-**	**13,378**	9,604	-	9,604
Due to shareholders' operations	**32,675**	**-**	**32,675**	33,493	-	33,493
Employees' defined benefit obligations	**10,288**	**-**	**10,288**	9,475	-	9,475
Lease liabilities	**6,397**	**-**	**6,397**	-	-	-
Surplus from insurance operations	**37,053**	**-**	**37,053**	37,053	-	37,053
Zakat and income tax payable	**-**	**21,750**	**21,750**	-	28,936	28,936
Accrued commission income on statutory deposit payable to SAMA	**-**	**4,904**	**4,904**	-	3,824	3,824
	903,024	**27,735**	**930,759**	787,361	33,527	820,888
Less: Inter-operations eliminations	**(32,675)**	**-**	**(32,675)**	(33,493)	-	(33,493)
	870,349	**27,735**	**898,084**	753,868	33,527	787,395
Fair value reserve on investments - insurance operations	**3,734**	**-**	**3,734**	15	-	15
TOTAL LIABILITIES AND INSURANCE OPERATIONS RESERVE	**874,083**	**27,735**	**901,818**	753,883	33,527	787,410
EQUITY						
Share capital	**-**	**400,000**	**400,000**	-	400,000	400,000
Statutory reserve	**-**	**31,944**	**31,944**	-	31,944	31,944
Accumulated losses	**-**	**(108,025)**	**(108,025)**	-	(64,145)	(64,145)
Fair value reserve on investments	**-**	**9,020**	**9,020**	-	7,637	7,637
Re-measurement reserve of employees' defined benefit obligations	**2,124**	**-**	**2,124**	1,511	-	1,511
TOTAL EQUITY	**2,124**	**332,939**	**335,063**	1,511	375,436	376,947
TOTAL LIABILITIES, INSURANCE OPERATIONS RESERVE AND EQUITY	**876,207**	**360,674**	**1,236,881**	755,394	408,963	1,164,357

33. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2020 Total**	Insurance operations	Share-holders' operations	2019 Total
	SAR'000					
REVENUES						
Gross premiums written	**616,861**	**-**	**616,861**	420,292	-	420,292
Reinsurance premiums ceded						
- Local	**(30,604)**	**-**	**(30,604)**	(21,537)	-	(21,537)
- Foreign	**(380,697)**	**-**	**(380,697)**	(341,103)	-	(341,103)
	(411,301)	**-**	**(411,301)**	(362,640)	-	(362,640)
Excess of loss expenses						
- Local	**(818)**	**-**	**(818)**	(360)	-	(360)
- Foreign	**(4,635)**	**-**	**(4,635)**	(3,014)	-	(3,014)
	(5,453)	**-**	**(5,453)**	(3,374)	-	(3,374)
Net premiums written	**200,107**	**-**	**200,107**	54,278	-	54,278
Changes in unearned premiums – net	**(67,675)**	**-**	**(67,675)**	21,122	-	21,122
Net premiums earned	**132,432**	**-**	**132,432**	75,400	-	75,400
Reinsurance commissions earned	**39,872**	**-**	**39,872**	41,233	-	41,233
TOTAL REVENUES	**172,304**	**-**	**172,304**	116,633	-	116,633
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	**151,457**	**-**	**151,457**	153,228	-	153,228
Reinsurers' share of claims paid	**(59,581)**	**-**	**(59,581)**	(92,990)	-	(92,990)
Net claims paid	**91,876**	**-**	**91,876**	60,238	-	60,238
Changes in outstanding claims – net	**130**	**-**	**130**	(2,346)	-	(2,346)
Changes in claims incurred but not reported – net	**(6,307)**	**-**	**(6,307)**	(24,053)	-	(24,053)
Net claims incurred	**85,699**	**-**	**85,699**	33,839	-	33,839
Premium deficiency reserve	**6,988**	**-**	**6,988**	2,306	-	2,306
Other technical reserves	**3,774**	**-**	**3,774**	(26,935)	-	(26,935)
Policy acquisition costs	**16,521**	**-**	**16,521**	9,868	-	9,868
Other underwriting expenses	**2,790**	**-**	**2,790**	2,549	-	2,549
TOTAL UNDERWRITING COSTS AND EXPENSES	**115,772**	**-**	**115,772**	21,627	-	21,627
NET UNDERWRITING RESULT	**56,532**	**-**	**56,532**	95,006	-	95,006

33. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income – (continued)

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2020 Total**	Insurance operations	Share-holders' operations	2019 Total
			SAR'000			
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses	**(85,272)**	**(1,534)**	**(86,806)**	(100,250)	(1,220)	(101,470)
(Provision for) / release of provision for doubtful receivables	**(5,823)**	**-**	**(5,823)**	2,745	-	2,745
Board remuneration	**-**	**(1,441)**	**(1,441)**	-	(883)	(883)
Amortization of held to maturity investments	**-**	**-**	**-**	111	175	286
Investments income	**4,409**	**5,973**	**10,382**	4,447	6,568	11,015
Realized (loss) / gain on investments	**-**	**4,246**	**4,246**	4,346	1,757	6,103
Other income	**7,030**	**-**	**7,030**	3,753	-	3,753
TOTAL OTHER OPERATING (EXPENSES) / INCOME – NET	**(79,656)**	**7,244**	**(72,412)**	(84,848)	6,397	(78,451)
(LOSS) / INCOME FOR THE YEAR BEFORE ALLOCATION	**(23,124)**	**7,244**	**(15,880)**	10,158	6,397	16,555
SHAREHOLDERS' ABSORPTION OF LOSS / (INCOME)	**23,124**	**(23,124)**	**-**	(9,142)	9,142	-
(LOSS) / INCOME FOR THE YEAR AFTER SHAREHOLDERS' APPROPRIATIONS BEFORE ZAKAT AND INCOME TAX	**-**	**(15,880)**	**(15,880)**	1,016	15,539	16,555
Zakat	**-**	**(27,900)**	**(27,900)**	-	(7,900)	(7,900)
Income tax	**-**	**(100)**	**(100)**	-	(100)	(100)
	-	**(28,000)**	**(28,000)**	-	(8,000)	(8,000)
NET (LOSS) / INCOME FOR THE YEAR	**-**	**(43,880)**	**(43,880)**	1,016	7,539	8,555
(Loss) / earnings per share (Expressed in SAR per share)						
Weighted average number of ordinary shares outstanding (in thousands)		**40,000**			40,000	
Basic and diluted (loss) / earnings per share for the year (SAR)		**(1.10)**			0.19	

33. SUPPLEMENTARY INFORMATION – (continued)

c) Statement of comprehensive income

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2020 Total**	Insurance operations	Share-holders' operations	2019 Total
			SAR'000			
NET (LOSS) / INCOME FOR THE YEAR	**-**	**(43,880)**	**(43,880)**	1,016	7,539	8,555
Other comprehensive (loss) / income						
Items that will not be reclassified to statement of income in subsequent periods						
Re-measurement gains on defined benefit obligations	**613**	**-**	**613**	1,075	-	1,075
Items that are or may be reclassified to statement of income in subsequent periods						
Available-for-sale investments:						
- Net change in fair value of available-for-sale investments	**3,719**	**1,383**	**5,102**	101	7,585	7,686
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	**4,332**	**(42,497)**	**(38,165)**	2,192	15,124	17,316

33. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2020 Total**	Insurance operations	Share-holders' operations	2019 Total
			SAR'000			
CASH FLOWS FROM OPERATING ACTIVITIES						
(Loss) / income for the year before zakat and income tax	**-**	**(15,880)**	**(15,880)**	1,016	15,539	16,555
Adjustments for non-cash items:						
Depreciation of property and equipment	**2,736**	**-**	**2,736**	2,095	-	2,095
Gain on disposal of property and equipment	**-**	**-**	**-**	(71)	-	(71)
Depreciation of right-of-use assets	**2,052**	**-**	**2,052**	-	-	-
Finance cost on lease liabilities	**187**	**-**	**187**	-	-	-
Provision for / (release of provision for) doubtful receivables	**5,823**	**-**	**5,823**	(2,745)	-	(2,745)
Realized gain on disposal of investments	**-**	**(4,246)**	**(4,246)**	(4,346)	(1,757)	(6,103)
Amortization of held to maturity investments	**-**	**-**	**-**	(111)	(175)	(286)
Provision for employees' defined benefit obligations	**4,077**	**-**	**4,077**	5,650	-	5,650
	14,875	**(20,126)**	**(5,251)**	1,488	13,607	15,095
Changes in operating assets and liabilities:						
Premiums and reinsurers' receivable	**(42,977)**	**-**	**(42,977)**	(29,971)	-	(29,971)
Reinsurers' share of unearned premiums	**(71,684)**	**-**	**(71,684)**	(43,164)	-	(43,164)
Reinsurers' share of outstanding claims	**3,861**	**-**	**3,861**	42,588	-	42,588
Reinsurers' share of claims incurred but not reported	**(13,383)**	**-**	**(13,383)**	22,756	-	22,756
Deferred policy acquisition costs	**(6,201)**	**-**	**(6,201)**	(745)	-	(745)
Prepaid expenses and other assets	**(30,764)**	**33**	**(30,731)**	9,138	307	9,445
Accrued commission income on statutory deposit	**-**	**(1,080)**	**(1,080)**	-	(1,189)	(1,189)
Policyholders payables	**(8,023)**	**-**	**(8,023)**	(5,942)	-	(5,942)
Accrued and other liabilities	**(21,424)**	**314**	**(21,110)**	11,704	(63)	11,641
Reinsurers balances payable	**(21,973)**	**-**	**(21,973)**	56,186	-	56,186
Unearned premiums	**139,359**	**-**	**139,359**	22,042	-	22,042
Unearned reinsurance commission	**7,225**	**-**	**7,225**	8,474	-	8,474
Outstanding claims	**(3,731)**	**-**	**(3,731)**	(44,934)	-	(44,934)
Claims incurred but not reported	**7,076**	**-**	**7,076**	(46,808)	-	(46,808)
Premium deficiency reserve	**6,988**	**-**	**6,988**	2,306	-	2,306
Other technical reserves	**3,774**	**-**	**3,774**	(26,935)	-	(26,935)
Accrued commission income on statutory deposit payable to SAMA	**-**	**1,080**	**1,080**	-	1,189	1,189
Due to shareholders operations	**(818)**	**-**	**(818)**	28,793	-	28,793
Due from Insurance Operations	**-**	**818**	**818**	-	(28,793)	(28,793)
	(37,820)	**(18,961)**	**(56,781)**	6,976	(14,942)	(7,966)
Employees' defined benefit obligations paid	**(2,651)**	**-**	**(2,651)**	(13,118)	-	(13,118)
Zakat and income tax paid	**-**	**(35,186)**	**(35,186)**	-	(1,552)	(1,552)
Net cash used in operating activities	**(40,471)**	**(54,147)**	**(94,618)**	(6,142)	(16,494)	(22,636)

33. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows – (continued)

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2020 Total**	Insurance operations	Share-holders' operations	2019 Total
			SAR'000			
CASH FLOWS FROM INVESTING ACTIVITIES						
Short term deposits	**840**	**-**	**840**	(23,496)	-	(23,496)
Purchases of investments	**(111,142)**	**(38,759)**	**(149,901)**	(20,000)	(23,576)	(43,576)
Proceeds from sale of investments	**-**	**61,831**	**61,831**	184,490	66,968	251,458
Purchase of property and equipment	**(6,074)**	**-**	**(6,074)**	(7,201)	-	(7,201)
Addition to Intangible assets	**(4,598)**	**-**	**(4,598)**	-	-	-
Proceeds from disposal of property and equipment	**-**	**-**	**-**	71	-	71
Net cash (used in) / generated from investing activities	**(120,974)**	**23,072**	**(97,902)**	133,864	43,392	177,256
CASH FLOWS FROM FINANCING ACTIVITIES						
Decrease in statutory deposit	**-**	**-**	**-**	-	13,500	13,500
Payments of lease liabilities	**(3,398)**	**-**	**(3,398)**	-	-	-
Net cash (used in) / generated from financing activities	**(3,398)**	**-**	**(3,398)**	-	13,500	13,500
Net changes in cash and cash equivalents	**(164,843)**	**(31,075)**	**(195,918)**	127,722	40,398	168,120
Cash and cash equivalents, at the beginning of the year	**216,199**	**41,454**	**257,653**	88,477	1,056	89,533
Cash and cash equivalents, at the end of the year	**51,356**	**10,379**	**61,735**	216,199	41,454	257,653
<u>NON-CASH INFORMATION</u>						
Net change in fair value of available-for-sale investments	**3,719**	**1,383**	**5,102**	101	7,585	7,686
Re-measurement gains on employees' defined benefit obligations	**613**	**-**	**613**	**1,075**	**-**	**1,075**

34. RISK MANAGEMENT

Risk governance

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

Risk management structure

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

Board of Directors

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

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 function

Risk management processes throughout the Company are audited annually by the Internal Audit function which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Auditor 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.

Risk management committee

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

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

34.1 Insurance 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.

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non-proportional reinsurance is primarily facultative and excess of loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance vary by product line and territory.

34. RISK MANAGEMENT – (continued)

34.1 Insurance risk management – (continued)

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 51% of total reinsurance assets at the reporting date.

Underwriting and retention policies and 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 market are closely observed, reacting were necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

(a) Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in Energy and Engineering.

The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighboring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

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

(b) Independent actuarial review of claims and claims reserves

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

(c) Key assumptions

The key source of estimation uncertainty at the statement of financial position date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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

34. RISK MANAGEMENT – (continued)

34.1 Insurance risk management – (continued)

(d) Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. For details please refer note 2 and 3.

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

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve, premium deficiency reserve and other reserves in result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as at the statement of financial position date. The expected future liability is determined using estimates and assumptions based on the experience during the expired year of the contracts and expectations of future events that are believed to be reasonable.

34. RISK MANAGEMENT – (continued)

34.1 Insurance risk management – (continued)

(e) Sensitivities

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

	2020 SAR'000		*2019 SAR'000*	
Outstanding claim net of reinsurance	**Effect of 10% increase**	**Effect of 10% decrease**	Effect of 10% increase	Effect of 10% decrease
	(2,120)	**2,120**	(2,107)	2,107

	2020 SAR'000		*2019 SAR'000*	
IBNR	**Effect of 15% increase**	**Effect of 15% decrease**	Effect of 15% increase	Effect of 15% decrease
	(6,523)	**6,523**	(7,469)	7,469
TOTAL	**(8,643)**	**8,643**	(9,576)	9,576

(f) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly medical, motor, fire and burglary, general accident and marine classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Fire and burglary

Fire and burglary insurance contracts, with the main peril being fire damage and other allied perils resulting there from, are underwritten either on replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, 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 treaties.

Motor

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 38% (2019: 10%) of gross written premium.

The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims. This risk is partially covered by proportional treaty as well as per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

34. RISK MANAGEMENT – (continued)

34.1 Insurance risk management – (continued)

General accident and workmen's compensation

For miscellaneous accident classes 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 and the potential court awards for liability classes are the main factors that influence the level of claims. The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

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.
The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

Medical

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

The table below sets out the concentration of the outstanding claims and unearned premiums (in percentage terms) by class of business at the statement of financial position date:

2020	**Gross unearned premiums**	**Net unearned premiums**	**Gross outstanding claims**	**Net outstanding claims**
Medical	**7%**	**12%**	**16%**	**22%**
Motor	**35%**	**80%**	**27%**	**61%**
Energy	**-**	**-**	**-**	**-**
Engineering	**47%**	**3%**	**10%**	**4%**
Others	**11%**	**5%**	**47%**	**13%**
Total	**100%**	**100%**	**100%**	**100%**

2019	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims
Medical	8%	27%	6%	9%
Motor	12%	45%	30%	71%
Energy	-	-	-	-
Engineering	66%	11%	10%	3%
Others	14%	17%	54%	17%
Total	100%	100%	100%	100%

34. RISK MANAGEMENT – (continued)

(g) Concentration of insurance risk

The Company does not have insurance contract covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation. The Company does not have any material claims where the amount and timing of payment is not resolved within one year of the reporting date.

(h) Reinsurance risk

In order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes.
To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.
Reinsurers are selected using the following parameters and guidelines set by the Company's Board of Directors and Technical Committee. The criteria may be summarized as follows:

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance of the reinsurers, wherever applicable, are thoroughly reviewed by the Company and agreed to preset requirements of the Company's Board of Directors before approving them for exchange of reinsurance business. As at 31 December 2020 and 2019, there is no significant concentration of reinsurance balances.

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

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.

34. RISK MANAGEMENT – (continued)

34.2 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 to 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 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.

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

As at 31 December 2020	**Insurance Operations**	**Shareholders operations**	**Total**
	SAR '000	**SAR '000**	**SAR '000**
Cash and cash equivalents	**51,356**	**10,379**	**61,735**
Premiums and reinsurers' receivable - net	**239,606**	**-**	**239,606**
Short term deposits	**22,656**	**-**	**22,656**
Reinsurers' share of outstanding claims	**41,720**	**-**	**41,720**
Reinsurers' share of claims incurred but not reported	**126,264**	**-**	**126,264**
Investments	**115,088**	**166,698**	**281,786**
Other receivables	**44,115**	**1,038**	**45,153**
Statutory deposit	**-**	**60,000**	**60,000**
Accrued commission income on statutory deposit	**-**	**4,904**	**4,904**
	640,805	**243,019**	**883,824**

As at 31 December 2019	Insurance Operations	Shareholders operations	Total
	SAR '000	SAR '000	SAR '000
Cash and cash equivalents	216,199	41,454	257,653
Short term deposits	23,496	-	23,496
Premiums and reinsurers' receivable – net	202,452	-	202,452
Reinsurers' share of outstanding claims	45,581	-	45,581
Reinsurers' share of claims incurred but not reported	112,881	-	112,881
Investments	227	184,108	184,335
Other receivables	33,756	1,071	34,827
Statutory deposit	-	60,000	60,000
Accrued commission income on statutory deposit	-	3,824	3,824
	634,592	290,457	925,049

34. RISK MANAGEMENT – (continued)

34.2 Credit risk – (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade (satisfactory) or past due but not impaired.

Insurance operations' financial assets

		Non-investment grade		
	Investment grade	***Satisfactory***	***Past due but not impaired***	***Total***
		SAR' 000		
Cash and cash equivalents	**51,356**	**-**	**-**	**51,356**
Premiums and reinsurers' receivable – net	**-**	**173,431**	**66,175**	**239,606**
Reinsurance share of outstanding claims	**-**	**41,720**	**-**	**41,720**
Reinsurance share of claims incurred but not reported	**-**	**126,264**	**-**	**126,264**
Short term deposits	**22,656**	**-**	**-**	**22,656**
Investments	**115,088**	**-**	**-**	**115,088**
Other receivables	**-**	**58,932**	**-**	**58,932**
As at 31 December 2020	**189,100**	**400,347**	**66,175**	**655,622**

		Non-investment grade		
	Investment grade	*Satisfactory*	*Past due but not impaired*	*Total*
		SAR' 000		
Cash and cash equivalents	216,199	-	-	216,199
Premiums and reinsurers' receivable – net	-	132,852	69,600	202,452
Reinsurance share of outstanding claims	-	45,581	-	45,581
Reinsurance share of claims incurred but not reported	-	112,881	-	112,881
Short term deposits	23,496	-	-	23,496
Investments	227	-	-	227
Other receivables	-	35,292	-	35,292
As at 31 December 2019	239,922	326,606	69,600	636,128

34. RISK MANAGEMENT – (continued)

34.2 Credit risk – (continued)

Shareholders' operations' financial assets

	Investment grade	Non-investment grade *Satisfactory*	*Past due but not impaired*	*Total*
		SAR' 000		
Cash and cash equivalents	**10,379**	**-**	**-**	**10,379**
Investments	**173,278**	**-**	**-**	**173,278**
Other receivables	**-**	**1,038**	**-**	**1,038**
Statutory deposit	**60,000**	**-**	**-**	**60,000**
Accrued commission income on statutory deposit payable to SAMA	**4,904**	**-**	**-**	**4,904**
As at 31 December 2020	**248,561**	**1,038**	**-**	**249,599**

	Investment grade	Non-investment grade *Satisfactory*	*Past due but not impaired*	*Total*
		SAR' 000		
Cash and cash equivalents	41,454	-	-	41,454
Investments	190,721	-	-	190,721
Other receivables	-	1,071	-	1,071
Statutory deposit	60,000	-	-	60,000
Accrued commission income on statutory deposit payable to SAMA	3,824	-	-	3,824
As at 31 December 2019	295,999	1,071	-	297,070

34. RISK MANAGEMENT – (continued)

34.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. 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 monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. All assets of the Company are current, except for property and equipment, intangible assets and statutory deposit, which are non-current in nature. The Company's financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to insurance operations, amount due to related parties and certain other liabilities. All financial liabilities are non-commission bearing and are expected to be settled within 12 months from the date of statement of financial position, except for certain outstanding claims and employees' defined benefit obligations, which are non-current in nature.

Maturity profiles

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

As at 31 December 2020	**Up to one year SAR '000**	**More than one year but less than 5 years SAR' 000**	**Total SAR' 000**
Insurance operations' liabilities:			
Policyholders payable	**5,396**	**-**	**5,396**
Reinsurance payables	**156,440**	**-**	**156,440**
Accrued expenses and other liabilities	**45,533**	**-**	**45,533**
Outstanding claims	**62,921**	**-**	**62,921**
Claims incurred but not reported	**169,749**	**-**	**169,749**
Premium deficiency reserve	**25,748**	**-**	**25,748**
Other technical reserves	**13,378**	**-**	**13,378**
	479,165	**-**	**479,165**
Shareholders' financial liabilities			
Accrued expenses and other liabilities	**1,081**	**-**	**1,081**
Accrued commission on statutory deposit payable to SAMA	**4,904**	**-**	**4,904**
	5,985	**-**	**5,985**
Total	**485,150**	**-**	**485,150**

As at 31 December 2019	Up to one year SAR '000	More than one year but less than 5 years SAR' 000	Total SAR' 000
Insurance operations' liabilities:			
Policyholders payable	13,419	-	13,419
Reinsurance payables	178,413	-	178,413
Accrued expenses and other liabilities	66,957	-	66,957
Outstanding claims	66,652	-	66,652
Claims incurred but not reported	162,673	-	162,673
Premium deficiency reserve	18,760	-	18,760
Other technical reserves	9,604	-	9,604
	516,478	-	516,478
Shareholders' financial liabilities			
Accrued expenses and other liabilities	767	-	767
Accrued commission on statutory deposit payable to SAMA	3,824	-	3,824
	4,591	-	4,591
Total	521,069	-	521,069

34. RISK MANAGEMENT – (continued)

***34.3 Liquidity risk* – (continued)**

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above. There are no differences between contractual and expected maturity of the financial liabilities of the Company.

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

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

- Short term deposits are deposits placed with high credit rating financial institutions with maturity of less than three months from the date of placement with facility to be available on demand.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims mainly pertain to medical others segment and are generally realized within 6 to 9 months based on settlement of claims.

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

- Reinsurers' balances payable are settled on a periodic basis as per terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to be settled within 12 months in accordance with statutory timelines for payment.
- The zakat and income tax payable and accrued expenses and other liabilities are expected to settle within 12 months from the year end date.
- Surplus from insurance operations is to be settled within 6 months of annual general meeting in which financial statements are approved.

34.4 Market risk

(a) Foreign currency risk

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

(b) Commission rate risk

Commission rate risk is the risk that the value 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 investments, cash and cash equivalents, and time deposits. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated.

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

The sensitivity of the statement of shareholders' 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 31 December:

	Change in basis points	Effect on income for the year SAR'000
2020	**50**	**731**
2019	50	821

34. RISK MANAGEMENT – (continued)

34.4 Market risk – (continued)

(c) 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 interest 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.

These investments are managed by a professional fund manager in accordance with the guidelines approved by the Board of Directors.

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' comprehensive income will be impacted.

The impact of hypothetical change of a 5% increase/decrease in the market prices of investments on Company's comprehensive income would be as follows:

	Fair value change	Effect on Company's profit
		SAR'000
31 December 2020	**+ / - 5%**	**+ / - 14,322**
31 December 2019	+ / - 5%	+/ - 9,452

The Company has an unquoted equity investment amounting to SAR 1.9 million (2019: SAR 1.9 million) carried at cost where the impact of changes in equity price risk will only be reflected when the investment is sold or deemed to be impaired and statement of income will be then impacted.

34.5 Operational Risk

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

The 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

34.6 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.

35. IMPACT OF COVID-19

The World Health Organisation declared the Coronavirus (COVID-19) to be a global pandemic on 11 March 2020, escalating from a declaration of a public health emergency on 30 January 2020. COVID-19 has had unexpected human and economic consequences across many countries and has resulted in significant market volatility.

COVID-19 pandemic continues to disrupt global markets as many geographies are beginning to experience a “second wave” of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time and is closely monitoring its exposures at a granular level, while maintaining acceptable service levels and operational activities and ensuring the safety and wellbeing of its employees.

Management of the Company is closely monitoring the situation as it evolves which is outlined on the broad imensions as below:

(a) Business impact

Impact on sales, receivables and product/pricing strategies

The major impact of COVID-19 pandemic is seen in medical and motor line of business as explained below. As with any estimate, the projections and likelihoods of occurrence are underpinned by significant judgment and rapidly evolving situation and uncertainties surrounding the duration and severity of the pandemic, and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental, and the Company will continue to reassess its position and the related impact on a regular basis.

The key factors that impacted the 2020 production were market dynamics, the consumer spending and the insurance industry outlook and initiatives. Market dynamics involved the reduced Government spending and curtailment of projects due to COVID-19 situation. On the consumer side there was a clear tendency of the consumers to reduce cost and to shop for the cheapest solution.

There has been a limited impact on collections and liquidity during the current phase and this is being monitored regularly by management. Overall, product and pricing strategies continue to be on track and hence management does not see any significant changes presently.

Based upon the current trends, management has updated its sales forecasts to reflect these for the future. Management will continue to monitor the impact and update the forecasts further considering the situation as it continues to evolve.

35. IMPACT OF COVID-19 – (continued)

(a) Business impact - (continued)

Impact on claims and reserving

(i) Medical technical reserves

During the peak period of COVID-19 pandemic's first wave i.e. March to June 2020, access to providers and demand for healthcare declined temporarily due to measures taken by the local authorities. This resulted in a substantial drop in incurred claims from April through May which began to recover in June reaching pre-COVID-19 claims levels by the end of the second quarter. At this stage, the Company continues to expect a significant portion of the untreated health conditions to rebound as health care patterns are gradually restored and hence expects a surge in expected future claims.

The propensity of a particular type of claim to be deferred depends on the nature of the medical condition and the types of diagnostic investigation and treatment associated with it. The expected surge in future claims related to insurance contracts in force was explicitly considered in the Premium Deficiency Reserve (PDR) estimation.

With reference to SAMA's circular 173, dated 16 January 2019, insurance companies are required to hold an additional PDR in case the relevant Unearned Premium Reserve (UPR) is insufficient against the corresponding projected claims and expenses. To adequately meet the future insurance liabilities of the unexpired risk after considering the impact of COVID-19 and Circular 895, the Company recognized a PDR of SAR 2.73 million as at 31 December 2020 (2019: SAR 8.08 million).

Compensation for Government Providers

The Council of Cooperative Health Insurance ("CCHI") recently issued Circular 895, dated 17/12/2020, regarding the enforcement of Article 11 of the Cooperative Health Insurance Law, requesting medical insurance companies, effective 1/1/2021, to include all accredited government healthcare providers in their medical network while complying with the approved financial compensation structure. The circular is expected to have a material impact on future medical claims considering the mandated prices and protocols regulating the relationship between government health facilities and insurance companies. Given the many uncertainties surrounding the actual rollout and application of Circular 895, management continues monitoring the situation closely, while reassessing and updating its estimates and judgments on a regular basis.

(ii) Motor technical reserves

In response to the COVID-19 pandemic, SAMA issued a circular 189 (the "circular") dated 08 May 2020 to all insurance companies in the Kingdom of Saudi Arabia. Amongst other things, the circular instructed insurance companies to extend the period of validity of all existing retail motor insurance policies by further two months as well as providing a two-month additional coverage for all new retail motor policies written within one month of this circular.

Management, in conjunction with its appointed actuary, deliberated on a variety of internal factors and concluded, that the Company considers the extension of two months in exiting motor policies as new policy and to record a premium deficiency reserve based on the expected claims for the extended two months' period.

For new policies written as per the above circular, the premium is earned over the period of coverage i.e. 14 months as per the Company's accounting policy. There is no significant impact of the two-month extension in earned premium as of 31 December 2020 as no material amounts of premium have been written during the one-month period from the date of the circular.

The Company has performed a liability adequacy test using current estimates of future cash flows under its insurance contracts at an aggregated level for motor line of business and recorded a premium deficiency reserve amounting to SAR 9.92 million as at 31 December 2020 (31 December 2019: Nil).

35. IMPACT OF COVID-19 – (continued)

(a) Business impact - (continued)

(ii) Motor technical reserves (continued)

Reinsurers continue to settle their share of the claims in line with the treaty and contracts with no adverse impact to business. Management continues to conduct regular reviews on the Company's reinsurers in relation to the counterparty credit ratings, financial metrics, credit outlook and changes to their structures, if any.

The reserving towards IBNR continues to be consistent with the methodology and techniques applied as at 31 December 2019 and it factors the actual claim experience in the year ended 31 December 2020.

Impact on expenses

The Company continues to maintain its staff in the normal course of business and pay the salaries.

Some of the expenses such as communication, technology and maintenance costs have increased due to the higher level of support to extend remote working options for the employees as well as costs towards sanitizing, social distancing and providing a safe environment for those employees working from the office. The additional costs have been partially offset with the lower costs towards business travel, conveyance and lower discretionary spending.

Impact on financial assets

In line with the impact upon the capital markets and interest-rates in the initial period of the pandemic in March 2020, there was some volatility and impact on the investment valuation which has recovered during the year ended 31 December 2020. The determination of fair value considers observable market information, determining whether specific markets are active or inactive, and whether transactions in inactive markets are deemed to be disorderly (i.e. forced or distressed), with none noted for the portfolio of available-for-sale investments held by the Company.

The Company continued to assess whether there is an objective evidence that a financial asset or a group of financial assets is impaired. During the year, the Company applied the accounting policy for impairment of financial assets consistent with prior year. With respect to insurance and reinsurance receivables, the Company is closely monitoring the credit quality of its customers and reinsurance companies and updating the allowance for impairment whenever there is an objective evidence of credit impairment.

(b) Operational resilience and business continuity

From the initial stages of the COVID-19 pandemic, the Company set-up business continuity committee which frequently meets and reviews the operational, continuity, security, health and safety matters for the Company.

This includes rolling out several key guidelines with respect to systems availability, continuity of service to our customers, employee health and safety guidelines, travel restrictions, social distancing, rotational remote-working, exposure policy, travel guidelines in case required for personal reasons and other related matters. The IT systems availability and the business continuity procedures in terms of data back-up and recovery remain intact in the current situation.

(c) Accounting and financial reporting

In the current phase of COVID-19 pandemic, the Company continues to apply its accounting policies consistently without deviation. Considering the impact on the business is limited, management continues to adopt a consistent approach to the use of estimates in the financial information. As the situation evolves in future, management will continue to monitor and consider updates as appropriate at that time.

The Company continues to maintain a healthy solvency ratio (note 29) and sound liquidity position during this phase.

Liquidity is being monitored regularly and a limited impact until the period of the financial information is noted. Management continues to track the developments.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors, on 08 Sha'baan 1442H, corresponding to 21 March 2021.