AXA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
AND INDEPENDENT AUDITORS' REPORT

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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AlKharashi & Co.
Certified Accountants And Auditors

Independent auditors' report to the shareholders of AXA Cooperative Insurance Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of AXA Cooperative Insurance Company (the "Company"), which comprise the statement of financial position as at 31 December 2020, the statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and 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 the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in 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 code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Independent auditors' report to the shareholders of AXA Cooperative Insurance Company (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Valuation of ultimate claim liabilities arising from insurance contracts	
As at 31 December 2020, outstanding claims, claims incurred but not reported ("IBNR") and other reserves amounted to Saudi Riyals 288.7 million and Saudi Riyals 766.2 million, respectively. The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the 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 range of methods were used to determine these provisions based on a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims as projected by both the management's expert and management. We considered this as a key audit matter as the valuation of insurance contract liabilities require the use of significant judgement and estimates. Refer to Note 3.19 to the financial statements for the accounting policy relating to insurance contract liabilities, Note 4 for the disclosure of significant accounting estimates and judgements and Notes 16 and 28.6 for the disclosures of matters related to insurance contract liabilities.	We performed the following procedures: • Understood, evaluated and tested key controls around the claims handling and provision setting processes; • Tested the amounts recorded for a sample of claims notified and paid. On a sample basis, we also verified the outstanding claims amounts to the appropriate source documentation; • 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 a sample basis, the accuracy of underlying claims data utilised by the management's expert in estimating the IBNR other reserves by comparing it to the accounting and other records; • Involved our internal experts to evaluate the Company's actuarial practices and related provisions established (for both significant and non-significant operating segments) and gained comfort over the actuarial report issued by management's expert. We also performed the following procedures: (i) 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;

Independent auditors' report to the shareholders of AXA Cooperative Insurance Company (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
	(ii) Assessed key actuarial assumptions including claims ratios and expected frequency and severity of claims. (iii) Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivity analysis performed; and (iv) Performed independent re-projections on IBNR and other reserves, for significant operating segments, to compare them with the amounts recorded by management and sought to understand any significant differences. • Assessed the adequacy and appropriateness of the related disclosures in Notes 3.19, 4, 16 and 28.5 to the financial statements.

Other information

The Board of Directors of the Company (the "Directors") are responsible for the other information. The other information comprises information included in the Company's 2020 annual report, but does not include the financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report.

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

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

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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AlKharashi & Co.
Certified Accountants And Auditors

Independent auditors' report to the shareholders of AXA Cooperative Insurance Company (continued)

Responsibilities of the Directors and those charged with governance for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, that are endorsed in Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are 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 Directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism 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.

Independent auditors' report to the shareholders of AXA Cooperative Insurance Company (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' 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.

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

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21 March 2021
8 Sha'ban 1442

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTS
LICENSE NO.25
C.R.1010371622

الخراشي وشركاه
محاسبون ومراجعون قانونيون
Lic.: 536 ترخيص : ٥٣٦
Certified Accountants
& Auditors
AL-Kharashi Co.

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	5	**331,036**	234,840
Short-term deposits	6	**553,416**	613,521
Premiums and reinsurers' balances receivable - net	7	**214,308**	190,435
Reinsurers' share of unearned premiums	16, 19	**23,455**	19,261
Reinsurers' share of outstanding claims	11,16,19	**74,988**	84,450
Reinsurers' share of claims incurred but not reported and other reserves	16, 19	**73,080**	50,577
Deferred policy acquisition costs	16, 19	**36,492**	29,665
Investments	8	**1,064,582**	806,081
Prepaid expenses and other assets	9	**19,589**	17,188
Long-term deposits	6	**215,721**	235,721
Right-of-use assets	10	**23,122**	26,004
Property and equipment	12	**21,708**	10,980
Intangible assets	12	**8,819**	12,151
Due from shareholders'/insurance operations		**126,039**	86,815
Goodwill	30	**50,000**	50,000
Statutory deposit	24	**50,000**	45,000
Accrued income on statutory deposit		**5,902**	4,450
Total assets		**2,892,257**	2,517,139
Liabilities and equity			
Liabilities			
Claims payable, accrued and other liabilities	13	**133,129**	113,002
Surplus distribution payable	14	**26,973**	20,091
Reinsurers' balances payable	20	**41,065**	27,294
Advance premiums		**36,492**	31,189
Unearned premiums	16, 19	**486,709**	459,190
Unearned reinsurance commission	16, 19	**3,364**	3,511
Outstanding claims	16, 19	**288,704**	260,004
Claims incurred but not reported and other reserves	16, 19	**766,168**	700,963
Lease liability	10	**21,781**	24,265
Due to a related party	20	**3,385**	2,616
Employee benefit obligations	15	**31,488**	30,622
Zakat and income tax	21	**50,156**	43,315
Due to shareholders'/insurance operations		**126,039**	86,815
Accrued income payable to SAMA		**5,902**	4,450
Total liabilities		**2,021,355**	1,807,327

(Continued)

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION (continued)
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020	31 December 2019
Equity			
Share capital	27	**500,000**	500,000
Statutory reserve	25	**76,998**	49,298
Performance share reserve	26	**2,266**	1,489
Retained earnings		**249,718**	139,083
Fair value reserve on investments	8	**41,920**	19,942
Total equity		**870,902**	709,812
Total liabilities and equity		**2,892,257**	2,517,139
Commitments and contingencies	17		

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

Paul Adamson
Managing Director

Yousef S Abalkhail
Chairman

Babar Ali Khan
Chief Financial Officer

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF INCOME
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020	31 December 2019
Revenues			
Gross premiums written			
- Direct		**1,405,946**	1,403,912
- Reinsurance		**11,880**	5,865
		1,417,826	1,409,777
Reinsurance premiums ceded			
- Foreign		**(123,295)**	(85,459)
- Local		**(6,290)**	(2,595)
		(129,585)	(88,054)
Net premiums written		**1,288,241**	1,321,723
Changes in unearned premiums		**(27,519)**	(70,997)
Changes in reinsurers' share of unearned premiums		**4,194**	986
Net premiums earned		**1,264,916**	1,251,712
Reinsurance commissions		**12,744**	12,142
Total revenues		**1,277,660**	1,263,854
Underwriting costs and expenses			
Gross claims paid		**824,945**	887,351
Reinsurers' share of claims paid		**(26,488)**	(23,511)
Net claims and other benefits paid		**798,457**	863,840
Changes in outstanding claims		**28,700**	(17,837)
Changes in reinsurers' share of outstanding claims		**9,462**	14,084
Changes in claims incurred but not reported and other reserves		**65,205**	84,924
Changes in reinsurers' share of claims incurred but not reported and other reserves		**(22,503)**	(4,096)
Net claims and other benefits incurred		**879,321**	940,915
Policy acquisition costs		**107,691**	92,166
Total underwriting costs and expenses		**987,012**	1,033,081
Net underwriting income		**290,648**	230,773
Other operating expenses			
General and administrative expenses	23	**(167,614)**	(166,952)
Other income - net	22	**60,363**	54,369
Total other operating expenses - net		**(107,251)**	(112,583)
Total income for the year before surplus attribution, zakat and income tax		**183,397**	118,190
Surplus attributed to the insurance operations	14	**(16,561)**	(9,716)
Total income for the year before zakat and income tax		**166,836**	108,474

(Continued)

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF INCOME (continued)
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020	31 December 2019
Zakat expense	21	**(15,685)**	(13,223)
Income tax expense	21	**(12,650)**	(8,564)
Total income for the year attributable to the shareholders		**138,501**	86,687
Earnings per share (expressed in Saudi Riyals per share)			
Basic earnings per share	32	**2.77**	1.73
Diluted earnings per share	32	**2.77**	1.73

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

Paul Adamson
Managing Director

Yousef S Abalkhail
Chairman

Babar Ali Khan
Chief Financial Officer

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020	31 December 2019
Total income for the year attributable to the shareholders		**138,501**	86,687
Other comprehensive income:			
Items that will be reclassified to the statement of income in subsequent years			
Net change in fair values of available-for-sale investments	8	**21,978**	33,225
Total comprehensive income for the year		**160,479**	119,912

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

Paul Adamson
Managing Director

Yousef S Abalkhail
Chairman

Babar Ali Khan
Chief Financial Officer

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Performance share reserve	Retained earnings	Fair value reserve on investments	Total
Balance as at 1 January 2020		**500,000**	**49,298**	**1,489**	**139,083**	**19,942**	**709,812**
Total comprehensive income for the year							
Total income for the year attributable to shareholders		-	-	-	**138,501**	-	**138,501**
Changes in fair values of available-for-sale investments	8	-	-	-	-	**21,978**	**21,978**
Total comprehensive income for the year		-	-	-	**138,501**	**21,978**	**160,479**
Transfer to statutory reserve		-	**27,700**	-	**(27,700)**	-	-
Performance share reserve	26	-	-	**1,184**	-	-	**1,184**
Performance share reserve - settlement		-	-	**(573)**	-	-	**(573)**
Transfer from retained earnings		-	-	**166**	**(166)**	-	-
Balance at 31 December 2020		**500,000**	**76,998**	**2,266**	**249,718**	**41,920**	**870,902**

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

Paul Adamson
Managing Director

Yousef S Abalkhail
Chairman

Babar Ali Khan
Chief Financial Officer

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY (continued)
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Performance share reserve	Retained earnings	Fair value reserve on investments	Total
Balance as at 1 January 2019		450,000	31,961	1,323	119,881	(13,283)	589,882
Total comprehensive income for the year							
Total income for the year attributable to shareholders		-	-	-	86,687	-	86,687
Changes in fair values of available-for-sale investments	8	-	-	-	-	33,225	33,225
Total comprehensive income for the year		-	-	-	86,687	33,225	119,912
Transfer to statutory reserve		-	17,337	-	(17,337)	-	-
Performance share reserve	26	-	-	822	-	-	822
Performance share reserve - settlement		-	-	(804)	-	-	(804)
Transfer from retained earnings		-	-	148	(148)	-	-
Bonus issuance of shares	1	50,000	-	-	(50,000)	-	-
Balance at 31 December 2019		500,000	49,298	1,489	139,083	19,942	709,812

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

Paul Adamson
Managing Director

Yousef S Abalkhail
Chairman

Babar Ali Khan
Chief Financial Officer

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020	31 December 2019
Cash flows from operating activities			
Total income for the year before surplus attribution, zakat and income tax		**183,397**	118,190
Adjustments for non-cash items:			
Depreciation of property and equipment	12	**6,177**	3,062
Depreciation of right-of-use assets	10	**2,882**	1,082
Amortization of intangible assets	12	**5,829**	5,904
Provision for doubtful debts	7	**14**	185
Accretion of discount on available-for-sale investments	8	**(1,444)**	(1,362)
Amortization of premium on available-for-sale investments	8	**492**	172
Amortization of premium on held-to-maturity investments	8	**19**	15
Impairment loss on available-for-sale investments	8	**511**	1,295
Performance share reserve	26	**1,184**	822
Provision for employee benefit obligations	15	**3,644**	4,566
Finance costs		**1,659**	362
Gain on sale of investments	8	**(3,995)**	(3,267)
		200,369	131,026
Changes in operating assets and liabilities:			
Premiums and reinsurers' balances receivable - net		**(23,887)**	5,714
Reinsurers' share of unearned premiums		**(4,194)**	(986)
Reinsurers' share of outstanding claims		**9,462**	14,084
Reinsurers' share of claims incurred but not reported and other reserves		**(22,503)**	(4,096)
Deferred policy acquisition costs		**(6,827)**	(8,225)
Prepaid expenses and other assets		**(2,401)**	2,917
Accrued income on statutory deposit		**(1,452)**	(809)
Claims payable, accrued expenses and other liabilities		**20,127**	(577)
Surplus distribution paid	14	**(9,679)**	(1,833)
Reinsurers' balances payable		**13,772**	(23,840)
Advance premiums		**5,303**	4,343
Unearned premiums		**27,519**	70,997
Unearned reinsurance commission		**(147)**	(620)
Outstanding claims		**28,700**	(17,837)
Claims incurred but not reported and other reserves		**65,204**	84,924
Due to related party		**769**	(2,952)
Employee benefit obligations paid	15	**(3,737)**	(2,230)
Zakat and income tax paid	21	**(21,494)**	(15,790)
Accrued income payable to SAMA		**1,452**	809
		75,987	103,993
Interest paid		**(1,062)**	-
Net cash generated from operating activities		**275,294**	235,019

(Continued)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020	31 December 2019
Cash flows from investing activities			
Placements in short-term deposits		**(897,017)**	(188,356)
Proceeds from disposals of short-term deposits		**957,122**	273,663
Placements in Statutory deposit		**(5,000)**	-
Purchases of investments	8	**(304,751)**	(188,898)
Proceeds from disposals of investments	8	**72,645**	151,404
Placements in long-term deposits		**-**	(80,721)
Proceeds from disposals of long-term deposits		**20,000**	-
Purchases of property and equipment	12	**(16,905)**	(7,863)
Purchases of intangible assets	12	**(2,497)**	(1,485)
Net cash used in investing activities		**(176,403)**	(42,256)
Cash flows from financing activities			
Principal elements of lease payments		**(2,122)**	(3,183)
Performance share reserve – settlement		**(573)**	(804)
Net cash used in financing activities		**(2,695)**	(3,987)
Net increase in cash and cash equivalents		**96,196**	188,776
Cash and cash equivalents, beginning of the year		**234,840**	46,064
Cash and cash equivalents, end of the year	5	**331,036**	234,840
Supplemental non-cash information:			
Changes in fair value of available-for-sale investments	8	**21,978**	33,225
Acquisition of right-of-use assets	10	**-**	27,086
Bonus issuance of shares	1	**-**	50,000

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

Paul Adamson
Managing Director

Yousef S Abalkhail
Chairman

Babar Ali Khan
Chief Financial Officer

1 General information

AXA Cooperative Insurance Company (a Joint Stock Company incorporated in Kingdom of Saudi Arabia), "the Company", was formed pursuant to Royal Decree No. M/36 dated 27 Jumada II 1429H. (1 July 2008) (Date of inception). The Company was incorporated vide Ministerial Order number Q/192, dated 10 Jumada II 1430H, (3 June 2009) (date of incorporation). The Company is registered in the Kingdom of Saudi Arabia under commercial registration number 1010271203 issued in Riyadh on Rajab 20, 1430H (13 July 2009). The Company's registered address is P.O. Box 753, Riyadh 11421, Kingdom of Saudi Arabia.

The purpose of the Company is to transact cooperative insurance operations and all related activities including reinsurance activities. Its principal lines of business include health, motor, marine, property, engineering, accident and liability and protection insurance.

The principal activities of the Company are to engage in cooperative insurance operations and related activities including reinsurance activities in accordance with the Cooperative Insurance Companies Control Law (the "Law"), the Company's by-laws and other regulations promulgated in the Kingdom of Saudi Arabia. The Company obtained licence from the Saudi Central Bank (formerly: Saudi Arabian Monetary Authority) ("SAMA") to practice general and health insurance and reinsurance business in the Kingdom of Saudi Arabia vide licence number TMN/25/20101, dated Safar 11, 1431H (corresponding to 26 January 2010). The Company has commenced insurance operations on 4 Rabi' I 1431H (corresponding to 18 February 2010) after obtaining full product approval for certain products and temporary approval for the remaining products. During 2016, the Company obtained approval for the remaining products.

On 16 December 2019, the Company increased the share capital from Saudi Riyals 450 million to Saudi Riyals 500 million. The share capital increase was through the issuance of 5 million additional shares by the distribution of one bonus share for every nine shares held.

The Company has been notified by its shareholder AXA Mediterranean Holding S.A. ("AXA Med") that the AXA Group has decided to sell its insurance operations in the Gulf region. Accordingly, AXA Med has entered into a share purchase agreement with Gulf Insurance Group K.S.C.P ("GIG") dated 14/04/1442H (corresponding to 29 November 2020) to sell its insurance operations in the Gulf region, which includes the sale of its 18% shareholding in the Company at a price of Saudi Riyals 24.23 per share (being USD 6.46 per share converted into Saudi Riyals at a rate of SAR 3.75 per USD 1). As part of the overall transaction in the Gulf region, GIG will also acquire 100% of the share capital of AXA Insurance (Gulf) B.S.C in Bahrain (which is a 50:50 joint venture between the AXA Group and Yusuf Bin Ahmed Kanoo Company W.L.L), which owns 32% of the share capital of the Company at an equivalent value of SAR 24.23 per share.

Upon completion of the overall transaction, GIG will directly and indirectly own 50% of the shareholding of the Company.

Completion of the overall transaction is subject to certain conditions and regulatory approvals.

The change in shareholding is not expected to have any impact on the continuity of the Company insurance services for its customers and partners in the Kingdom of Saudi Arabia. The Company will continue to announce any material developments as they occur.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

1 General information (continued)

The accompanying financial statements include the accounts of the Company and its following branches:

CR	Registration date	Location
4030209279	16 Rabi Al Awwal 1432H (18 February 2011)	Jeddah
2051044972	16 Rabi Al Awwal 1432H (18 February 2011)	Al-Khobar
1010383602	8 Ramadan 1435H (5 June 2014)	Riyadh
1010383603	8 Ramadan 1434H (16 July 2013)	Riyadh
1010383604	8 Ramadan 1434H (16 July 2013)	Riyadh
1010431704	3 Jumada II 1436H (23 March 2015)	Riyadh
2051050069	24 Shawwal 1433H (11 September 2012)	Al-Khobar
2051059616	17 Safar 1436H (9 December 2014)	Al-Khobar
2051059617	17 Safar 1436H (9 December 2014)	Al-Khobar
2050104123	17 Safar 1436H (9 December 2014)	Dammam
2050105348	18 Jumada II 1436H (7 April 2015)	Dammam
2050091126	20 Jumada ‘II 1434H (30 April 2013)	Dammam
2055024388	29 Dhul-Qa'dah 1436H (13 September 2015)	Al-Jubail
4030233610	24 Shawwal 1433H (11 September 2012)	Jeddah
4030233628	24 Shawwal 1433H (11 September 2012)	Jeddah
4030287622	30 Rabi Al Thani 1437H (9 February 2016)	Jeddah

2 Basis of preparation

2.1 Statement of compliance

The financial statements of the Company have been prepared 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”).

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders’ operations and presents the financial statements accordingly. The physical custody and title of all assets related to the insurance operations and shareholders’ operations are held by the Company. 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 by management and the Board of Directors of the Company.

In accordance with the requirements of the Implementing Regulations of the Cooperative Insurance Companies Control Law (the “Regulations”) issued by SAMA and as per the by-laws of the Company, surplus arising from the insurance operations is distributed as follows:

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

If the insurance operations result in a deficit, the entire deficit is borne by the shareholders’ operations.

2 Basis of preparation (continued)

2.1 Statement of compliance (continued)

The statements of financial position, income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented on pages 83 to 90 of the financial statements have been provided as supplementary financial information and to comply with the requirements of the regulations. The regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations. Accordingly, the statements of financial position, income, comprehensive income and cash flows prepared for the insurance operations and shareholders' operations, as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company's financial statements in compliance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia , the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Interoperation balances, transactions and unrealized gains or losses, if any, are eliminated in full during amalgamation. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances.

2.2 Basis of measurement

The Company has prepared the accompanying financial statements under the going concern basis and the historical cost convention, except as described in Note 3.

2.3 Basis of presentation

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 non-current: long-term deposits, right-of-use assets, property and equipment, intangible assets, goodwill, statutory deposit, lease liability and employee benefit obligations. All other financial statements line items would generally be classified as current.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are consistently applied for all years presented, unless otherwise stated.

3.1 New and amended standards adopted by the Company

IFRS 3, 'Business combination'.

Amendments effective 1 January 2020. These amendments contained a revised definition of business.

IAS 1, 'Presentation of financial statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

Amendments effective 1 January 2020. These amendments contain guidance on use of a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information.

3 Summary of significant accounting policies (continued)

3.1 New and amended standards adopted by the Company (continued)

Amendment to IFRS 16, 'Leases' - Covid-19 related rent concessions

Amendments effective 1 June 2020. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

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

IFRS 9, 'Financial Instruments'

This standard was published on 24 July 2014 and has replaced IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard addresses the following items related to the financial statements:

a) *Classification and measurement:*

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

i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The financial asset is measured at FVOCI, and realized gains or losses are recycled through profit or loss upon sale, if both of the following conditions are met:

i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and for sale; and

3 Summary of significant accounting policies (continued)

3.2 New standards, amendments and interpretations not yet applied by the Company (continued)

IFRS 9, 'Financial Instruments' (continued)

ii) the contractual terms of cash flows are SPPI.

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

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

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

b) *Impairment:*

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

3 Summary of significant accounting policies (continued)

3.2 New standards, amendments and interpretations not yet applied by the Company (continued)

IFRS 9, 'Financial Instruments' (continued)

c) *Hedge accounting:*

IFRS 9 introduced new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements establish a more principles-based approach to the general hedge accounting model.

The amendments apply to all hedge accounting with the exception of portfolio fair value hedges of interest rate risk (commonly referred to as "fair value macro hedges"). For these, an entity may continue to apply the hedge accounting requirements currently in IAS 39. This exception was granted largely because the IASB is addressing macro hedge accounting as a separate project.

Effective date

The published effective of IFRS 9 was 1 January 2018. However, amendments to 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:

i) apply a temporary exemption from implementing IFRS 9 until the earlier of:

a) the effective date of a new insurance contract standard; or

b) annual reporting periods beginning on or after 1 January 2023. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominantly connected with insurance and have not applied IFRS 9 previously; or

ii) 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 starting in 2019:

i) 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

ii) the total carrying amount of the Company's liabilities connected with insurance were compared to the carrying amount of all its liabilities. Based on these assessments, the Company determined that it is eligible for the temporary exemption Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of IFRS 17. Disclosures related to financial assets required during the deferral period are included in the Company's financial statements.

3 Summary of significant accounting policies (continued)

3.2 New standards, amendments and interpretations not yet applied by the Company (continued)

IFRS 9, 'Financial Instruments'(continued)

Impact assessment

As at 31 December 2020, the Company has total financial assets and insurance related assets amounting to Saudi Riyals 2.5 billion and Saudi Riyals 422.3 million (2019: Saudi Riyals 2.1 billion and Saudi Riyals 374.4 million), respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents, deposits, held-to-maturity investments, premiums and reinsurers' balances receivable - net, reinsurers' share of outstanding claims, certain other assets, and accrued income on statutory deposit amounting to Saudi Riyals 1.7 billion (31 December 2019: Saudi Riyals 1.6 billion).

The fair value of unit linked investments held at FVTPL as at 31 December 2020 is Nil (31 December 2019: Nil).

Other financial assets consist of available-for-sale investments measured at fair value of Saudi Riyals 925.8 million (31 December 2019: Saudi Riyals 667.3 million) with net increase in fair value during the year of Saudi Riyals 22.0 million (2019: net increase of Saudi Riyals 33.2 million). The Company expects to use the FVOCI classification for these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9.

Management expects that investments in funds classified under available-for-sale investments will be at FVTPL under IFRS 9.

Credit risk exposure, concentration of credit risk and credit quality of the above financial assets are mentioned in Note 28.10.

The Company's financial assets have low credit risk as at 31 December 2020 and 2019. The above is based on a 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 impairment requirements of IFRS 9 are not expected to be significant. At present, it is not possible to provide a reasonable estimate of the effects of application of IFRS 9 as the Company is yet to perform a detailed review.

3 Summary of significant accounting policies (continued)

3.2 New standards, amendments and interpretations not yet applied by the Company (continued)

IFRS 17, 'Insurance Contracts'

Overview

This standard was published in May 2017. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4.

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

i) embedded derivatives, if they meet certain specified criteria;

ii) distinct investment components; and

iii) any promise to transfer distinct goods or non-insurance services.

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

Measurement

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

The General Measurement Model ("GMM")

GMM is based on the following "building blocks":

a) the fulfillment cash flows ("FCF"), which comprise:
- probability-weighted estimates of future cashflows;
- 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") 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 negative amount of the FCF at inceptions will be recorded in profit or loss immediately.

3 Summary of significant accounting policies (continued)

3.2 New standards, amendments and interpretations not yet applied by the Company (continued)

IFRS 17, 'Insurance Contracts' (continued)

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 of insurance contracts at that date; and
- the liability for incurred claims, which is measured as the FCF related to past services allocated to the group of insurance contracts at that date.

The CSM is adjusted subsequently for changes in cash flows related to future services. Since the CSM cannot be negative, changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss.

The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.

The Variable Fee Approach ("VFA")

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

i) the entity's share of the changes in the fair value of underlying items; and

ii) the effect of changes in the time value of money and in financial risks not relating to the underlying items.

Premium Allocation Approach ("PAA")

PAA, a simplified approach, is permitted for the measurement of the liability for remaining coverage if it provides a measurement that is not materially difference from the GMM for a group of contracts or of 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 GMM remains applicable for the measurement of the liability for incurred claims. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid / received in one year or less from the date the claims are incurred.

Effective date

The IASB issued an Exposure Draft Amendments to IFRS 17 proposing certain amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting. The effective date of IFRS 17 and the deferral of IFRS 9 temporary exemption in IFRS 4 is currently 1 January 2023. Earlier application is permitted if both IFRS 15 and IFRS 9 have also been applied. The Company intends to apply IFRS 17 on its effective date.

Summary of significant accounting policies (continued)

3.2 New standards, amendments and interpretations not yet applied by the Company (continued)

IFRS 17, 'Insurance Contracts' (continued)

Applicable for the period beginning on or after 1 January 2023, and will supersede IFRS 4 'Insurance Contracts'. Earlier adoption is permitted if IFRS 9 has also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect the statements of financial position, income and comprehensive income. The Company has decided not to early adopt this new standard.

Transition

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

Presentation and disclosures

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

Impact

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

Impact area	**Summary of impact**
Financial impact	Most of the Company's insurance and reinsurance contracts are with terms of one year or less. Accordingly, no material financial impact is expected
Data impact	No material impact is expected on data requirements in order to effectively adopt IFRS 17
IT systems impact	The following IT systems are expected to be materially impacted from the adoption of IFRS 17: a) actuarial systems; and b) reinsurance operational systems
Impact on reinsurance arrangements	Most of the Company's reinsurance arrangements are with terms of one year or less. Accordingly, no material impact on reinsurance arrangements is expected
Impact on policies and control frameworks	Changes to policy and control frameworks might be needed to address the following IFRS 17 requirements: a) appropriate level of aggregation of insurance contracts; b) identification of onerous contracts; c) application of PAA for short-term contracts; d) determination of discount rate; e) risk adjustment computation; f) subsequent measurement of insurance contracts; and applicable financial reporting
Process impact	Material impact to existing processes identified in relation to the gaps identified above. No other material impact identified.
Other areas impacted	No material impact identified in other areas

3 Summary of significant accounting policies (continued)

3.2 New standards, amendments and interpretations not yet applied by the Company (continued)

Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2

Amendments effective 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.

Amendments to IAS 1, Presentation of financial statements' on classification of liabilities

Amendments effective 1 January 2022. These 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 (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16

Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

Fiscal year
The Company follows a fiscal year ending 31 December.

3 Summary of significant accounting policies (continued)

3.3 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate, and the Company's financial statements present fairly, in all material respects, the financial position and results of operations. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3.4 Segment reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incur expenses and about which discrete financial statements is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

As instructed by SAMA, the Company has segments classification of: Motor, Property and casualty, Health and Protection.

Segment assets do not include cash and cash equivalents, short-term deposits, long-term deposits, statutory deposit, investments, premiums and reinsurers' balances receivable - net, prepaid expenses and other assets, due from shareholders' / insurance operations, right-of-use assets, property and equipment, goodwill, intangible assets and accrued income on statutory deposit.

Segment liabilities do not include claims payable, accrued and other liabilities, surplus distribution payable, reinsurers' balances payable, advance premiums, lease liabilities, due to a related party, employee benefit obligations, zakat and income tax, due to shareholders' / insurance operations and accrued income payable to SAMA.

Operating segments do not include shareholders' operations.

For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Motor
- Property and casualty
- Health; and
- Protection

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements.

Where intersegment transaction was to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

3 Summary of significant accounting policies (continued)

3.5 Functional and presentation currency

The Company's books of account are maintained in Saudi Riyals, which is also the functional and presentation currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the reporting date. All differences are taken to the statements of income. Foreign exchange differences are not significant and have not been disclosed separately.

3.6 Financial assets

3.6.1 Classification

The Company classifies its financial assets in the following categories:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short-term or that it has designated as available-for-sale investments. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Available-for-sale investments

Available-for-sale investments are those investments that are not held-to-maturity nor held for trading. Investments which are classified as "available-for-sale" are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any unrealized gain or loss arising from a change in its fair value is recognized directly in the statement of comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss previously recognized in the statements of comprehensive income should be included in the statement of income for the year. Available-for-sale investments whose fair value cannot be reliably measured are carried at amortized cost less impairment provision.

Held-to-maturity investments

Investments, which have fixed or determined payments and the Company has the positive intention and ability to hold to maturity are classified under this category. These investments are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statements of income when the investment is derecognized or impaired.

3 Summary of significant accounting policies (continued)

3.6 Financial assets (continued)

3.6.2 Recognition, measurement and de-recognition

Purchases and sale of available-for-sale investments are recognized on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value.

Changes in the fair value of available-for-sale investments are recognized in statements of comprehensive income.

Loans and receivable and held-to-maturity investments are carried at amortized costs less provision for impairment in value.

Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired.

Financial assets are derecognized when the rights to receive cash flows from those assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statements of income as 'gains and losses from available-for-sale investments. Commission on available-for-sale investments calculated using the effective interest method is recognized in the statements of income.

3.6.3 Determination of fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Commission on available-for-sale investments calculated using the effective interest method is recognized in the statement of income. Dividends on available-for-sale investments are recognized in the statement of income, when the Company's right to receive payments is established.

3.6.4 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.

3 Summary of significant accounting policies (continued)

3.6 Financial assets (continued)

3.6.4 Impairment of financial assets (continued)

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 is 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.

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

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

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

3 Summary of significant accounting policies (continued)

3.7 Financial liabilities

All financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective commission rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the statements of income.

3.8 Off-setting

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

3.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with less than three months maturity from the date of acquisition.

3.10 Short-term and long-term deposits

Short-term deposits comprise of time deposits with banks with maturity periods of more than three months and less than one year from the date of acquisition. Long-term deposits represent time deposits with maturity periods of more than one year from the date of placement.

3.11 Premiums receivable

Premiums receivable are recognized when insurance contract is made and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income. Premiums receivable are derecognized when the de-recognition criteria for financial assets have been met.

3.12 Unearned reinsurance commission income

Reinsurance commission income on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. Amortization is recorded in the statement of income.

3.13 Insurance contracts

Insurance contracts are contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

3 Summary of significant accounting policies (continued)

3.14 Deferred policy acquisition costs

Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contacts to which they relate, similar to premium earned.

3.15 Claims

Claims comprise of amounts payable to policyholders and related loss adjustment expenses, net of salvage and other recoveries, are changed to changes in outstanding claims in the statement of income as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at reporting 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 at statement of financial position date. The ultimate liability may be in excess of or less than the amount provided.

Any difference between the provisions at the reporting date and settlements in the following year is included in the underwriting account for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

3.16 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 damaged assets.

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

3.17 Reinsurance

The Company's reinsurance program is affected through proportional, non-proportional and facultative placements based on the Company's net retention policy, treaty limits, nature and size of the risks. The Company cedes insurance risk in the normal course of business for all of its products. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with reinsurance contracts.

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

3 Summary of significant accounting policies (continued)

3.17 Reinsurance (continued)

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognized 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. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are determined in a manner consistent with the associated reinsurance contract.

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

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

3.18 Liability adequacy test

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

3.19 Insurance contract liabilities

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

3.20 Property and equipment

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

3 Summary of significant accounting policies (continued)

3.20 Property and equipment (continued)

The assets' useful lives are reviewed at the end of each statement of financial position date and adjusted, if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of income under other income.

Assets in the course of construction or development are capitalized in the capital work-in-progress account. The asset under construction or development is transferred to the appropriate category in property and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of capital work-in-progress intended by management. Capital work-in-progress is not depreciated.

3.21 Intangible assets

a) Goodwill

Goodwill represents excess of the fair value of the purchase consideration payable, as per SAMA's instructions, over the net identifiable assets acquired from AXA Saudi Arabia Holding W.L.L. (formerly AXA Insurance Saudi Arabia B.S.c). The recoverability of goodwill is tested at each statement of financial position date for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount for goodwill is the value in use.

b) Other intangible assets

Other intangible assets, including software, and are measured at cost less accumulated amortization and impairment losses. Those with a finite useful life are amortized over their estimated useful life in accordance with the pattern of expected consumption of economic benefits using straight-line method. Estimated useful life of software is 4 years. Intangible assets with an infinite useful life are not subject to amortization but are tested for impairment each statement of financial position date or more often if there is an indication of impairment. Intangible assets with a finite life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

3.22 Provisions, claims payable, accrued expenses and other liabilities

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

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

3.23 Payables

Payables are recognized initially at fair value and measured at amortized cost using effective interest rate method.

3 Summary of significant accounting policies (continued)

3.24 Employee benefit obligations

The Company operates a single post-employment benefit scheme of defined benefit plan driven by the labor laws and workman laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefits plans is not funded. Accordingly, valuations of the obligations under the plan are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in the statement of income and while unwinding of the liability at discount rates used are recorded in the statement of income. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the statement of comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in the statement of comprehensive income and transferred to retained earnings in the statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in statement of income as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

3.25 Share based payments

The cost recharged to the Company under the group share scheme is recognized as an expense on the grant date, in the statement of income with a corresponding effect on the performance share reserve in equity. Any fair value remeasurement on settlement is recognized in the statement of changes in equity.

3.26 Zakat and income tax

a) Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat is calculated based on higher of approximate zakat base and adjusted profit and charged to profit or loss. Additional zakat, if any, is accounted for when determined to be required for payment.

Amounts accrued for zakat expense in one year may have to be adjusted in a subsequent year if the estimate of the annual charge changes. Additional current income tax, if any, is accounted for when determined to be required for payment.

b) Income tax

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

3 Summary of significant accounting policies (continued)

3.26 Zakat and income tax (continued)

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

Additional current income tax, if any, is accounted for when determined to be required for payment.

c) Deferred tax

Deferred income tax is recognised using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, and for the carry forward losses in the financial statements, if any. The amount of deferred tax recognised is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the tax credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

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

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

3.27 Revenue recognition

(a) Recognition of premium and reinsurance commission revenue

Premiums and commission are recorded in the statement of income - insurance operations and accumulated surplus 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 recognized over the period of risk.

3 Summary of significant accounting policies (continued)

3.27 Revenue recognition (continued)

(b) Commission, dividend income and other income

Commission income on short-term deposits, long-term deposits, statutory deposit, available-for-sale investments and held-to-maturity investments is recognized on a time proportion basis using the effective interest rate method. Dividend income is recognized when the right to receive a dividend is established. Income from Al Manafeth third party liability insurance fund and Umrah fund are recognized as other income on the basis of quarterly financial statements released by the Fund Manager.

3.28 Trade date accounting

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

3.29 Seasonality of operations

There are no seasonal changes that affect insurance operations.

4 Critical accounting judgements, estimates and assumptions

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

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

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

a) Liability arise from claims under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates are made at the end of the reporting period both for the expected ultimate cost of claim reported and for the expected ultimate costs of 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.

IBNR is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. The Company also uses 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. Refer to Note 28.7 for a sensitivity analysis in relation to significant assumptions.

4 Critical accounting judgements, estimates and assumptions (continued)

b) Impairment of premiums and insurance balances receivable and goodwill

An estimate of the uncollectible amount of premium receivable, if any, is made when collection of the full amount of the receivables as per the original terms of the insurance policy is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due and Company's experience. An increase in the provision rates, keeping all other variables constant, of 5% would decrease the total income before surplus attribution, zakat and income tax by Saudi Riyals 5.5 million (2019: Saudi Riyals 5.5 million). A decrease of 5% would have an equal but opposite effect on the total income before surplus attribution, zakat and income tax.

The recoverable amount of goodwill is estimated based on the present value of the future cash flows expected to be derived from the asset. In case the, recoverable amount is less than carrying value, the difference is charged to statement of income as impairment loss. Refer to Note 30 for a sensitivity analysis in relation to significant assumptions.

c) Impact of Covid-19

On 11 March 2020, the World Health Organization ("WHO") declared the Covid-19 outbreak as a pandemic in recognition of its rapid spread globally. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world have taken steps to contain the spread of Covid-19. The Kingdom of Saudi Arabia has implemented closure of borders, released social distancing guidelines and enforced country-wide lockdowns and curfews.

In response to the spread of Covid-19 in the Kingdom of Saudi Arabia and its consequential disruption to social and economic activities, the Company's management has assessed its impact on the Company's operations and has taken a series of proactive and preventive measures to ensure:

- the health and safety of its employees; and
- the continuity of its business throughout the Kingdom of Saudi Arabia is protected and remains intact.

The following accounting judgments and estimates are critical in preparation of this condensed financial information:

Motor technical reserves

In response to the Covid-19 pandemic, SAMA issued circular 189 (the "Circular") dated 8 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 two months as well as providing two months of additional coverage for all new retail motor insurance policies written within one month of the date of the Circular without additional consideration from the policyholders.

The management, in conjunction with its appointed actuary, deliberated on a variety of internal factors and concluded that the two months extension as per the Circular in existing retail motor policies is a modification of those policies and, accordingly, the earning patterns for those retail motor policies impacted by the Circular have been amended to reflect the additional two months of coverage period. As a result, the Company has experienced a decline of Saudi Riyals 10.1 million in its net earned premiums for the year ended 31 December 2020. Furthermore, the management performed a liability adequacy test using current estimates of future cash flows under its motor insurance contracts at a segmented level and concluded that the existing level of reserves were sufficient.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

4 Critical accounting judgements, estimates and assumptions (continued)

c) Impact of Covid-19 (continued)

Motor technical reserves (continued)

For new policies issued within one month of the date of the Circular, the premium is earned over the period of coverage i.e. fourteen months.

Health technical reserves

Based on managements' assessment, the management believes that the Kingdom of Saudi Arabia's governments' decision to assume the medical treatment costs for both Saudi Arabian citizens and expatriates has helped in reducing any unfavorable impact of the Covid-19 pandemic. During the year ended 31 December 2020, the Company experienced a decline in medical reported claims (majorly elective and non-chronic treatment claims) which resulted in a decline in claims experience. However, subsequent to the easing of curfew protocols in the Kingdom of Saudi Arabia on 21 June 2020, the Company has experienced an increase in claims which is in line with the expectations of the Company's management. The Company's management has duly considered the impact of the increase in claims in the current estimate of future contractual cashflows of the insurance contracts in force as at 31 December 2020 for its liability adequacy test. Based on the results of management's assessment, the existing technical reserves of the Company were sufficient and, accordingly, no additional amount was recorded in the Health technical reserves of the Company for the year ended 31 December 2020.

Other financial assets

To cater for any potential impact that the Covid-19 pandemic may have had on the financial assets of the Company, the Company has performed an assessment, in accordance with its accounting policy, for held-to-maturity investments and financial assets designated as loans and receivables, to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. These include factors such as significant financial difficulties of issuers or debtors, default or delinquency in payments, probability that the issuer or debtor will enter bankruptcy or other financial reorganization etc.

For available-for-sale investments, the Company has performed an assessment to determine whether there is a significant decline in the fair value of available-for-sale investments to below cost along with other qualitative factors such as the prolonged decline in the fair value of available-for-sale equity investments and / or occurrence of credit default events in case of available-for-sale debt investments.

Based on these assessments, the Company believes that the Covid-19 pandemic has had no material effect on the Company's reported results for the year ended 31 December 2020. The Company continues to monitor the situation closely.

5 Cash and cash equivalents

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

	31 December 2020	**31 December 2019**
Bank balances and cash	**86,003**	87,437
Deposits maturing within 3 month from the placement date	**245,033**	147,403
	331,036	234,840

Cash at banks are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology. As at 31 December 2020, deposits were placed with local banks with original maturities of less than three months from the date of placement and earned financial income at 0.60% to 1.00% (31 December 2019: 1.90% to 2.40%) per annum.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

6 Short-term and long-term deposits

Short-term deposits are placed with local banks with an original maturity of more than three months but less than or equal to twelve months from the date of placement. These deposits earn financial income at a rate of 0.60% to 3.50% (2019: 2.10% to 3.65%) per annum.

Long-term deposits represent deposits in various banks carrying commission income at a rate of 2.65% to 4.10% (2019: 2.40% to 4.10%) per annum and will mature by 20 June 2024.

7 Premiums and reinsurers' balances receivable - net

	31 December 2020	31 December 2019
Policyholders	**220,069**	177,893
Brokers and agents	**263**	86
Related parties (Note 20)	**15,762**	22,739
Reinsurers	**23,765**	35,254
	259,859	235,972
Provision for doubtful debts (Note 20)	**(45,551)**	(45,537)
	214,308	190,435

The aging analysis of receivables from insurance and reinsurance contracts is as follows:

	Neither past due nor impaired	Past due but not impaired			Total
		91 to 180 days	181 to 360 days	More than 360 days	
31 December 2020	**147,754**	**40,449**	**17,057**	**9,048**	**214,308**
31 December 2019	103,917	54,814	20,513	11,191	190,435

Receivables comprise a large number of customers, intermediaries and insurance companies mainly within the Kingdom of Saudi Arabia and reinsurance companies both in Middle East and Europe. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount.

Movement in provision for doubtful debts is as follows:

	2020	2019
1 January	**45,537**	45,352
Provision for the year (Note 23)	**14**	185
31 December	**45,551**	45,537

Unimpaired premiums and reinsurer's balances receivable are expected to be fully recoverable. It is not the practice of the Company to obtain collateral over these balances and are, therefore, unsecured.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

8 Investments

Investments are comprised of the following:

	31 December 2020	31 December 2019
Insurance operations		
Available-for-sale	**689,178**	477,511
Held-to-maturity	**78,786**	78,805
Total	**767,964**	556,316
Shareholders' operations		
Available-for-sale	**236,618**	189,765
Held-to-maturity	**60,000**	60,000
Total	**296,618**	249,765
Total investments	**1,064,582**	806,081

Investment securities are classified as follows:

i) Available-for-sale investments

	Domestic		International		Total	
	2020	2019	2020	2019	2020	2019
Insurance operations						
Government bonds	**467,441**	309,132	**51,581**	51,808	**519,022**	360,940
Other bonds	**81,044**	36,397	**68,904**	58,769	**149,948**	95,166
Mutual funds	**20,208**	21,405	**-**	-	**20,208**	21,405
Total	**568,693**	366,934	**120,485**	110,577	**689,178**	477,511
Shareholders' operations						
Government bonds	**132,375**	82,510	**17,959**	15,862	**150,334**	98,372
Other bonds	**17,000**	17,000	**820**	2,679	**17,820**	19,679
Mutual funds	**7,933**	9,208	**-**	-	**7,933**	9,208
Equities	**60,531**	62,506	**-**	-	**60,531**	62,506
Total	**217,839**	171,224	**18,779**	18,541	**236,618**	189,765

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

8 Investments (continued)

i) *Available-for-sale investments* (continued)

Movements in available-for-sale investments are as follows:

	Insurance operations	Shareholders' operations	Total
As at 1 January 2019	415,131	178,264	593,395
Purchases	138,206	50,692	188,898
Disposals	(96,928)	(51,209)	(148,137)
Amortization of premium on available-for-sale investments	(116)	(56)	(172)
Accretion for the discount on available-for-sale investments	1,177	185	1,362
Impairment	-	(1,295)	(1,295)
Changes in fair value of investments	20,041	13,184	33,225
As at 31 December 2019	477,511	189,765	667,276
As of 1 January, 2020	**477,511**	**189,765**	**667,276**
Purchases	**240,266**	**64,485**	**304,751**
Disposals	**(42,397)**	**(26,253)**	**(68,650)**
Amortization of premium on available-for-sale investments	**(370)**	**(122)**	**(492)**
Accretion for the discount on available- for-sale investments	**1,188**	**256**	**1,444**
Impairment	**-**	**(511)**	**(511)**
Changes in fair value of investments	**12,980**	**8,998**	**21,978**
As at 31 December 2020	**689,178**	**236,618**	**925,796**

Available-for-sale investments at 31 December 2020 include 1,923,078 shares (2019: 1,923,078 shares) in Najm for Insurance Services and are held by the Company at Nil value.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

8 Investments (continued)

i) Available-for-sale investments (continued)

Movement in fair value reserve on available-for-sale investments is as follows:

	Insurance operations	**Shareholders 'operations**	**Total**
As of 1 January, 2019	(6,481)	(6,802)	(13,283)
Change in fair value	20,609	15,883	36,492
Realized gains on disposal of investments	(568)	(2,699)	(3,267)
As at 31 December 2019	13,560	6,382	19,942
As of 1 January, 2020	**13,560**	**6,382**	**19,942**
Change in fair value	**13,448**	**12,525**	**25,973**
Realized gains on disposal of investments	**(470)**	**(3,525)**	**(3,995)**
As at 31 December 2020	**26,538**	**15,382**	**41,920**

ii) Held-to-maturity investments

Held-to-maturity investments are comprised of domestic fixed-rate securities at 31 December 2020 of Saudi Riyals 138.8 million (31 December 2019: Saudi Riyals 138.8 million).

Movement in held-to-maturity investments is as follows:

	Insurance operations	**Shareholders' operations**	**Total**
As of 1 January, 2019	78,820	60,000	138,820
Amortization of premium on held-to-maturity investments	(15)	-	(15)
As at 31 December 2019	78,805	60,000	138,805
As of 1 January, 2020	**78,805**	**60,000**	**138,805**
Amortization of premium on held-to-maturity investments	**(19)**	**-**	**(19)**
As at 31 December 2020	**78,786**	**60,000**	**138,786**

9 Prepaid expenses and other assets

	31 December 2020	**31 December 2019**
Accrued income	**8,986**	7,826
Prepaid expenses	**4,336**	4,644
Receivable from Manafeth	**3,112**	1,951
Employees' receivable	**1,046**	2,313
Other	**2,109**	454
	19,589	17,188

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

10 Right-of-use assets and lease liabilities

	31 December 2020	31 December 2019
Right-of-use assets - building		
Cost		
1 January	**27,086**	-
Additions	**-**	27,086
31 December	**27,086**	27,086
Accumulated depreciation		
1 January	**(1,082)**	-
Charge for the year (Note 23)	**(2,882)**	(1,082)
31 December	**(3,964)**	(1,082)
Net book value	**23,122**	26,004

Lease liabilities	31 December 2020	31 December 2019
Within one year	**3,183**	3,183
Later than one year but not later than five years	**12,732**	12,732
Later than five years	**9,549**	12,732
	25,464	28,647
Future finance charges	**(3,683)**	(4,382)
Total lease liabilities	**21,781**	24,265

Interest expense on a lease amounted to Saudi Riyals 0.7 million during the year ended 31 December 2020 under "Other income - net" in the statement of income.

Short-term leases that were expensed during the year ended 31 December 2020 amounted to Saudi Riyals 4.4 million (2019: Saudi Riyals 5.6 million).

11 Reinsurers' share of outstanding claims and reserves

All amounts due from reinsurers are expected to be received within 12 months from the statement of financial position date.

12 Property and equipment and intangible assets

(a) Property and equipment

	Furniture and fixtures	Equipment	Total
2020			
Cost			
1 January	**14,566**	**17,875**	**32,441**
Additions	**11,880**	**5,025**	**16,905**
31 December	**26,446**	**22,900**	**49,346**
Accumulated depreciation			
1 January	**(8,874)**	**(12,587)**	**(21,461)**
Charge for the year (Note 23)	**(3,264)**	**(2,913)**	**(6,177)**
31 December	**(12,138)**	**(15,500)**	**(27,638)**
Net book value			
31 December	**14,308**	**7,400**	**21,708**

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

12 Property and equipment and intangible assets (continued)

(a) Property and equipment (continued)

	Furniture and fixtures	Equipment	Total
2019			
Cost			
1 January	9,684	14,894	24,578
Additions	4,882	2,981	7,863
31 December	14,566	17,875	32,441
Accumulated depreciation			
1 January	(7,824)	(10,575)	(18,399)
Charge for the year (Note 23)	(1,050)	(2,012)	(3,062)
31 December	(8,874)	(12,587)	(21,461)
Net book value			
31 December	5,692	5,288	10,980

Depreciation is charged to the statement of income on a straight-line basis based on the following estimated useful lives:

	Years
Furniture and fixtures	5
Equipment	3 - 4

(b) Intangible assets

	31 December 2020			31 December 2019		
	Computer software	Software under development	Total	Computer software	Software under development	Total
Cost						
1 January	**33,273**	**-**	**33,273**	31,742	46	31,788
Additions	**2,497**	**-**	**2,497**	1,485	-	1,485
Transfers	**-**	**-**	**-**	46	(46)	-
31 December	**35,770**	**-**	**35,770**	33,273	-	33,273
Accumulated amortization						
1 January	**(21,122)**	**-**	**(21,122)**	(15,218)	-	(15,218)
Amortization	**(5,829)**	**-**	**(5,829)**	(5,904)	-	(5,904)
31 December	**(26,951)**	**-**	**(26,951)**	(21,122)	-	(21,122)
Net book Value	**8,819**	**-**	**8,819**	12,151	-	12,151

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

13 Claims payable, accrued expenses and other liabilities

	31 December 2020	31 December 2019
Insurance operations:		
Claims payable	**11,032**	4,518
Accrued salaries	**22,206**	25,194
Commission payable	**9,756**	10,557
Regulators' fee	**14,864**	1,886
Unclaimed cheques	**19,660**	20,206
Payable to vendors	**46,940**	44,108
Other	**7,275**	4,544
	131,733	111,013
Shareholders' operations:		
Directors' fees	**1,393**	1,248
Other	**3**	741
	1,396	1,989
Total	**133,129**	113,002

14 Surplus distribution payable

	2020	2019
As at 1 January	**20,091**	12,208
Total income attributed to the insurance operations during the year	**16,561**	9,716
Surplus paid to policyholders	**(9,679)**	(1,833)
As at 31 December	**26,973**	20,091

15 Employee benefit obligations

15.1 General description of the plan

The Company operates a defined benefit plan in line with the labor law requirement in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the labor laws of the Kingdom of Saudi Arabia . Employees end of service benefit plans are unfunded plans and the benefit payment obligation are met when they due.

	31 December 2020	31 December 2019
1 January	**30,622**	28,286
Current service cost	**3,644**	3,293
Interest expense	**959**	1,273
Payments	**(3,737)**	(2,230)
31 December	**31,488**	30,622

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

15 Employee benefit obligations (continued)

15.2 Amounts recognised in the statement of income and other comprehensive income

The amounts recognised in the statement of income and other comprehensive income related to employee benefit obligations are as follows:

	2020	**2019**
Current service cost	**3,644**	3,293
Interest expense	**959**	1,273
Total amount recognised in profit or loss	**4,603**	4,566

15.3 Key actuarial assumptions

	31 December 2020	**31 December 2019**
Discount rate	**2.60%**	3.50%
Average salary growth rate	**2.00%**	4.00%

15.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		**Impact on employee benefit obligations**	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	1%	(2,442)	2,908
Average salary growth rate	1%	1%	2,896	(2,477)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination. The method and types of assumptions used in preparing the sensitivity analysis did not change compared to prior year.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

16 Technical reserves

a. *Net outstanding claims and reserves*

Net outstanding claims and reserves comprise of the following:

	31 December 2020	**31 December 2019**
Outstanding claims	**350,560**	310,627
Less: realizable value of salvage and subrogation	**(61,856)**	(50,623)
	288,704	260,004
Claims incurred but not reported	**758,068**	690,201
Unallocated loss adjustment expenses reserve	**8,100**	10,762
	1,054,872	960,967
Less:		
- Reinsurers' share of outstanding claims	**(74,988)**	(84,450)
- Reinsurers' share of claims incurred but not reported and other reserves	**(73,080)**	(50,577)
	(148,068)	(135,027)
Net outstanding claims and reserves	**906,804**	825,940

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The management and external actuary have made a detailed assessment of technical reserves and the various parameters in the valuation of technical liabilities.

b. *Movement in net unearned premiums*

Movement in net unearned premiums comprise of the following:

		2020	
	Gross	**Reinsurance**	**Net**
1 January	**459,190**	**(19,261)**	**439,929**
Premium written during the year	**1,417,826**	**(129,585)**	**1,288,241**
Premium earned during the year	**(1,390,307)**	**125,391**	**(1,264,916)**
31 December	**486,709**	**(23,455)**	**463,254**

		2019	
	Gross	**Reinsurance**	**Net**
1 January	388,193	(18,275)	369,918
Premium written during the year	1,409,777	(88,054)	1,321,723
Premium earned during the year	(1,338,780)	87,068	(1,251,712)
31 December	459,190	(19,261)	439,929

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

16 Technical reserves (continued)

c. Movement in deferred policy acquisition costs

Movement in deferred policy acquisition costs comprise of the following:

	2020		
	Gross	**Reinsurance**	**Net**
1 January	**29,665**	**(3,511)**	**26,154**
Incurred during the year	**114,518**	**(12,597)**	**101,921**
Amortized during the year	**(107,691)**	**12,744**	**(94,947)**
31 December	**36,492**	**(3,364)**	**33,128**

	2019		
	Gross	**Reinsurance**	**Net**
1 January	21,440	(4,131)	17,309
Incurred during the year	100,391	(11,522)	88,869
Amortized during the year	(92,166)	12,142	(80,024)
31 December	29,665	(3,511)	26,154

17 Commitments and contingencies

(i) The Company has issued various other bank guarantees for an amount of Saudi Riyals 25.3 million (2019: Saudi Riyals 5.8 million) in the ordinary course of business.

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

18 Determination of fair value and fair value hierarchy

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

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

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

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.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

18 Determination of fair value and fair value hierarchy (continued)

(a) Carrying amounts and fair value

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

		Fair value			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2020					
Financial assets measured at fair value (Insurance operations)					
Available-for-sale investments					
- Government bonds	**519,805**	**519,805**	**-**	**-**	**519,805**
- Other bonds	**149,165**	**149,165**	**-**	**-**	**149,165**
- Mutual funds	**20,208**	**20,208**	**-**	**-**	**20,208**
	689,178	**689,178**	**-**	**-**	**689,178**
Financial assets measured at fair value (Shareholders' operations)					
Available-for-sale investments					
- Government bonds	**150,335**	**150,335**	**-**	**-**	**150,335**
- Other bonds	**17,820**	**17,820**	**-**	**-**	**17,820**
- Mutual funds	**7,931**	**7,931**	**-**	**-**	**7,931**
- Equities	**60,531**	**60,531**	**-**	**-**	**60,531**
	236,617	**236,617**	**-**	**-**	**236,617**

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

18 Determination of fair value and fair value hierarchy (continued)

(a) Carrying amounts and fair value (continued)

		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
31 December 2019					
Financial assets measured at fair value (Insurance operations)					
Available-for-sale investments					
- Government bonds	360,940	360,940	-	-	360,940
- Other bonds	95,166	95,166	-	-	95,166
- Mutual funds	21,405	21,405	-	-	21,405
	477,511	477,511	-	-	477,511
Financial assets measured at fair value (Shareholders' operations)					
Available-for-sale investments					
- Government bonds	98,372	98,372	-	-	98,372
- Other bonds	19,679	19,679	-	-	19,679
- Mutual funds	9,208	9,208	-	-	9,208
- Equities	62,506	62,506	-	-	62,506
	189,765	189,765	-	-	189,765

19 Segmental information

Operating segments for the purpose of segmental information 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.

Segment assets do not include cash and cash equivalents, short-term deposits, premiums and reinsurers' balances receivable - net, investments, prepaid expenses and other assets, long-term deposits, right-of-use assets, property and equipment, intangible assets, due from shareholders' / insurance operations, goodwill, statutory deposit and accrued income on statutory deposit. Accordingly, they are included in unallocated assets. Segment liabilities do not include claims payable, accrued expenses and other liabilities, surplus distribution payable, rreinsurers' balances payable, advance premiums, due to a related party, employee benefit obligations, zakat and income tax, lease liabilities, due to shareholders' / insurance operations, and accrued income payable to SAMA.

19 Segmental information (continued)

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.

For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Motor
- Property and casualty
- Health; and
- Protection

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements.

Where intersegment transaction was to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

19 Segmental information (continued)

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

	Insurance operations						
31 December 2020	**Motor**	**Property and casualty**	**Health**	**Protection**	**Total**	**Shareholders' operations**	**Grand Total**
Assets							
Reinsurers' share of unearned premiums	-	22,071	1,024	360	23,455	-	23,455
Reinsurers' share of outstanding claims	3,722	67,322	1,192	2,752	74,988	-	74,988
Reinsurers' share of claims incurred but not reported and other reserves	15,633	50,874	589	5,984	73,080	-	73,080
Deferred policy acquisition costs	20,757	6,763	8,397	575	36,492	-	36,492
Segment assets	40,112	147,030	11,202	9,671	208,015	-	208,015
Unallocated assets					1,780,546	903,696	2,684,242
Total assets					1,988,561	903,696	2,892,257
Liabilities and equity							
Unearned premiums	239,440	74,737	168,207	4,325	486,709	-	486,709
Unearned reinsurance commission	-	2,974	275	115	3,364	-	3,364
Outstanding claims	20,274	191,211	69,399	7,820	288,704	-	288,704
Claims incurred but not reported and other reserves	477,127	200,351	65,005	23,685	766,168	-	766,168
Segment liabilities	736,841	469,273	302,886	35,945	1,544,945	-	1,544,945
Unallocated liabilities and equity					443,616	903,696	1,347,312
Total liabilities and equity					1,988,561	903,696	2,892,257

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

19 Segmental information (continued)

	Insurance operations						
31 December 2019	**Motor**	**Property and casualty**	**Health**	**Protection**	**Total**	**Shareholders' operations**	**Grand Total**
Assets							
Reinsurers' share of unearned premiums	-	17,442	854	965	19,261	-	19,261
Reinsurers' share of outstanding claims	4,195	80,389	(34)	(100)	84,450	-	84,450
Reinsurers' share of claims incurred but not reported and other reserves	21,809	28,768	-	-	50,577	-	50,577
Deferred policy acquisition costs	12,547	5,015	11,309	794	29,665	-	29,665
Segment assets	38,551	131,614	12,129	1,659	183,953	-	183,953
Unallocated assets					1,587,180	746,006	2,333,186
Total assets					1,771,133	746,006	2,517,139
Liabilities and equity							
Unearned premiums	220,849	64,352	167,361	6,628	459,190	-	459,190
Unearned reinsurance commission	-	3,063	179	269	3,511	-	3,511
Outstanding claims	27,690	180,588	50,924	802	260,004	-	260,004
Claims incurred but not reported and other reserves	452,990	165,881	64,868	17,224	700,963	-	700,963
Segment liabilities	701,529	413,884	283,332	24,923	1,423,668	-	1,423,668
Unallocated liabilities and equity					347,465	746,006	1,093,471
Total liabilities and equity					1,771,133	746,006	2,517,139

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

19 Segmental information (continued)

2020	Insurance operations						
	Motor	Property and casualty	Health	Protection	Total	Shareholders' operations	Grand Total
Revenues							
Gross premiums written							
- Large corporates	346,887	31,727	118,392	-	497,006	-	497,006
- Medium corporates	171,389	171,887	236,031	45,940	625,247	-	625,247
- Small corporates	34,445	5,631	14,697	-	54,773	-	54,773
- Micro enterprises	6,907	4,553	5,005	-	16,465	-	16,465
- Retail	187,136	6,625	18,694	-	212,455	-	212,455
- Reinsurance	-	11,880	-	-	11,880	-	11,880
	746,764	232,303	392,819	45,940	1,417,826	-	1,417,826
Reinsurance premiums ceded							
- Foreign	(3,973)	(83,446)	(11,202)	(24,674)	(123,295)	-	(123,295)
- Local	-	(6,290)	-	-	(6,290)	-	(6,290)
	(3,973)	(89,736)	(11,202)	(24,674)	(129,585)	-	(129,585)
Net premiums written	742,791	142,567	381,617	21,266	1,288,241	-	1,288,241
Changes in unearned premiums	(18,591)	(10,386)	(846)	2,304	(27,519)	-	(27,519)
Changes in reinsurers' share of unearned premiums	-	4,630	170	(606)	4,194	-	4,194
Net premiums earned	724,200	136,811	380,941	22,964	1,264,916	-	1,264,916
Reinsurance commissions	-	9,057	2,625	1,062	12,744	-	12,744
Total revenues	724,200	145,868	383,566	24,026	1,277,660	-	1,277,660
Underwriting costs and expenses							
Gross claims paid	486,193	23,227	289,115	26,410	824,945	-	824,945
Reinsurers' share of claims paid	(2,145)	(3,822)	(4,963)	(15,558)	(26,488)	-	(26,488)
Net claims and other benefits paid	484,048	19,405	284,152	10,852	798,457	-	798,457

(Continued)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

19 Segmental information (continued)

	Insurance operations						
2020	**Motor**	**Property and casualty**	**Health**	**Protection**	**Total**	**Shareholders' operations**	**Grand Total**
Changes in outstanding claims	**(7,416)**	**10,623**	**18,475**	**7,018**	**28,700**	**-**	**28,700**
Changes in reinsurers' share of outstanding claims	**473**	**13,067**	**(1,226)**	**(2,852)**	**9,462**	**-**	**9,462**
Changes in claims incurred but not reported and other reserves	**24,137**	**34,468**	**138**	**6,462**	**65,205**	**-**	**65,205**
Changes in reinsurers' share of claims incurred but not reported and other reserves	**6,176**	**(22,106)**	**(589)**	**(5,984)**	**(22,503)**	**-**	**(22,503)**
Net claims and other benefits incurred	**507,418**	**55,457**	**300,950**	**15,496**	**879,321**	**-**	**879,321**
Policy acquisition costs	**48,273**	**21,224**	**31,451**	**6,743**	**107,691**	**-**	**107,691**
Total underwriting costs and expenses	**555,691**	**76,681**	**332,401**	**22,239**	**987,012**	**-**	**987,012**
Net underwriting income	**168,494**	**70,187**	**50,180**	**1,787**	**290,648**	**-**	**290,648**
Other operating expenses							
General and administrative expenses	**(94,973)**	**(17,942)**	**(49,957)**	**(3,012)**	**(165,884)**	**(1,730)**	**(167,614)**
Other income - net					**40,849**	**19,514**	**60,363**
Total other operating expenses - net	**(94,973)**	**(17,942)**	**(49,957)**	**(3,012)**	**(125,035)**	**17,784**	**(107,251)**
Total income before surplus attribution, zakat and income tax							**183,397**
Surplus attributed to the insurance operations							**(16,561)**
Total income for the year before zakat and income tax							**166,836**
Zakat expense							**(15,685)**
Income tax expense							**(12,650)**
Total income for the year attributable to the shareholders							**138,501**

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

19 Segmental information (continued)

	Insurance operations						
2019	**Motor**	**Property and casualty**	**Health**	**Protection**	**Total**	**Shareholders' operations**	**Grand Total**
Revenues							
Gross premiums written							
-Large corporates	522,576	29,451	107,496	5,452	664,975	-	664,975
-Medium corporates	143,267	153,656	211,539	10,134	518,596	-	518,596
-Small corporates	4,804	2,179	13,899	-	20,882	-	20,882
-Micro enterprises	2,059	934	6,535	-	9,528	-	9,528
-Retail	130,969	8,902	50,060	-	189,931	-	189,931
-Reinsurance	-	5,865	-	-	5,865	-	5,865
	803,675	200,987	389,529	15,586	1,409,777	-	1,409,777
Reinsurance premiums ceded							
- Foreign	(2,784)	(76,582)	(3,312)	(2,781)	(85,459)	-	(85,459)
- Local	40	(2,635)	-	-	(2,595)	-	(2,595)
	(2,744)	(79,217)	(3,312)	(2,781)	(88,054)	-	(88,054)
Net premiums written	800,931	121,770	386,217	12,805	1,321,723	-	1,321,723
Changes in unearned premiums	(29,810)	(8,496)	(30,989)	(1,702)	(70,997)	-	(70,997)
Changes in reinsurers' share of unearned premiums	-	1,118	71	(203)	986	-	986
Net premiums earned	771,121	114,392	355,299	10,900	1,251,712	-	1,251,712
Reinsurance commissions	(13)	10,730	628	797	12,142	-	12,142
Total revenues	771,108	125,122	355,927	11,697	1,263,854	-	1,263,854
Underwriting costs and expenses							
Gross claims paid	555,806	37,066	288,515	5,964	887,351	-	887,351
Reinsurers' share of claims paid	(8,126)	(12,584)	(1,833)	(968)	(23,511)	-	(23,511)
Net claims and other benefits paid	547,680	24,482	286,682	4,996	863,840	-	863,840

(Continued)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

19 Segmental information (continued)

	Insurance operations						
2019	**Motor**	**Property and casualty**	**Health**	**Protection**	**Total**	**Shareholders' operations**	**Grand Total**
Changes in outstanding claims	(3,136)	(13,092)	(873)	(736)	(17,837)	-	(17,837)
Changes in reinsureres' share of outstanding claims	(694)	14,811	67	(100)	14,084	-	14,084
Changes in claims incurred but not reported and other reserves	40,377	42,758	776	1,013	84,924	-	84,924
Changes in reinsureres' share of claims incurred but not reported and other reserves	10,735	(14,831)	-	-	(4,096)	-	(4,096)
Net claims and other benefits incurred	594,962	54,128	286,652	5,173	940,915	-	940,915
Policy acquisition costs	46,729	18,174	25,580	1,683	92,166	-	92,166
Total underwriting costs and expenses	641,691	72,302	312,232	6,856	1,033,081	-	1,033,081
Net underwriting income	129,417	52,820	43,695	4,841	230,773	-	230,773
Other operating expenses							
General and administrative expenses	(101,820)	(15,105)	(46,914)	(1,439)	(165,278)	(1,674)	(166,952)
Other income					31,663	22,706	54,369
Total other operating expenses	(101,820)	(15,105)	(46,914)	(1,439)	(133,615)	21,032	(112,583)
Total income before surplus attribution, zakat and income tax							118,190
Surplus attributed to the insurance operations							(9,716)
Total income for the year before zakat and income tax							108,474
Zakat expense							(13,223)
Income tax expense							(8,564)
Total income for the year attributable to the shareholders							86,687

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

20 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. The following are the details of the major related party transactions during the year ended 31 December 2020 and 2019, respectively, and the related balances:

	2020	**2019**
Major shareholders		
Gross premiums from major shareholders	**20,008**	29,203
Reinsurance premiums ceded to major shareholders	**91,856**	54,847
Reinsurance commissions from major shareholders	**5,774**	3,410
Net claims paid to major shareholders	**13,057**	13,508
Reinsurers 'share of gross claims paid to major shareholders	**21,230**	5,409
Expenses charged by major shareholders	**3,038**	3,943
Performance share payment	**573**	804
Entities controlled, jointly controlled or significantly influenced by related parties		
Gross premiums from other related parties	**25,968**	27,147
Net claims paid to other related parties	**19,575**	25,570

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

	2020	**2019**
Salaries and benefits	**9,549**	10,256
Employee benefit obligations	**619**	759
	10,168	11,015

Board of Directors fees for the year ended 31 December 2020 was Saudi Riyals 1.6 million (31 December 2019: Saudi Riyals 1.6 million).

The transactions with related parties are carried out at commercial terms and conditions. Compensation to key management personnel is on employment terms and as per the by-laws of the Company.

(a) Premiums and reinsurance balances receivable

	31 December 2020	**31 December 2019**
Receivable from policyholders	**11,241**	19,756
Receivable from reinsurers	**4,521**	2,983
	15,762	22,739
Less: provision for doubtful debts	**(1,390)**	(3,040)
	14,372	19,699

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

20 Related party transactions and balances (continued)

(a) Premiums and reinsurance balances receivable (continued)

The ageing analysis of receivables from insurance and reinsurance contracts is as follows:

	Neither past due nor impaired	**Past due but not impaired**			**Total**
		91 to 180 days	**181 to 360 days**	**More than 360 days**	
31 December 2020	**12,678**	**936**	**295**	**463**	**14,372**
31 December 2019	2,273	16,353	60	1,013	19,699

Movement in provision for doubtful debts is as follows:

	31 December 2020	**31 December 2019**
1 January	**3,040**	6,009
Reversals	**(1,650)**	(2,969)
31 December	**1,390**	3,040

(b) Due to a related party

Due to a related party represents amounts payable to AXA Insurance Gulf B.S.c (c).

(c) Reinsurance balances payable

Reinsurance balances payable include Saudi Riyals 26.1 million (2019: Saudi Riyals 17.6 million payable to related parties)

21 Zakat and income tax

21.1 Components of zakat base

	31 December 2020	**31 December 2019**
Equity at beginning of year	**709,812**	623,107
Provisions at beginning of year	**76,159**	73,638
Lease liabilities	**21,781**	24,265
Adjusted net income	**186,026**	125,934
Investments	**(1,064,582)**	(806,081)
Right-of-use assets	**(23,122)**	(26,004)
Property and equipment	**(21,708)**	(10,980)
Intangible assets	**(8,819)**	(12,151)
Goodwill	**(50,000)**	(50,000)
Statutory deposit	**(50,000)**	(45,000)
Approximate zakat base	**(224,453)**	(103,272)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

21 Zakat and income tax (continued)

21.2 Movement in provision for zakat and income tax for the years ended 31 December 2020 and 2019 is as follows:

2020	**Zakat**	**Income tax**	**Total**
1 January	**41,634**	**1,681**	**43,315**
Provision for the year	**15,685**	**12,650**	**28,335**
Payments	**(11,364)**	**(10,130)**	**(21,494)**
31 December	**45,955**	**4,201**	**50,156**

2019	**Zakat**	**Income tax**	**Total**
1 January	35,058	2,260	37,318
Provision for the year	13,223	8,564	21,787
Payments	(6,647)	(9,143)	(15,790)
31 December	41,634	1,681	43,315

21.3 Numerical reconciliation of income tax expense to prima facie tax payable

	2020	**2019**
Profit before zakat and income taxes	**183,397**	118,190
Income tax rate applicable to the Company	**20%**	20%
Effective shareholding subject to income tax	**34%**	34%
Income tax on effective shareholding	**12,471**	8,037
Add (less):		
Impact of deferred tax not recognised	**179**	527
Income tax expense	**12,650**	8,564

Deferred income taxes arising out of the temporary differences were not significant and, accordingly, were not recognized as of 31 December 2020 and 2019.

21.4 Status of zakat and income tax assessment

During 2014, the GAZT issued final income tax, zakat and withholding tax assessments for the years 2009 through 2012 with additional liabilities amounting to Saudi Riyals 11.6 million. The Company filed appeals against such additional assessments with the Preliminary Appeals Court ("PAC") and, subsequently, the Higher Appeals Court ("HAC"). The PAC issued its judgement with reduced additional liabilities of Saudi Riyals 4.9 million and, in 2018, the HAC upheld the PAC's judgement. The Company accordingly settled the additional liabilities for the years 2009 through 2012.

During 2018, the GAZT issued final income tax, zakat and withholding tax assessments for the years 2013 through 2015 with additional liabilities amounting to Saudi Riyals 17.2 million including delay fines. The Company filed an appeal with the GAZT in relation to these assessments. The management of the Company reassessed the income tax, zakat and withholding tax liabilities for the years 2013 through 2015 in light of the rulings by the PAC and HAC in relation to the final assessments from the GAZT for the years 2009 through 2012 and proposed to the Alternative Dispute Resolution Committee ("ADRC") to settle the liabilities for the years 2013 through 2015 amounting to Saudi Riyals 15.9 million as final settlement for those years. The ADRC accepted the Company's proposed settlement and, accordingly, the Company received final tax certificates from the GAZT for those years during the year ended 31 December 2020.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

21 Zakat and income tax (continued)

21.4 Status of zakat and income tax assessment (continued)

Also, the GAZT has issued invoices amounting to Saudi Riyals 4.9 million as delay fines for the years 2009 through 2015 which have been settled by the Company. However, the Company has subsequently requested the GAZT to cancel these additional invoices on the grounds that the Company has settled all the income tax, zakat and withholding tax liabilities related to the aforementioned years.

Income tax, zakat and withholding tax assessments for the years 2016 through 2019 are currently under review by the GAZT.

22 Other income - net

	Note	2020	2019
Insurance operations:			
Commission income on deposits		**18,594**	11,890
Commission income on investments		**21,682**	18,521
Realized gains on disposal of investments	8	**470**	568
Interest on leases		**(700)**	(362)
Other		**803**	1,046
		40,849	31,663
Shareholders' operations:			
Commission income on deposits		**7,883**	13,595
Commission income on investments		**7,774**	7,265
Realized gains on disposal of investments	8	**3,525**	2,699
Impairment loss on available-for-sale investments		**(511)**	(1,295)
Other		**843**	442
		19,514	22,706

23 General and administrative expenses

	Note	2020	2019
Insurance operations:			
Salaries and benefits		**91,979**	88,916
Employee benefit obligations		**3,966**	3,684
Legal and professional fees		**7,398**	7,244
Information technology		**21,743**	21,812
Business travel		**1,220**	2,347
Printing and stationary		**355**	573
Provision for doubtful debts	7	**14**	185
Regulators' fees		**10,986**	10,929
Depreciation of property and equipment	12	**6,177**	3,062
Depreciation of right-of-use assets	10	**2,880**	1,082
Amortization of intangible assets	12	**5,829**	5,904
Other		**13,337**	19,540
		165,884	165,278
Shareholders' operations:			
Directors' fees		**1,572**	1,586
Other		**158**	88
		1,730	1,674

24 Statutory deposit

In accordance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company is required to maintain a statutory deposit of not less than 10% of its paid-up capital. The statutory deposit is maintained with a Saudi Arabian bank and can be withdrawn only with the consent of SAMA.

25 Statutory reserve

In accordance with By-laws of the Company and Article 70(2)(g) of the Insurance Implementing Regulations issued by SAMA, the Company is required to transfer not less than 20% of its total income for the year, after adjusting accumulated losses, to a statutory reserve until such reserve amounts to 100% of the paid-up share capital of the Company. This reserve is not available for distribution to the shareholders until the liquidation of the Company.

26 Performance share reserve

AXA Group (the "Group") has introduced a performance share-based plan for employees of AXA entities world-wide which is designed to reward them for their role in achievement of the Group's long-term objectives. This scheme incentivizes employees after completion of certain number of years with the Company, with shares of AXA Society Anonyme ("AXA SA" and "ultimate controlling party") without any cost to employees. These shares are issued outside the Kingdom of Saudi Arabia and employees have the right to receive at the settlement date, a certain number of AXA SA shares based on the achievement of performance criteria defined by AXA SA and vesting year. The Company absorbs the cost of these shares under a group recharge arrangement, paid directly to AXA SA.

As at 31 December 2020, the Company recognised changes in the performance share reserve of Saudi Riyals 0.78 million (31 December 2019: Saudi Riyals 0.17 million). During the year ended 31 December 2020, the Company has recognised an expense amounting to Saudi Riyals 1.2 million (31 December 2019: Saudi Riyals 0.82 million) in the statement of income with respect to performance shares.

27 Share capital

The authorized, issued and paid up capital of the Company is Saudi Riyals 500 million at 31 December 2020 (31 December 2019: Saudi Riyals 500 million) consisting of 50 million shares (31 December 2019: 50 million shares) of Saudi Riyals 10 each.

Shareholding structure of the Company is as below. The shareholders of the Company are subject to zakat and income tax.

	31 December 2020	
	Authorized and issued	Paid up
	No. of Shares (thousands)	Saudi Riyals (thousands)
AXA Insurance Gulf B.S.C (c.)	16,000	160,000
AXA Mediterranean Holding SA	9,000	90,000
General public	25,000	250,000
	50,000	500,000

27 Share capital (continued)

	31 December 2019	
	Authorized and issued	**Paid up**
	No. of Shares (thousands)	**Saudi Riyals (thousands)**
AXA Insurance Gulf B.S.C (c.)	16,000	160,000
AXA Mediterranean Holding SA	9,000	90,000
General public	25,000	250,000
	50,000	500,000

28 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 of the Company.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, asses, 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.

Audit Committee and Internal Audit Department:
The Internal Audit Department performs risk assessments with senior management annually. The Internal Audit Department examines both adequacy of procedures and the Company's compliance with the procedures through regular audits. Audit findings and recommendations are reported directly to the Audit Committee.

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.

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

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

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

28 Risk management (continued)

28.1 Insurance risk management

The risk under an insurance contract is the possibility that the insured event may occur 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 the Company faces under insurance contracts is that the actual claim payments or the timing thereof, differs 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 above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, structured claims management, quarterly review of reserves as well as the use of reinsurance arrangements.

(a) Accident, liability, motor and other general insurance

The accident category includes personal accident, money insurance, business all risk insurance and business travel insurance. Liability insurance includes general third-party liability, product liability and workmen’s compensation/employer’s liability protection arising out of acts of negligence during their business operations.

Motor insurance is designed to compensate policyholders for damage suffered to their vehicles or liability to third parties arising through accidents. Policyholders could also receive compensation for fire damage or theft of their vehicles.

For accident, liability and motor policies the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has well developed risk acceptance procedures based on critical underwriting factors such as driver's age, diving experience and nature of vehicle to control the quality of risks that it accepts. It also has risk management procedures in place to control the costs of claims.

(b) Property

Property insurance is designed to compensate policyholders for damage suffered to properties or for the value of property lost. Policyholders could also receive compensation for the loss of earnings caused by the inability to use the insured properties.

Significant risks underwritten by the Company under this class are physically inspected by qualified risk engineers to make sure adequate fire protection and security is in place. Also, the Company tracks for the potential of risk accumulation.

(c) Marine

Marine insurance solutions are mainly designed to compensate policyholders from accidents at sea, on land and in the air resulting in the total or partial loss to goods and/or merchandise cargo insurance.

The underwriting strategy for the marine class of business is to ensure that coverage is provided based on the quality of vessels used and shipping routes followed. Vessel details are validated through international agencies while making the underwriting decisions.

28 Risk management (continued)

28.1 Insurance risk management (continued)

(d) Engineering

Engineering covers two principal types as summarized below:

i) “Contractors all risk ”insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, buildings, roads, bridges, sewage works and reservoirs; and

ii) “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, electronic equipment insurance and plant all risk.

Significant risks underwritten by the Company under this class are physically inspected to make sure adequate fire protection, security and project management is in place.

(e) Health and protection

Health insurance is designed to cover the medical expenses incurred as a result of a disease or an illness or an injury. The policy seeks to provide the policyholder and their employees with access to good medical facilities and the latest treatments and technologies, subject to the terms of the relevant policy and the policyholders’ personal circumstances.

Protection insurance covers the risks of death or disability following accident or illnesses and compensates the member or dependents in event of loss.

The main risk the Company faces on health and protection insurance is an increase of medical costs which can be more than expected or increase in claims due to exceptional events like outbreak of pandemic diseases. The underwriting strategy includes management of exposures and concentrations within acceptable risk appetite and risk tolerance levels and optimization of reinsurance strategies through a combination of reinsurance cession with approved and well-rated reinsurers and retrocession arrangements. The Company’s centralized claims management platform controls and manages its medical insurance claims.

28.2 Reinsurance risk

Similar to other insurance companies, in order to minimise 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. A significant portion of the reinsurance is affected under treaty, facultative and excess-of-loss reinsurance contracts.

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company only deals with reinsurers approved by the Board of Directors of the Company. The criteria may be summarized as follows:

(a) Minimum acceptable credit rating by agencies that is not lower than prescribed in the Regulations;
(b) Reputation of particular reinsurance companies; and
(c) Existing or past business relationships.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.2 Reinsurance risk (continued)

The financial strengths, managerial, technical expertise and historical performance of reinsurer, wherever applicable, are thoroughly reviewed by the Company before placement of reinsurance.

28.3 Regulatory framework risk

The operations of the Company are subject to regulatory requirements in 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 minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In management's opinion, the Company has substantially complied with such regulatory requirements.

28.4 Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like political violence, environmental and economical, atmospheric disturbances, natural disasters, concentration of risks, civil riots etc. The Company manages these risks through the measures described above. The Company has limited its exposure to catastrophic and riot events by use of reinsurance arrangements.

The Company monitors concentration of insurance risks primarily by class of business. 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				**2019**			
	Gross Outstanding claims	**Net Outstanding claims**	**Gross Unearned premiums**	**Net Unearned premiums**	**Gross Outstanding claims**	**Net Outstanding claims**	**Gross Unearned premiums**	**Net Unearned premiums**
Motor	**7%**	**8%**	**49%**	**52%**	11%	13%	49%	50%
Property and casualty	**66%**	**58%**	**15%**	**11%**	68%	57%	14%	11%
Health	**24%**	**32%**	**35%**	**36%**	20%	29%	36%	38%
Protection	**3%**	**2%**	**1%**	**1%**	1%	1%	1%	1%
	100%	**100%**	**100%**	**100%**	100%	100%	100%	100%

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.

28 Risk management (continued)

28.5 Sources of uncertainty in estimation of future claim payments

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of IBNR at the statement of financial position date. The details of estimation of outstanding claims (including IBNR) are given under Notes 4 and 16.

28.6 Process used to determine assumptions

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

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

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson 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 analyzed by accident years, but can also be further analyzed 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 claim’s 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.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.6 Process used to determine assumptions (continued)

The premium liabilities have been determined such that the total premium liability provisions. Unearned premium reserve and premium deficiency reserve would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of 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.

28.7 Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the statement of financial position date are adequate. However, these amounts are not certain and actual payments may differ from the claim's liabilities provided in the financial statements. The impact on the total income before zakat and income tax in the claim liabilities, net of reinsurance, is analyzed below. The sensitivity to changes in claim liabilities, net of reinsurance, is determined separately for each class of business while keeping all other assumptions constant.

Impact of increase in 10% on total income before surplus attribution, zakat and income tax for the year ended is as follows:

	2020	**2019**
Motor	**43,024**	40,921
Property and casualty	**24,603**	21,358
Health	**11,936**	10,424
Protection	**2,049**	1,631
	81,612	74,334

A decrease of 10% would have an equal but opposite effect on total income before surplus attribution, zakat and income tax for the year ended.

The sensitivity to changes in the most significant assumption, on claim liabilities while keeping all other assumptions constant, on the Motor and Health segments is as follows:

		Impact on gross IBNR	
Segment	**Change in current year ultimate loss ratio**	**2020**	**2019**
Motor	Increase by 1%	7,282	7,739
Motor	Decrease by 1%	(7,282)	(7,739)
Health	Increase by 1%	3,920	3,585
Health	Decrease by 1%	(3,920)	(3,585)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.8 Claims development

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 maintains adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

Claims development gross of reinsurance:

2020

Accident year	**2016 & earlier**	**2017**	**2018**	**2019**	**2020**	**Total**
At end of reporting year	1,074,942	1,146,039	1,161,995	1,095,858	1,072,603	**5,551,437**
One year later	926,326	1,145,199	1,160,396	1,092,011	-	**4,323,932**
Two years later	922,515	1,144,291	1,155,395	-	-	**3,222,201**
Three years later	913,736	1,143,083	-	-	-	**2,056,819**
Four years later	1,135,667	-	-	-	-	**1,135,667**
Current estimate of cumulative claims	1,135,667	1,143,083	1,155,395	1,092,011	1,072,603	**5,598,759**
Cumulative payment to date	(806,801)	(1,030,179)	(1,012,997)	(967,169)	(672,985)	**(4,490,131)**
Liability recognised in statement of financial position	328,866	112,904	142,398	124,842	399,618	**1,108,628**
Salvage and subrogation						**(61,856)**
Unallocated Loss Adjustment Expenses Reserve						**8,100**
Outstanding claims and reserves						**1,054,872**

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.8 Claims development (continued)

Claims development net of reinsurance:

2020

Accident year	**2016 & earlier**	**2017**	**2018**	**2019**	**2020**	**Total**
At end of reporting year	1,041,445	1,076,066	1,112,306	1,071,670	1,007,088	**5,308,575**
One year later	887,203	1,075,487	1,115,364	1,071,488	-	**4,149,542**
Two years later	878,232	1,075,172	1,111,442	-	-	**3,064,846**
Three years later	877,201	1,074,058	-	-	-	**1,951,259**
Four years later	1,075,260	-	-	-	-	**1,075,260**
Current estimate of cumulative claims	1,075,260	1,074,058	1,111,442	1,071,488	1,007,088	**5,339,336**
Cumulative payment to date	(785,382)	(997,689)	(996,900)	(954,768)	(644,037)	**(4,378,776)**
Liability recognised in statement of financial position	289,878	76,369	114,542	116,720	363,051	**960,560**
Salvage and subrogation						**(61,856)**
Unallocated Loss Adjustment Expenses Reserve						**8,099**
Outstanding claims and reserves						**906,804**

28 Risk management (continued)

28.9 Operational risk

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

The operations of the Company are subject to regulatory requirements in 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. In management's opinion, the Company has substantially complied with such regulatory requirements.

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.

28.10 Financial risk

The Company's principal financial assets are cash and cash equivalents, short-term deposits, premium and reinsurers' balances receivable - net, other assets, investments, long-term deposits, reinsurers' share of outstanding claims and statutory deposit.

The Company's principal financial liabilities are claims payable, accrued expenses and other liabilities, surplus distribution payable, reinsurers' balances payable, due to a related party, outstanding claims, lease liability, due to/from insurance/shareholders operations and accrued income payable.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market risks (including commission rate risk, price risk and currency risk). The audit committee appointed by the Board of Directors of the Company reviews and agrees policies for managing each of these risks which are summarized below:

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.10 Financial risk (continued)

(i) 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 commission risk.

The Company is exposed to commission rate risk on certain of its term deposits and investments. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated.

Effective commission rates of the Company's investments and their maturities as at 31 December 2020 and 2019 are as follows:

	Commission bearing					
2020	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Effective rate of commission (%)**	**Non-commission bearing**	**Total**
Insurance operations						
Loans and receivables						
Cash and cash equivalents	**192,946**	**-**	**-**	**0.81%**	**86,003**	**278,949**
Short-term deposits	**255,366**	**-**	**-**	**1.48%**	**-**	**255,366**
Long-term deposits	**-**	**190,721**	**-**	**3.51%**	**-**	**190,721**
	448,312	**190,721**	**-**		**86,003**	**725,036**
Available-for-sale investments	**689,178**	**-**	**-**	**3.91%**	**-**	**689,178**
Held-to-maturity investments	**-**	**78,786**	**-**	**3.34%**	**-**	**78,786**
31 December 2020	**1,137,490**	**269,507**	**-**		**86,003**	**1,493,000**
Shareholders' operations						
Loans and receivables						
Cash and cash equivalents	**52,087**	**-**	**-**	**1.90%**	**-**	**52,087**
Short-term deposits	**298,050**	**-**	**-**	**1.81%**	**-**	**298,050**
Long-term deposits	**-**	**25,000**	**-**	**3.20%**	**-**	**25,000**
Statutory deposit	**50,000**	**-**	**-**	**4%**	**-**	**50,000**
	400,137	**25,000**	**-**		**-**	**425,137**
Available-for-sale investments	**236,618**	**-**	**-**	**3.56%**	**-**	**236,618**
Held-to-maturity investments	**-**	**60,000**	**-**	**3.21%**	**-**	**60,000**
31 December 2020	**636,755**	**85,000**	**-**		**-**	**721,755**

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.10 Financial risk (continued)

(i) Commission rate risk (continued)

	Commission bearing					
2019	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Effective rate of commission (%)**	**Non-commission bearing**	**Total**
Insurance operations						
Loans and receivables						
Cash and cash equivalents	121,593	-	-	2.28	87,437	209,030
Short-term deposits	374,355	-	-	2.71	-	374,355
Long-term deposits	-	190,721	-	3.51	-	190,721
	495,948	190,721	-		87,437	774,106
Available-for-sale investments	477,511	-	-	4.21	-	477,511
Held-to-maturity investments	-	78,805	-	3.34	-	78,805
31 December 2019	973,459	269,526	-		87,437	1,330,422
Shareholders' operations						
Loans and receivables						
Cash and cash equivalents	25,000	-	-	1.90	810	25,810
Short-term deposits	239,166	-	-	2.46	-	239,166
Long-term deposits	20,000	25,000	-	3.20	-	45,000
Statutory deposit	45,000	-	-	2.61	-	45,000
	329,166	25,000	-		810	354,976
Available-for-sale investments	189,765	-	-	3.80	-	189,765
Held-to-maturity investments	-	60,000	-	3.21	-	60,000
31 December 2019	518,931	85,000	-		810	604,741

There is no significant difference between contractual re-pricing and maturity dates, except for certain held-to-maturity investments, which are subject to variable commission rates based on SIBOR.

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

		Impact on net income	
Currency	**Change in variable**	**2020**	**2019**
Saudi Riyals	basis points +50	4,276	3,801
Saudi Riyals	basis points -50	(4,276)	(3,801)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.10 Financial risk (continued)

(ii) Currency risk

The Company's exposure to foreign currency risk is limited to United States Dollars which is pegged against Saudi Riyals. Management believes that currency risk to the Company is not significant

(iii) Price risk

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

The Company has an unquoted equity investment carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired and then the statement of income will be impacted.

The Company's available-for-sale investments are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its equity investment portfolio and by actively monitoring the developments in equity and money markets.

The impact of a hypothetical change of a 10% increase and 10% decrease in the market prices of investments on the Company's profits and equity would be as follows:

	Fair value	Price change	Estimated fair value	Effect on equity
31 December 2020	**925,796**	**Increase 10%**	**1,018,376**	**92,580**
		Decrease 10%	**833,216**	**(92,580)**
31 December 2019	667,276	Increase 10%	734,004	66,728
		Decrease 10%	600,548	(66,728)

(iv) Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss.

The Company only enters into insurance and reinsurance contracts with recognized and credit worthy 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 on-going basis in order to reduce the Company's exposure to bad debts. The Company limits its credit risk with regard to time deposits by dealing with reputed banks only.

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. There are no significant concentrations of credit risk within the Company.

The Company maintains its bank balances, short-term, long term and statutory deposits with banks which have investment grade credit ratings. Investment are made in instruments with grade credit rating.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.10 Financial risk (continued)

(iv) Credit risk (continued)

Maximum exposure to credit risk

The Company's maximum exposure to credit risk on its financial assets at 31 December 2020 is Saudi Riyals 1.31 billion (31 December 2019: Saudi Riyals 2.28 billion).

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 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 as at 31 December 2020:

		Non-investment grade		
	Investment grade	Satisfaction	Past due but not impaired	Total
Cash and cash equivalents, investments and deposits				
Fixed-rate securities	1,364,282	41,010	-	1,405,292
Floating-rate securities	59,000	8,500	-	67,500
Equities and mutual funds	14,874	5,334	-	20,208
Other financial assets				
Premiums and insurance balances receivable - net	-	188,203	26,105	214,308
Other assets	-	15,253	-	15,253
Reinsurers' share of outstanding claims	-	74,988	-	74,988
Reinsurers' share of claims incurred but not reported and other reserves	-	73,080	-	73,080
	1,438,156	406,368	26,105	1,870,629

Shareholders' operations' financial assets as at 31 December 2020:

		Non-investment grade		
	Investment grade	Satisfaction	Past due but not impaired	Total
Cash and cash equivalents, investments and deposits				
Fixed-rate securities	636,291	-	-	636,291
Floating-rate securities	10,000	7,000	-	17,000
Equities and mutual funds	32,192	36,271	-	68,463
Other financial assets				
Accrued income on statutory deposit	5,902	-	-	5,902
	684,385	43,271	-	727,656

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.10 Financial risk (continued)

(iv) Credit risk (continued)

Insurance operations' financial assets as at 31 December 2019:

	Investment grade	Non-investment grade Satisfaction	Non-investment grade Past due but not impaired	Total
Cash and cash equivalents, investments and deposits				
Fixed-rate securities	1,204,825	36,242	-	1,241,067
Floating-rate securities	57,950	10,000	-	67,950
Equities and mutual funds	14,961	6,445	-	21,406
Other financial assets				
Premiums and insurance balances receivable - net	-	103,917	86,518	190,435
Other assets	-	12,545	-	12,545
Reinsurers' share of outstanding claims	-	84,450	-	84,450
Reinsurers' share of claims incurred but not reported and other reserves	-	50,577	-	50,577
	1,277,736	304,176	86,518	1,668,430

Shareholders' operations' financial assets as at 31 December 2019:

	Investment grade	Non-investment grade Satisfaction	Non-investment grade Past due but not impaired	Total
Cash and cash equivalents, investments and deposits				
Fixed-rate securities	509,152	1,875	-	511,027
Floating-rate securities	12,000	10,000	-	22,000
Equities and mutual funds	28,692	43,021	-	71,713
Other financial assets				
Accrued income on statutory deposit	4,450	-	-	4,450
	554,294	54,896	-	609,190

Credit quality of investments as at 31 December 2020:

	Insurance operations	Shareholders' operations
A and above	**990,385**	**475,501**
B	**490,283**	**203,212**
Not rated but considered satisfactory	**12,332**	**48,943**
	1,493,000	**727,656**

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.10 Financial risk (continued)

(iv) Credit risk (continued)

Credit quality of investments as at 31 December 2019:

	Insurance operations	**Shareholders' operations**
A and above	780,378	402,689
B	529,779	147,989
Not rated but considered satisfactory	20,266	54,062
	1,330,423	604,740

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is broadly diversified, and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

(v) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise may encounter difficulty in raising funds to meet commitments associated with insurance contracts. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise. The Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

Substantially all the financial liabilities of the Company are due within one year of the statement of financial position date except lease liabilities which due after one year of the statement of financial position date.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.10 Financial risk (continued)

(v) *Liquidity risk* (continued)

The table below summarizes the maturities of the Company's undiscounted contractual obligations at 31 December 2020 and 2019. As the Company does not have any commission bearing liabilities, contractual cash flow of financial liabilities approximates their carrying value.

	Less than 12 months		**More than 12 months**		**Total**	**Total**
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Insurance operations' financial liabilities						
Claims payable, accrued expenses and other liabilities	**129,853**	111,013	**-**	-	**129,853**	111,013
Reinsurers' balances payable	**41,066**	27,294	**-**	-	**41,066**	27,294
Surplus distribution payable	**26,973**	20,091	**-**	-	**26,973**	20,091
Outstanding claims	**288,704**	260,004	**-**	-	**288,704**	260,004
Claims incurred but not reported and other reserves	**398,407**	364,501	**367,761**	336,462	**766,168**	700,963
Lease liabilities	**3,183**	3,183	**22,281**	25,464	**25,464**	28,647
Due to a related party	**3,385**	2,616	**-**	-	**3,385**	2,616
	891,571	788,702	**390,042**	361,926	**1,281,613**	1,150,628
Shareholders' financial liabilities						
Accrued expenses and other liabilities	**3,276**	1,989	**-**	-	**3,276**	1,989
Accrued income payable to SAMA	**5,902**	4,450	**-**	-	**5,902**	4,450
	9,178	6,439	**-**	-	**9,178**	6,439

Maturity profiles

The table below summarizes the maturity profile of the financial assets of the Company based on remaining contractual obligations. Financial liabilities are summarized in table above. For insurance contract liabilities maturity profiles are determined based on the estimated timing of net cash outflows from the recognized insurance liabilities. The amount disclosed are the contractual undiscounted cash flows which equal their carrying balances as the impact of discounting is not significant.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.10 Financial risk (continued)

(v) Liquidity risk (continued)

	31 December 2020					
	Insurance operation			Shareholder's operation		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Financial assets						
Cash and cash equivalents	278,949	-	278,949	52,087	-	52,087
Short-term deposits	255,366	-	255,366	298,050	-	298,050
Premiums and insurance balances receivable - net	214,308	-	214,308	-	-	-
Reinsurers' share of outstanding claims	74,988	-	74,988	-	-	-
Reinsurers' share of claims incurred but not reported and other reserves	38,002	35,078	73,080	-	-	-
Available-for-sale investments	689,177	-	689,177	236,617	-	236,617
Other assets	15,257	-	15,257	-	-	-
Long-term deposits	-	190,721	190,721	-	25,000	25,000
Ield-to-maturity investments	-	78,788	78,788	-	60,000	60,000
Statutory deposit		-	-	-	50,000	50,000
Accrued income on statutory deposit	-	-	-	5,902	-	5,902
	1,566,047	304,587	1,870,634	592,656	135,000	727,656

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

28 Risk management (continued)

28.10 Financial risk (continued)

(v) Liquidity risk (continued)

	31 December 2019					
	Insurance operation			Shareholder's operation		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Financial assets						
Cash and cash equivalents	209,030	-	209,030	25,810	-	25,810
Short-term deposits	374,355	-	374,355	239,166	-	239,166
Premiums and insurance balances receivable - net	190,435	-	190,435	-	-	-
Reinsurers' share of outstanding claims	84,450	-	84,450	-	-	-
Reinsurers' share of claims incurred but not reported and other reserves	26,300	24,277	50,577	-	-	-
Available-for-sale investments	477,511	-	477,511	189,765	-	189,765
Other assets	12,545	-	12,545	-	-	-
Long-term deposits	-	190,721	190,721	-	45,000	45,000
Held-to-maturity investments	-	78,805	78,805	-	60,000	60,000
Statutory deposit	-	-	-	-	45,000	45,000
Accrued income on statutory deposit	-	-	-	4,450	-	4,450
	1,374,626	293,803	1,668,429	459,191	150,000	609,191

29 Capital management

The Company's objectives when managing capital are:

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

As per Article 66 of the Regulations, the Company shall maintain a solvency margin equivalent to the highest of the following three methods:

- Minimum capital requirement of Saudi Riyals 200 million;
- Premium solvency margin; or
- Claims solvency margin.

As at 31 December 2020 and 2019, the Company had adequate solvency margin in accordance with Article 66 of the Regulations.

30 Goodwill on acquisition of insurance portfolio

This represents goodwill recognised on acquisition of insurance portfolio and net assets of AXA Insurance Saudi Arabia B.S.C (c). The Company received approval from SAMA on 15 Dhul-Qadah 1433H (corresponding to October 1, 2012) to transfer the insurance portfolio from AXA Saudi Arabia Holding W.L.L. (formerly AXA Insurance Saudi Arabia B.S.C.c) at a total consideration of Saudi Riyals 106.6 million. During 2015, the Company met payment conditions imposed by SAMA and received approval for payment of Saudi Riyals 50.0 million in respect of initial consideration to AXA Saudi Arabia Holding W.L.L. which was recognised as goodwill being the excess of consideration paid and the net assets acquired. The remaining amount of Saudi Riyals 56.6 million which was recorded as contingent liability was accordingly relinquished.

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

- Weighted average cost of capital of 7.8%; and
- Long-term growth rate of 2%.

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

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

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

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

31 Supplementary information

STATEMENT OF FINANCIAL POSITION

	31 December 2020			31 December 2019		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
ASSETS						
Cash and cash equivalents	**278,949**	**52,087**	**331,036**	209,030	25,810	234,840
Short-term deposits	**255,366**	**298,050**	**553,416**	374,355	239,166	613,521
Premiums and reinsurers' balances receivable - net	**214,308**	**-**	**214,308**	190,435	-	190,435
Reinsurers' share of unearned premiums	**23,455**	**-**	**23,455**	19,261	-	19,261
Reinsurers' share of outstanding claims	**74,988**	**-**	**74,988**	84,450	-	84,450
Reinsurers' share of claims incurred but not reported and other reserves	**73,080**	**-**	**73,080**	50,577	-	50,577
Deferred policy acquisition costs	**36,492**	**-**	**36,492**	29,665	-	29,665
Investments	**767,964**	**296,618**	**1,064,582**	556,316	249,765	806,081
Prepaid expenses and other assets	**19,589**	**-**	**19,589**	17,188	-	17,188
Long-term deposits	**190,721**	**25,000**	**215,721**	190,721	45,000	235,721
Right-of-use assets	**23,122**	**-**	**23,122**	26,004	-	26,004
Property and equipment	**21,708**	**-**	**21,708**	10,980	-	10,980
Intangible assets	**8,819**	**-**	**8,819**	12,151	-	12,151
Due from shareholders'/ insurance operations	**-**	**126,039**	**126,039**	-	86,815	86,815
Goodwill	**-**	**50,000**	**50,000**	-	50,000	50,000
Statutory deposit	**-**	**50,000**	**50,000**	-	45,000	45,000
Accrued income on statutory deposit	**-**	**5,902**	**5,902**	-	4,450	4,450
TOTAL ASSETS	**1,988,561**	**903,696**	**2,892,257**	1,771,133	746,006	2,517,139

(Continued)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

31 Supplementary information (continued)

STATEMENT OF FINANCIAL POSITION (continued)

	31 December 2020			31 December 2019		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
LIABILITIES						
Claims payable, accrued expenses and other liabilities	**129,853**	**3,276**	**133,129**	111,013	1,989	113,002
Surplus distribution payable	**26,973**	**-**	**26,973**	20,091	-	20,091
Reinsurers' balances payable	**41,066**	**-**	**41,066**	27,294	-	27,294
Advance premiums	**36,492**	**-**	**36,492**	31,189	-	31,189
Unearned premiums	**486,709**	**-**	**486,709**	459,190	-	459,190
Unearned reinsurance commission	**3,364**	**-**	**3,364**	3,511	-	3,511
Outstanding claims	**288,704**	**-**	**288,704**	260,004	-	260,004
Claims incurred but not reported and other reserves	**766,168**	**-**	**766,168**	700,963	-	700,963
Leases liabilities	**21,781**	**-**	**21,781**	24,265	-	24,265
Due to related party	**3,385**	**-**	**3,385**	2,616	-	2,616
Employee benefit obligations	**31,488**	**-**	**31,488**	30,622	-	30,622
Zakat and income tax	**-**	**50,155**	**50,155**	-	43,315	43,315
Due to shareholders'/ insurance operations	**126,039**	**-**	**126,039**	86,815	-	86,815
Accrued income payable to SAMA	**-**	**5,902**	**5,902**	-	4,450	4,450
TOTAL LIABILITIES	**1,962,022**	**59,333**	**2,021,355**	1,757,573	49,754	1,807,327
EQUITY						
Share capital	**-**	**500,000**	**500,000**	-	500,000	500,000
Statutory reserve	**-**	**76,998**	**76,998**	-	49,298	49,298
Performance share reserve	**-**	**2,266**	**2,266**	-	1,489	1,489
Retained earnings	**-**	**249,718**	**249,718**	-	139,083	139,083
Fair value reserve on investments	**26,539**	**15,381**	**41,920**	13,560	6,382	19,942
TOTAL EQUITY	**26,539**	**844,363**	**870,902**	13,560	696,252	709,812
TOTAL LIABILITIES AND EQUITY	**1,988,561**	**903,696**	**2,892,257**	1,771,133	746,006	2,517,139

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

31 Supplementary information (continued)

STATEMENT OF INCOME

	2020			2019		
	Insurance operations	**Share-holders' operations**	**Total**	**Insurance operations**	**Share-holders' operations**	**Total**
Revenues						
Gross premiums written						
- Direct	**1,405,946**	-	**1,405,946**	1,403,912	-	1,403,912
- Reinsurance	**11,880**	-	**11,880**	5,865	-	5,865
	1,417,826	-	**1,417,826**	1,409,777	-	1,409,777
Reinsurance premiums ceded						
- Foreign	**(123,295)**	-	**(123,295)**	(85,459)	-	(85,459)
- Local	**(6,290)**	-	**(6,290)**	(2,595)	-	(2,595)
	(129,585)	-	**(129,585)**	(88,054)	-	(88,054)
Net premiums written	**1,288,241**	-	**1,288,241**	1,321,723	-	1,321,723
Changes in unearned premiums	**(27,519)**	-	**(27,519)**	(70,997)	-	(70,997)
Changes in reinsurers' share of unearned premiums	**4,194**	-	**4,194**	986	-	986
Net premiums earned	**1,264,916**	-	**1,264,916**	1,251,712	-	1,251,712
Reinsurance commissions	**12,744**	-	**12,744**	12,142	-	12,142
Total revenues	**1,277,660**	-	**1,277,660**	1,263,854	-	1,263,854
Underwriting costs and expenses						
Gross claims paid	**824,945**	-	**824,945**	887,351	-	887,351
Reinsurers' share of claims paid	**(26,488)**	-	**(26,488)**	(23,511)	-	(23,511)
Net claims and other benefits paid	**798,457**	-	**798,457**	863,840	-	863,840
Changes in outstanding claims	**28,700**	-	**28,700**	(17,837)	-	(17,837)
Changes in reinsurance share of outstanding claims	**9,462**	-	**9,462**	14,084	-	14,084
Changes in claims incurred but not reported and other reserves	**65,205**	-	**65,205**	84,924	-	84,924
Changes in reinsurance share of claims incurred but not reported and other reserves	**(22,503)**	-	**(22,503)**	(4,096)	-	(4,096)

(Continued)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

31 Supplementary information (continued)

STATEMENT OF INCOME (continued)

	2020			**2019**		
	Insurance operations	**Share-holders' operations**	**Total**	**Insurance operations**	**Share-holders' operations**	**Total**
Net claims and other benefits incurred	**879,321**	**-**	**879,321**	940,915	-	940,915
Policy acquisition costs	**107,691**	**-**	**107,691**	92,166	-	92,166
Total underwriting costs and expenses	**987,012**	**-**	**987,012**	1,033,081	-	1,033,081
Net underwriting income	**290,648**	**-**	**290,648**	230,773	-	230,773
Other operating expenses						
General and administrative expenses	**(165,884)**	**(1,730)**	**(167,614)**	(165,278)	(1,674)	(166,952)
Other income - net	**40,849**	**19,514**	**60,363**	31,663	22,706	54,369
Total other operating expenses - net	**(125,035)**	**17,784**	**(107,251)**	(133,615)	21,032	(112,583)
Total income before surplus attribution, zakat and income tax	**165,613**	**17,784**	**183,397**	97,158	21,032	118,190
Zakat expense	**-**	**(15,685)**	**(15,685)**	-	(13,223)	(13,223)
Income tax expense	**-**	**(12,650)**	**(12,650)**	-	(8,564)	(8,564)
Total income (loss) for the year	**165,613**	**(10,551)**	**155,062**	97,158	(755)	96,403
Surplus transferred to shareholders' operations	**(149,052)**	**149,052**	**-**	(87,442)	87,442	-
Total income for the year after transfer of insurance operations surplus	**16,561**	**138,501**	**155,062**	9,716	86,687	96,403
Earnings per share (expressed in SAR per share)						
Basic earnings per share	**-**	**-**	**2.77**	-	-	1.73
Diluted earnings per share	**-**	**-**	**2.77**	-	-	1.73

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

31 Supplementary information (continued)

STATEMENT OF COMPREHENSIVE INCOME

	2020			**2019**		
	Insurance operations	**Share-holders' operations**	**Total**	**Insurance operations**	**Share-holders' operations**	**Total**
Total income for the year after transfer of insurance operations surplus	**16,561**	**138,501**	**155,062**	9,716	86,687	96,403
Other comprehensive income (loss):						
Items that will be reclassified to the statement of income in subsequent years						
Net change in fair value of available-for-sale investments	**12,980**	**8,998**	**21,978**	20,041	13,184	33,225
Total comprehensive income for the year	**29,541**	**147,499**	**177,040**	29,757	99,871	129,628

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

31 Supplementary information (continued)

STATEMENT OF CASH FLOWS

	2020			2019		
	Insurance operations	**Share-holders' operations**	**Total**	**Insurance operations**	**Share-holders' operations**	**Total**
Cash flows from operating activities						
Total income before surplus attribution, zakat and income tax	**165,613**	**17,784**	**183,397**	97,158	21,032	118,190
Adjustments for non-cash items:						
Depreciation of property and equipment	**6,177**	**-**	**6,177**	3,062	-	3,062
Depreciation of right-of-use assets	**2,882**	**-**	**2,882**	1,082	-	1,082
Amortization of intangible assets	**5,829**	**-**	**5,829**	5,904	-	5,904
Provision for doubtful debts	**14**	**-**	**14**	185	-	185
Accretion of discount on available-for-sale investments	**(1,188)**	**(256)**	**(1,444)**	(1,177)	(185)	(1,362)
Amortization of premium on available-for-sale investments	**370**	**122**	**492**	116	56	172
Amortization of premium on held-to-maturity investments	**19**	**-**	**19**	15	-	15
Impairment loss on available-for-sale investments	**-**	**511**	**511**	-	1,295	1,295
Performance share reserve	**-**	**1,184**	**1,184**	-	822	822
Provision for employee benefit obligations	**3,644**	**-**	**3,644**	3,293	-	3,293
Finance costs	**1,659**	**-**	**1,659**	1,635	-	1,635
Gain on sale of investments	**(470)**	**(3,525)**	**(3,995)**	(568)	(2,699)	(3,267)
	184,549	**15,820**	**200,369**	110,705	20,321	131,026
Changes in operating assets and liabilities:						
Premiums and reinsurers' balances receivable - net	**(23,887)**	**-**	**(23,887)**	5,714	-	5,714
Reinsurers' share of unearned premiums	**(4,194)**	**-**	**(4,194)**	(986)	-	(986)
Reinsurers' share of outstanding claims	**9,462**	**-**	**9,462**	14,084	-	14,084
Reinsurers' share of claims incurred but not reported and other reserves	**(22,503)**	**-**	**(22,503)**	(4,096)	-	(4,096)
Deferred policy acquisition costs	**(6,827)**	**-**	**(6,827)**	(8,225)	-	(8,225)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

31 Supplementary information (continued)

STATEMENT OF CASH FLOWS (continued)

	2020			**2019**		
	Insurance operations	**Share-holders' operations**	**Total**	**Insurance operations**	**Share-holders' operations**	**Total**
Prepaid expenses and other assets	**(2,401)**	**-**	**(2,401)**	1,737	1,180	2,917
Accrued income on statutory deposit	**-**	**(1,452)**	**(1,452)**	-	(809)	(809)
Claims payable, accrued expenses and other liabilities	**18,840**	**1,287**	**20,127**	(1,317)	740	(577)
Surplus contribution paid	**(9,679)**	**-**	**(9,679)**	(1,833)	-	(1,833)
Reinsurance balances payable	**13,772**	**-**	**13,772**	(23,840)	-	(23,840)
Advance premiums	**5,303**	**-**	**5,303**	4,343	-	4,343
Unearned premiums	**27,519**	**-**	**27,519**	70,997	-	70,997
Unearned reinsurance commission	**(147)**	**-**	**(147)**	(620)	-	(620)
Outstanding claims	**28,700**	**-**	**28,700**	(17,837)	-	(17,837)
Claims incurred but not reported and other reserves	**65,204**	**-**	**65,204**	84,924	-	84,924
Due to related party	**769**		**769**	(2,952)	-	(2,952)
Employee benefit obligations paid	**(3,737)**	**-**	**(3,737)**	(2,230)	-	(2,230)
Zakat and income tax paid	**-**	**(21,494)**	**(21,494)**	-	(15,790)	(15,790)
Accrued income payable to SAMA	**-**	**1,452**	**1,452**	-	809	809
Due from shareholders' operations	**(109,827)**	**109,827**	**-**	(53,752)	53,752	-
	(13,633)	**89,620**	**75,987**	64,111	39,882	103,993
Interest paid	**(1,062)**	**-**	**(1,062)**	-	-	-
Net cash generated from operating activities	**169,854**	**105,440**	**275,294**	174,816	60,203	235,019

(Continued)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

31 Supplementary information (continued)

STATEMENT OF CASH FLOWS (continued)

	2020			**2019**		
	Insurance operations	**Share-holders' operations**	**Total**	**Insurance operations**	**Share-holders' operations**	**Total**
Cash flows from investing activities						
Placement in short-term deposits	**(402,700)**	**(494,317)**	**(897,017)**	122,112	(310,468)	(188,356)
Proceeds from disposals of short-term deposits	**521,689**	**435,433**	**957,122**	-	273,663	273,663
Placements in Statutory deposit	**-**	**(5,000)**	**(5,000)**	-	-	-
Purchases of investments	**(240,266)**	**(64,485)**	**(304,751)**	(138,206)	(50,692)	(188,898)
Proceeds from disposals of investments	**42,866**	**29,779**	**72,645**	97,496	53,908	151,404
Placement in long-term deposits	**-**	**-**	**-**	(80,721)	-	(80,721)
Proceeds from disposals of long-term deposits	**-**	**20,000**	**20,000**	-	-	-
Purchases of property and equipment	**(16,905)**	**-**	**(16,905)**	(7,863)	-	(7,863)
Purchases of intangible assets	**(2,497)**	**-**	**(2,497)**	(1,485)	-	(1,485)
Net cash used in investing activities	**(97,813)**	**(78,590)**	**(176,403)**	(8,667)	(33,589)	(42,256)
Cash flows from financing activities						
Principal elements of lease payments	**(2,122)**	**-**	**(2,122)**	(3,183)	-	(3,183)
Performance share reserve - settlement	**-**	**(573)**	**(573)**	-	(804)	(804)
Net cash used in financing activities	**(2,122)**	**(573)**	**(2,695)**	(3,183)	(804)	(3,987)
Net increase in cash and cash equivalents	**69,919**	**26,277**	**96,196**	162,966	25,810	188,776
Cash and cash equivalents, beginning of the year	**209,030**	**25,810**	**234,840**	46,064	-	46,064
Cash and cash equivalents, end of the year	**278,949**	**52,087**	**331,036**	209,030	25,810	234,840
Supplemental non-cash information:						
Changes in fair value of available-for-sale investments	**12,980**	**8,998**	**21,978**	20,041	13,184	33,225
Acquisition of right-of-use assets	**-**	**-**	**-**	27,086	-	27,086
Bonus issuance of shares	**-**	**-**	**-**	-	50,000	50,000

32 Earnings per share

Basic and diluted earnings per share have been calculated by dividing the income for the year by 50 million shares.

33 Approval of the financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 16 March 2021.