ALJAZIRA TAKAFUL TAAWUNI COMPANY

(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
As at 31 December 2019

INDEX **PAGE**

KPMG
Al Fozan & Partners
Certified Public Accountants
9th Floor, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

Crowe
Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants
Member Crowe Global
P. O. Box 10504
Riyadh 11443
Kingdom of Saudi Arabia

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

Opinion

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

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

Basis for Opinion

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

Other Matter

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditors' who expressed an unmodified opinion and conclusions thereon vide their reports dated 17 March 2019.

Key Audit Matter

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

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Valuation of reserves

These reserves include the following:
• Unit reserve
• Mathematical reserve
• Outstanding claims, consisting of:
  o Reported claims
  o Incurred But Not Reported (IBNR) claims

The reserves cumulatively represents the largest liability for the Company totaling to SR 228,887 thousand as of 31 December 2019 (2018: SR 151,859 thousand).

The reserve represents the investment contract liabilities and the amount the Company expects to pay to investment contract holders, and is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty. Small changes in the assumptions, which includes mortality, lapses etc, used to value the reserves can lead to material impact on the valuation of the reserves.

Due to the magnitude of the balances and the estimation uncertainty and subjectivity involved in the assessment of these reserves, we have considered the valuation of these reserves as a key audit matter. The Company also involves an independent actuary to calculate the reserves.

Please refer to notes 3(d) for the accounting policy adopted by the Company and note 2(d) for the significant accounting judgements, estimates and assumptions involved in the initial recognition and subsequent measurement of reserve for insurance activities and outstanding claims. Also, refer to note 13 for movement in outstanding claims.
</td><td>
Performed test of key controls over the review conducted by management on the adequacy of the reserves.

Tested the completeness and accuracy of the underlying data used in the actuarial calculations by performing reconciliations on the underlying data to the financial ledger and the actuarial data used by the Company's independent actuary while calculating the reserves.

In addition, we have involved our actuarial specialist to:

• Assess the approach and the methodology used by management in calculating the reserves.
• Review key assumptions and judgments used by management in calculating the reserves.
• Assess the compliance of the actuarial report on reserves with the professional guidance available.
• Assess consistency in applying the reserving methodology across periods.

Assessed the adequacy of the financial statements disclosures in relation to the reserves.
</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)

Other Information included in the Company's 2019 Annual Report

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as endorsed in KSA, the applicable requirements of the Companies' Law, the Company's By-Laws and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)

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

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

for KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

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

Abdullah M. Al Azem
License No. 335

27 Rajab 1441H
Corresponding to 22 March 2020

C.R : 46
س.ت : ٤٦
Certified Public Accountants
KPMG Al Fozan & Partners

العظم والسديري وال الشيخ وشركاؤهم
محاسبون ومراجعون قانونيون
License No 323/11/148
ترخيص رقم ٣٢٣/١١/١٤٨
Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountant

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	*2019 SR'000*	*2018 SR'000*
ASSETS			
Cash at banks	4	**19,687**	17,015
Contributions receivable, net	5	**2,094**	1,633
Reinsurers' share of unearned contributions	12	**12,923**	9,006
Reinsurers' share of outstanding claims	13	**29,422**	7,918
Reinsurers' share of claims incurred but not reported	13	**5,669**	8,089
Available for sale investments held to cover unit-linked liabilities	6	**185,178**	128,230
Investments	7	**411,414**	395,829
Due from related parties	19	**30,367**	7,491
Prepayments and other assets		**2,473**	720
Fixtures, furniture and equipment	8	**809**	260
Statutory deposit	9	**35,000**	35,000
TOTAL ASSETS		**735,036**	611,191
LIABILITIES			
Accrued expenses and other liabilities	15	**18,651**	16,547
Reinsurance balances payable		**10,775**	16,125
Unearned contributions	12	**35,087**	22,774
Outstanding claims	13	**33,525**	10,015
Claims incurred but not reported	13	**7,023**	10,997
Unit reserve	10	**187,979**	130,290
Mathematical reserve	11	**360**	557
Employee benefits	16	**2,624**	2,050
Provision for Zakat and income tax	22	**1,110**	1,039
Surplus from Insurance Operations		**3,355**	2,827
TOTAL LIABILITIES		**300,489**	213,221
EQUITY			
Share capital	17	**350,000**	350,000
Statutory reserve	18	**30,595**	23,253
Retained earnings		**54,001**	24,635
TOTAL SHAREHOLDERS' EQUITY		**434,596**	397,888
Remeasurement reserve of employee benefits - related to Insurance operations		**(49)**	82
TOTAL EQUITY		**434,547**	397,970
TOTAL LIABILITIES AND EQUITY		**735,036**	611,191

Chairman

Managing Director

Chief Financial Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME
For the year ended 31 December 2019

	Notes	*2019 SR'000*	*2018 SR'000 (Restated)*
REVENUES			
Gross written contributions	12	**130,283**	101,145
Contributions ceded:			
Local		**-**	-
Foreign	12	**(20,815)**	(18,625)
Net written contributions	12	**109,468**	82,520
Change in unearned contributions, net		**(8,396)**	(2,687)
Net contribution earned	12	**101,072**	79,833
Other underwriting income		**1,594**	4,545
TOTAL REVENUES		**102,666**	84,378
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	13	**(11,845)**	(11,191)
Reinsurers' share of claims paid	13	**9,920**	9,145
Net claims paid		**(1,925)**	(2,046)
Changes in outstanding claims, net		**(2,006)**	119
Changes in claims incurred but not reported, net		**1,554**	529
Net claims incurred		**(2,377)**	(1,398)
Investible contributions, net	10	**(57,466)**	(48,513)
Changes in mathematical reserve	11	**197**	401
Policy acquisition costs		**(3,910)**	(1,522)
Supervision and inspection fees		**(651)**	(506)
TOTAL UNDERWRITING COSTS AND EXPENSES		**(64,207)**	(51,538)
NET UNDERWRITING INCOME - C/F		**38,459**	32,840

Chairman

Managing Director

Chief Financial Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME (continued)
For the year ended 31 December 2019

	Notes	*2019 SR'000*	*2018 SR'000 (Restated)*
NET UNDERWRITING INCOME - B/F		**38,459**	32,840
OTHER OPERATING INCOME/(EXPENSES)			
Impairment of receivables	5	**(183)**	(55)
General and administrative expenses	20	**(10,243)**	(8,953)
Commission from held to maturity investments	7.1	**10,076**	9,795
Commission income on deposits		**56**	673
Unrealized gain on FVIS investments	7.2	**735**	220
Realized gain on FVIS investments		**1,164**	28
Dividend income		**-**	8
Other income	21	**1,046**	111
TOTAL OTHER OPERATING INCOME, NET		**2,651**	1,827
Income before surplus, Zakat and income tax		**41,110**	34,667
Income attributed to the insurance operations		**(3,355)**	(2,827)
Income for the year attributable to the shareholders before Zakat and income tax		**37,755**	31,840
Zakat	22	**(947)**	(854)
Income tax	22	**(100)**	(142)
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**36,708**	30,844
Weighted average number of ordinary shares outstanding (in thousands)		**35,000**	35,000
Earnings per share for the year (SR) (Basic and diluted)	24	**1.05**	0.88

Chairman

Managing Director

Chief Financial Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME
For year ended 31 December 2019

	2019 *SR'000*	*2018* *SR'000* *(Restated)*
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS	**36,708**	30,844
Other comprehensive (loss)/income		
Items that will not be reclassified to statement of income in subsequent years		
Actuarial (loss)/gain on employee benefits – related to Insurance operations (note 16)	**(131)**	82
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**36,577**	30,926

Chairman

Managing Director

Chief Financial Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Shareholders' equity					
	Share capital SR'000	***Statutory reserve SR'000***	***Retained earnings SR'000***	***Total shareholders' equity SR'000***	***Remeasurement reserve of employee benefits – related to Insurance operations SR'000***	***Total equity SR'000***
Balance at 1 January 2019	**350,000**	**23,253**	**24,635**	**397,888**	**82**	**397,970**
Net income for the year	-	-	36,708	36,708	-	36,708
Other comprehensive loss (note 16)	-	-	-	-	(131)	(131)
Total comprehensive income	-	-	36,708	36,708	(131)	36,577
Transfer to statutory reserve	-	7,342	(7,342)	-	-	-
Balance as at 31 December 2019	**350,000**	**30,595**	**54,001**	**434,596**	**(49)**	**434,547**

Chairman

Managing Director

Chief Financial Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2019

	Shareholders' equity					
	Share capital SR'000	*Statutory reserve SR'000*	*Retained earnings SR'000*	*Total shareholders' equity SR'000*	*Remeasurement reserve of employee benefits – related to insurance operations SR'000*	*Total equity SR'000*
Balance at 1 January 2018	350,000	16,885	24,659	391,544	-	391,544
Net income for the year (restated)	-	-	30,844	30,844	-	30,844
Other comprehensive income (note 16)	-	-	-	-	82	82
Total comprehensive income (restated)	-	-	30,844	30,844	82	30,926
Dividend (note 24)	-	-	(24,500)	(24,500)	-	(24,500)
Transfer to statutory reserve	-	6,368	(6,368)	-	-	-
Balance as at 31 December 2018	350,000	23,253	24,635	397,888	82	397,970

Chairman

Managing Director

Chief Financial Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOW
For year ended 31 December 2019

	Notes	2019 SR'000	2018 SR'000 (Restated)
OPERATING ACTIVITIES			
Net income attributable to the shareholders before Zakat and income tax		37,755	31,840
Adjustments for non-cash items:			
Net income attributed to the insurance operations		3,355	2,827
Reinsurers' share of unearned contributions		(3,917)	(1,745)
Unearned contributions		12,313	4,432
Impairment of receivables	5	183	55
Commission from held-to-maturity investments	7.1	(10,076)	(9,795)
Unrealised gain on FVIS investments	7.2	(735)	(220)
Realised gain on FVIS investments		(1,165)	(28)
Depreciation	8 & 20	141	42
Employee benefits	16	706	951
		38,560	28,359
Changes in operating assets and liabilities:			
Contributions receivable		(644)	(1,485)
Reinsurers' share of outstanding claims		(21,504)	2,767
Reinsurers' share of claims incurred but not reported		2,420	(3,188)
Available for sale investments held to cover unit-linked liabilities, net		(56,948)	(21,604)
Due from related parties		(22,876)	(2,059)
Prepayments and other assets		(1,753)	34
Accrued expenses and other liabilities		2,105	1,058
Reinsurers' balances payable		(5,350)	8,160
Outstanding claims		23,510	(2,886)
Claims incurred but not reported		(3,974)	2,659
Unit reserve		57,689	23,113
Mathematical reserve		(197)	(401)
Cash from operations		11,038	34,527
Employee benefits paid	16	(263)	(779)
Surplus paid to policyholders		(2,827)	(2,713)
Zakat and income tax paid	22	(976)	(980)
Net cash generated from operating activities		6,972	30,055
INVESTING ACTIVITIES			
Purchase of held to maturity investments	7.1	(197,800)	-
Proceeds from maturity of held to maturity investments	7.1	145,423	-
Proceeds from disposal of FVIS investments		52,269	24,500
Purchase of FVIS investments	7.2	(4,919)	(66,000)
Commission from held-to-maturity investments	7.1	1,417	-
Purchase of fixtures, furniture and equipment	8	(690)	(302)
Net cash used in investing activities		(4,300)	(41,802)
FINANCING ACTIVITIES			
Dividends paid	23	-	(24,500)
Net increase/(decrease) in cash at banks		2,672	(36,247)
Cash at banks at the beginning of the year		17,015	53,262
Cash at banks at the end of the year	4	19,687	17,015

Chairman

Chief Financial Officer

Managing Director

The accompanying notes 1 to 31 form an integral part of these financial statements.

1. GENERAL

AlJazira Takaful Taawuni Company (the "Company"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia pursuant to the Council of Ministers' resolution No. 137 dated 27 Rabi' Al-Thani 1431H (corresponding to 12 April 2010) and Royal Decree No. M/23 dated 28 Rabi' Al-Thani 1431H corresponding to 13 April 2010. The Company obtained its Commercial Registration 4030251980 on 2 Ramadan 1434H corresponding to 10 July 2013 and Ministry of Commerce and Industry's Resolution dated 24 Sha'baan 1434H corresponding to 3 July 2013. The Company operates only in the Kingdom of Saudi Arabia and has only one registered Branch in Madinah. The registered office address of the Company is:

Al Musadia Plaza (3), Al Madinah Road,
P.O. Box 5215, Jeddah 21422,
Kingdom of Saudi Arabia.

The objectives of the Company are to engage in providing insurance products that includes protection and saving insurance products and related services in accordance with its By-Laws and applicable regulations in the Kingdom of Saudi Arabia. The Company received licence number TMN/34/201312 dated 15 Safar 1435H (corresponding to 18 December 2013) from the Saudi Arabian Monetary Authority (SAMA) to conduct insurance business. The Company is owned 99.07% by Saudi founding shareholders and general public subject to Zakat and 0.93% by non-Saudi founding shareholders subject to income tax.

The insurance portfolio and related assets and liabilities will be acquired from a founding shareholder by the Company on the completion of valuation and approval by SAMA. Furthermore, in accordance with the Transitional Agreement (the "Agreement") between the Company and Bank AlJazira ("the founding shareholder"), all the general and administrative costs up to the transfer of the insurance portfolio will be shared by the Company and the founding shareholder in the ratio of 17% and 83%, respectively. Currently, the Company is also using furniture and fixtures of a founding shareholder. Moreover, in accordance with the Agreement, the Company was receiving a management fee for managing the insurance portfolio of the founding shareholder, at a rate ranging from 10% to 20% of total revenue of the founding shareholder's portfolio ("Portfolio Management fee"). As per the agreement, the management fee is not effective for the period subsequent to 01 April 2015.

During the year, the Company and Bank AlJazira have received a no objection certificate from SAMA no objection to transfer the insurance portfolio through letter dated 26 Rabi 'Al-Thani 1441 AH (corresponding to 23 December 2019). The insurance portfolio will be transferred with effect from 1 January 2020 at a value to be agreed between the Company and Bank AlJazira and the financial impact of transfer shall be reflected in the Company's financial statements for the year ending 31 December 2020.

The Company has announced the signing of a non-binding Memorandum of Understanding (the "MOU") with Solidarity Saudi Takaful Company on 23 Shawwal 1440H (corresponding to 26 June 2019) to evaluate a potential merger between the two Companies. Both companies will conduct technical, financial, legal and actuarial due diligence and engage in non-binding discussions on the terms and conditions of the potential merger. The MOU would expire on the earlier of the signing of the merger agreement or in the third quarter of 2020. The merger, will however remain conditional upon shareholders' and regulatory approvals.

The Company and Solidarity Saudi Takaful Company have agreed that, in the event the proposed merger occurs, it will be implemented by way of a share swap wherein, after the proposed merger is completed, the Company will issue new shares to Solidarity Saudi Takaful Company shareholders in exchange for all issued shares of Solidarity Saudi Takaful Company.

The two companies have initially agreed that the methodology used for valuation will be based on equity book value (after any mutually agreed due diligence adjustments) and that the swap ratio between the Company and the shareholders of Solidarity Saudi Takaful Company shall be calculated using the respective adjusted equity book value per share as at a mutually agreed cut-off date.

The Company has appointed a financial advisor for the proposed merger.

Subsequent to the year end, the Company has appointed external consultants to conduct financial, legal and actuarial due diligence.

2. BASIS OF PREPARATION

(a) Basis of presentation and measurement

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

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

Accordingly, the Company revised its accounting policies to account for Zakat and income tax in the statement of income by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3 (b) to the financial statements). The financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement of investments (excluding held-to-maturity) at their fair value and remeasurement reserve of employee benefits.

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: fixtures, furniture and equipment, statutory deposit, employee benefits, outstanding claims, claims incurred but not reported, unit reserve and mathematical reserve. All other financial statement line items would generally be classified as current unless, stated otherwise.

As required by the Saudi Arabian Insurance Regulations (the Implementation Regulations), the Company maintains separate books of accounts for "Insurance Operations" and "Shareholders' Operations". Accordingly, assets, liabilities, revenues and expenses clearly attributable to either operation, are recorded in the respective accounts. Note 29 to these annual financial statements provides the statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations, separately.

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

(b) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SR), which is the Company's functional currency. All financial information presented in SR has been rounded to the nearest thousand except where otherwise indicated.

(c) Fiscal year

The Company follows a fiscal year ending 31 December.

(d) Critical judgments, accounting 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:

2. BASIS OF PREPARATION (continued)

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

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

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

The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

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

Classification of investments
The management designates at the time of acquisition of investment securities whether these should be classified as FVIS or held-to-maturity or available-for-sale securities. In judging whether investment in securities are classified as at fair value or amortised cost, management has considered the detailed criteria for determination of such classification as set out in IFRS.

Fair values of financial instruments
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

Impairment losses on equity financial assets
The Company exercise judgement to consider impairment on equity financial assets at each reporting date. The Company determines that equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

2. BASIS OF PREPARATION (continued)

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

Impairment losses on equity financial assets (continued)
The Company considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, which is recognised in the statement of income as impairment charge on investments. Prolonged decline represents a decline below cost that persists for 1 year or longer irrespective of the amount and is recognised in the statement of income accordingly as an impairment charge on investments. The previously recognised impairment loss in respect of equity investments cannot be reversed through the statement of income. The Company reviews its debt securities at each reporting date to assess whether they are impaired.

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

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

(e) Seasonality of operations

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Company has adopted the following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) have been effective from 01 January 2019 and accordingly adopted by the Company:

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

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

IFRS 16 – Leases
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 "Determining Whether an Agreement Contains a Lease". SIC 15 Operating Leases-Incentives and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

IFRS 16 – Leases (continued)
The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. In accordance with the modified retrospective method of adoption, the Company applied IFRS 16 at the date of initial application with transition impact recognised in the retained earnings. Accordingly, the comparative information in these annual financial statements has not been restated. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Upon adoption of IFRS 16, the Company recognised lease liabilities to make lease payments and Right-of-use assets representing the right to use the underlying assets.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepaid expenses and other assets and accrued and other liabilities, respectively.

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

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

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

In calculating the present value of lease payments, the Company uses the internal cost of funds as the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are included within the accrued and other liabilities.

Where the Company is lessee
All leases entered by the Company are operating leases. Payments made under operating leases are charged to the annual statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which termination takes place.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Change in accounting for Zakat and income tax

As mentioned in note 2(a), the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 23 July 2019. Previously, Zakat and income tax were recognised in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 23 July 2019, the Zakat and income tax shall be recognised in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively. The change has resulted in a decrease of reported income of the Company for the year ended 31 December 2018 by SR 996 thousand. The change has had no impact on the statement of cash flows for the year then ended. The accounting policy for Zakat and income tax adopted by the Company is as follows:

Income tax

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

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

IFRIC Interpretation 23 Uncertainty over income tax treatment

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

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

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

The Company applies significant judgement in identifying uncertainties over income tax treatments.
The Interpretation did not have an impact on the financial statements of the Company.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided 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 recognized only to the extent that it is probable that future taxable profits will be available, and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

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

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in statement of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognized.

Zakat

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Impact on the financial statements:
The change in the accounting policy for Zakat and income tax (as explained in note 2(a)) has the following impact on the line items of the statements of income and changes in shareholders' equity:

As at and for the year ended 31 December 2018:

Account	***Financial statement impacted***	***Before the restatement*** (SR' 000)	***Effect of restatement*** (SR' 000)	***As restated*** (SR' 000)
Zakat and income tax	Statement of income	-	(996)	(996)
Net income for the year	Statement of income	31,840	(996)	30,844
Earnings per share for the year (expressed in SR per share)	Statement of income	0.91	(0.024)	0.88
Zakat and income tax (retained earnings)	Statement of changes in equity	(996)	996	-
Total comprehensive income for the year	Statement of comprehensive income and statement of changes in equity	31,922	(996)	30,926

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

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

c) Standards issued but not yet effective

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

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

IFRS 17 – Insurance Contracts

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Standards issued but not yet effective

IFRS 17 – Insurance Contracts (continued)

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

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

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

b) the Contractual Service Margin ("CSM"). The CSM represents the unearned profit for a group of insurance contracts and will be recognized as the entity provides services in the future. The CSM cannot be negative at inception; any net negative amount of the fulfilment cash flows at inception will be recorded in profit or loss immediately. At the end of each subsequent reporting period the carrying amount of a group of insurance contracts is remeasured to be the sum of:
- the liability for remaining coverage, which comprises the FCF related to future services and the CSM of the group at that date;
- and the liability for incurred claims, which is measured as the FCF related to past services allocated to the group at that date.

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

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

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

Impact Area	Summary of Impact
Data impact and IT Systems	• New chart of accounts to be developed for PAA/ GMM/VFA; • Actuarial and accounting data will be needed at more granular level; • Discount rates will need to be stored for group of contracts and tracked for interest accretion calculation under GMM; • Embedded risk adjustment calculation in the actuarial system; • Identification of key inputs for onerous contracts test as well as defining 'facts and circumstance' for PAA contracts; • Calculation and tracking of contractual service margin; and • Calculation of coverage period of risk attaching reinsurance contract.
Impact on RI Arrangements	• Insurance contract liabilities / assets is required to be reported gross of reinsurance and a separate reinsurance asset / liability shall be reported; • The cash flows (after factoring any expected credit loss) shall be reported gross (before reinsurance) and undiscounted; and • Cancellation clauses to be reviewed to assess the impact on measurement models relevant for these contracts.
Process Impact	• Finance, actuarial, underwriting and IT processes to be built suitable for IFRS 17 together with new set of controls and governance framework; • New reconciliation processes to be put in place between accounting, actuarial and underwriting data sources; • Setting up new accounting policies each suitable for measurement model and technical decisions for each area; • Monitor terms and conditions attaching to insurance and reinsurance contracts; • New expense allocation process acquisition costs, claims settlement costs and underwriting costs to be put in place to identify profitability at a contract level; • For recognition, advance premium receipts to be compared to contract receipt date; • Cash receipts for premiums need to be tracked at policy level; and • System to track coverage period for future products need to be put in place.
Impact on Policies & Control Frameworks	• New Steering committee for IFRS 17 needs to be put in place • Project plan for design and implementation to be set at activities level

IFRS 9 - Financial Instruments (including amendments to IFRS 4, Insurance Contracts)
This standard was published on 24 July 2014 and has replaced IAS 39. The new standard addresses the following items related to financial instruments:

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Standards issued but not yet effective (continued)

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

Classification and measurement (continued)

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

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

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

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

Impairment

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

Hedge accounting

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

Effective date

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

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

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

The Company has performed a detailed assessment beginning 1 January 2017:
(1) The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Standards issued but not yet effective (continued)

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

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

Impact assessment
As at 31 December 2019, the Company has total financial assets and insurance related assets amounting to SR 731,754 thousand and SR 50,108 thousand, respectively. Currently, financial assets held at amortized cost consist of cash at banks and certain other receivables amounting to SR 518,579 thousand (2018: SR 408,533 thousand). Other financial assets consist of available for sale investments amounting to SR 185,178 thousand (2018: SR 128,230 thousand). The Company expects to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Investment in funds classified under available for sale investments will be at FVSI under IFRS 9. As at 31 December 2019 these debt securities are measured at fair value of SR 185,178 thousand with changes in fair value during the year of SR 21,963 thousand. Other financial assets have a fair value of SR 27,997 thousand as at 31 December 2019 with a fair value change during the year of SR 735 thousand. Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 28. The Company financial assets have low credit risk as at 31 December 2019 and 2018. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9: However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

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

Cash and cash equivalents
Cash and cash equivalents consist of cash and bank balances and Murabaha deposits that have original maturity period not exceeding three months, from the date of acquisition.

Contributions receivable
Contributions receivable are recognised when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of contribution receivables are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recorded in the statement of income. Contribution receivables are derecognised when the de recognition criteria for financial assets have been met. Subsequent recoveries of amounts previously written off are credited in the statement of income.

Reserve for insurance activities
The provision for investment contract liabilities is calculated on the basis of an actuarial valuation method by independent appointed actuary through the use of the current unit fund price. The actuarial valuation includes a provision for participation which is the amount the Company expects to pay investment contract holders.

Available for sale investments held to cover unit-linked liabilities
Available for sale financial assets are non-derivative financial assets that are designated as available for sale. These investments are initially recorded at fair value. After initial measurement available-for-sale investments are measured at fair value. Financial assets held to cover unit-linked liabilities represent assets associated with certain contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in units of mutual funds, which are readily marketable. Fair value gains and losses are reported as a separate component and included under the reserve for insurance activities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

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

Fair Value through Income Statement (FVIS) Investments
Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investment classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the statement of shareholders' operations.

Fair values of investments are based on quoted prices for the marketable securities.

Fixtures, furniture and equipment
Fixtures, furniture and equipment are initially recorded in the statement of financial position at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Years
Furniture, fixtures	10
Computer equipment	4

Residual values, useful lives and the method of depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the year is recognised in the statement of income on an actual basis. Similarly, impairment losses, if any, are recognised in the statement of income.

Expenditure for repairs and maintenance is charged to the statement of income. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Gain / loss on sale of fixtures, furniture and equipment are included in statement of income.

Prepayments and other assets
Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statement of insurance operations and accumulated surplus or statement of shareholders' operations as they are consumed or expire with the passage of time.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Reinsurance balances payable
Reinsurance balances payable comprise of the amounts payable to various reinsurance companies in respect of reinsurance share of contribution net of reinsurance share of paid claims.

Contributions deposit
Contributions deposit is taken from potential policy holders in respect of initial contribution. On completion of mandatory documentation and medical examination of potential policy holder, this deposit transfers to gross written contribution.

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

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

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 and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made

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

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided 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 recognized only to the extent that it is probable that future taxable profits will be available, and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Impairment of financial assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations.
(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
(c) For assets carried at amortized cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

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

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's (CGU), fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Impairment losses of continuing operations are recognised in the statement of income.

For assets, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statements of income.

Fair values

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the financial reporting date. If quoted market prices are not available, reference is made to broker or dealer price quotations.

For financial assets where there is not an active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar assets. The principal or the most advantageous market must be accessible to by the Company. Fair value hierarchy levels are defined in note 26.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Financial instruments – recognition and measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instrument consists of financial assets and financial liabilities.

Financial assets consist of cash at banks, contribution receivables, statutory deposit, available-for-sale investments held to cover unit-linked liabilities, held-to-maturity investments, FVIS investments, due from insurance operations and other receivables. Financial liabilities consist of outstanding claims, reinsurance balances payable, due to shareholders' operations and certain other liabilities.

Date of recognition
Regular way sale and purchases of financial instruments are recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial instruments that require settlement of instrument within the time frame generally established by regulation or convention in the market place.

Recognition and measurement of financial instruments
Financial instruments are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Subsequent to initial measurement, financial instruments are carried at amortised cost except for available-for-sale investments held to cover unit-linked liabilities and FVIS investments, which are carried at fair value.

Financial instruments – De-recognition

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of Shareholders' Operations and statement of Insurance Operations and accumulated surplus unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities. In performing these tests, management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of insurance operations and accumulated surplus by establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Revenue recognition

Contributions are taken into statement of income over the terms of the policies to which they relate on a pro-rata basis. Unearned contributions represent the portion of contributions written relating to the unexpired period of coverage at the reporting date. The change in the provision for unearned contributions is taken to the statement of income in order that revenue is recognised over the period of risk.

Rebates pertaining to unit-linked investments are calculated in accordance with the terms of agreement with the Fund Manager and are accounted for on an accrual basis.

Portfolio management fee is calculated in accordance with the terms of agreement with the founding shareholder and is accounted for on an accrual basis.

Subsidy from Human Resources Development Fund and profit commission from reinsurance contracts are recognized as income on receipt basis.

Contributions ceded

Contributions ceded are recognized as an expense when payable.

Reinsurance

The Company cedes its insurance risk in the normal course of business for all of its segments. Reinsurance contracts are contracts entered into by the Company under which the Company is compensated for losses on insurance contracts issued. The Company only deals with reinsurers approved by the management, which are rated at least BBB or above by international rating agencies. Reinsurance arrangements do not relieve the Company from its obligations to policyholders. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

These assets consist of the reinsurance share of settlement of claims and other receivables such as profit commissions and the reinsurance share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Reinsurance liabilities represent balances due to reinsurance companies.

Amounts recoverable from or due to reinsurance companies are recognised consistently with the amounts associated with the underlying Insurance contracts and in accordance with the terms of each reinsurance contract.

Claims

Claims, comprising amounts payable to contractholders and third parties and related loss adjustment expenses, are charged to the Statement of Insurance Operations and accumulated surplus as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

The Company generally estimates its claims based on actuarial input. This includes a provision based on management's judgment and the cost of settling claims incurred but not reported at the statement of financial position date. The ultimate liability may be in excess of or less than the amount provided.

The Company does not discount its liability for unpaid claims as substantially all the claims are expected to be paid within one year of the statement of financial position date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Acquisition fees
Acquisition fees are paid to the distributing shareholder and are charged to expense as and when they are due, as per the terms of the contract.

Surrenders and maturities
Surrenders refer to the partial or full termination of the individual insurance contract. Surrenders are accounted for on the basis of notifications received and are charged to statement of Insurance Operations and accumulated surplus in the year in which they are notified. Maturities refer to the amount given to the insured towards the end of the maturity period of the individual insurance contract. Surrenders and maturities are calculated based on the terms and conditions of the respective individual insurance contract.

Product classification
The Company issues life insurance contracts which are linked to investment contracts. Where a contract contains both an investment component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Any contributions relating to the insurance component are accounted for through the statement of Insurance Operations and accumulated surplus and the remaining element is accounted through the insurance operations' statement of financial position.

Insurance contracts
Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

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

Amounts collected under the contracts are accounted for through the statement of income, and the investible portion of the contribution collected is shown as a deduction from the gross contributions from insurance operations, and transferred to unit linked liabilities.

Contribution in respect of insurance contracts, are recognised as revenue over the contribution paying period of the related policy.

Investment contracts
Any contracts with customers not considered insurance contracts under International Financial Reporting Standards are classified as investment contracts. Amounts collected under investment contracts are accounted for through the statement of insurance operations and accumulated surplus, and the investible portion of the contribution collected is shown as a deduction from the gross contributions for the year from insurance operations and transferred to investment contract liabilities (unit-linked contracts).

Foreign currencies
The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of financial position date.

Segment reporting
An operating segment is a component of an entity:
- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

4. CASH AT BANKS

Cash at banks comprise of the following:

2019	*Insurance operations SR'000*	*Shareholders' operations SR'000*	*Total SR'000*
Cash at banks	**15,454**	**4,233**	**19,687**
2018			
Cash at banks	13,208	3,807	17,015

Cash at banks, except for an amount of SR 500 thousand (2018: SR 500 thousand) are held with Bank AlJazira "the founding shareholder".

5. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net comprise of the following:

	2019 SR'000	*2018 SR'000*
Gross contributions receivable	**2,332**	1,688
Impairment of receivables	**(238)**	(55)
Contributions receivable, net	**2,094**	1,633

During the year, an impairment of SR 183 thousand (2018: SR 55 thousand) was created in respect of gross contribution receivable. The age analysis of contributions receivable, net arising from insurance contracts is as follows:

	2019					
		Past due but not impaired	*Past due and impaired*			*Total*
	Neither past due nor impaired	*From 1 to 3 months*	*Above 3 and up to 6 months*	*Above 6 and up to 12 months*	*Above 12 months*	
	SR'000					
2019	**1,295**	**-**	**184**	**615**	**-**	**2,094**
2018	1,340	1	277	14	1	1,633

The Company only enters into insurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

6. AVAILABLE FOR SALE INVESTMENTS HELD TO COVER UNIT-LINKED LIABILITIES

	Initial cost value SR'000	***Changes in fair value SR'000***	***2019 SR'000***
AlJazira Saudi Riyal Murabaha Fund	**732**	**18**	**750**
AlJazira Diversified Aggressive Fund	**122,153**	**18,544**	**140,697**
AlJazira Diversified Balanced Fund	**34,058**	**3,159**	**37,217**
AlJazira Diversified Conservative Fund	**6,272**	**242**	**6,514**
	163,215	**21,963**	**185,178**

	Initial cost value SR'000	*Change in fair value SR'000*	*2018 SR'000*
AlJazira Saudi Riyal Murabaha Fund	652	13	665
AlJazira Diversified Aggressive Fund	104,659	(5,794)	98,865
AlJazira Diversified Balanced Fund	25,850	(786)	25,064
AlJazira Diversified Conservative Fund	3,639	(3)	3,636
	134,800	(6,570)	128,230

Investment of Insurance operations comprises of units of mutual funds dominated in Saudi Riyal managed by AlJazira Capital "the founding shareholder".

7. INVESTMENTS

	2019			*2018*		
	Insurance operations SR'000	***Shareholders' operations SR'000***	***Total SR'000***	*Insurance operations SR'000*	*Shareholders' operations SR'000*	*Total SR'000*
Held to maturity investments (7.1)	**15,914**	**367,503**	**383,417**	15,458	306,923	322,381
FVIS investments (7.2)	**27,997**	**-**	**27,997**	43,072	30,376	73,448
Total	**43,911**	**367,503**	**411,414**	58,530	337,299	395,829

7.1 Held to maturity investments

Held to maturity investments represents Murabaha deposit of SR 185,153 thousand (2018: SR 322,381 thousand) with a maturity of one to three years made with Bank AlJazira "the founding shareholder" and Sukuk of SR 198,264 thousand (2018: SR Nil) with a maturity of 12 to 30 years made with Bank AlJazira and AlJazira Capital "the founding shareholders". The average commission rate on Murabaha deposit at 31 December 2019 is 3.00% to 3.20% per annum (2018: 3.00% to 3.20% per annum) and coupon rate on Sukuk is 4.01% to 4.10% per annum (2018: Nil).

7. INVESTMENTS (continued)

7.1 Held to maturity investments (continued)

The movement in the held to maturity investments during year ended 31 December is as follows:

2019	*Insurance operations SAR'000*	*Shareholders' operations SAR'000*	*Total SAR'000*
Balance at the beginning of the year	**15,458**	**306,923**	**322,381**
Placements during the year	**-**	**197,800**	**197,800**
Maturities during the year	**-**	**(145,423)**	**(145,423)**
Commission from held to maturity investments	**456**	**9,620**	**10,076**
Commission received from held to maturity investments	**-**	**(1,417)**	**(1,417)**
Balance at the end of the year	**15,914**	**367,503**	**383,417**
2018			
Balance at the beginning of the year	15,001	297,585	312,586
Commission from held-to-maturity investments	457	9,338	9,795
Balance at the end of the year	15,458	306,923	322,381

7.2 FVIS investments

The fair value through income statement ("FVIS") investments represent investments in 'AlJazira Capital' managed by a founding shareholder, amounting to SR 27,997 thousand (2018: SR 73,073 thousand), and investment in shares of companies listed on Tadawul, amounting to SR nil (31 December 2018: SR 375 thousand).

Movement in FVIS investments year ended 31 December 2019 is as follows:

2019	*Insurance operations SAR'000*	*Shareholders' operations SAR'000*	*Total SAR'000*
Balance at beginning of the year	**43,072**	**30,376**	**73,448**
Disposals during the year	**(15,810)**	**(35,295)**	**(51,105)**
Purchases	**-**	**4,919**	**4,919**
Changes in fair value	**735**	**-**	**735**
Balance at the end of the year	**27,997**	**-**	**27,997**
2018			
Balance at beginning of the year	-	31,700	31,700
Disposals during the year	-	(24,472)	(24,472)
Purchases	43,000	23,000	66,000
Changes in fair value	72	148	220
Balance at the end of the year	43,072	30,376	73,448

8. FIXTURES, FURNITURE AND EQUIPMENT

	Computer equipment SR'000	***Furniture and fixtures SR'000***	***Total 2019 SR'000***	*Total 2018 SR'000*
Cost:				
At the beginning of the year	**141**	**161**	**302**	-
Additions	**570**	**120**	**690**	302
As at 31 December	**711**	**281**	**992**	302
Accumulated depreciation:				
At the beginning of the year	**30**	**12**	**42**	-
Charge for the year	**126**	**15**	**141**	42
As at 31 December	**156**	**27**	**183**	42
Net book value				
As at 31 December 2019	**555**	**254**	**809**	-
As at 31 December 2018	111	149	-	260

9. STATUTORY DEPOSIT

As required by the Implementation Regulations, the Company deposited 10% of its paid up capital, amounting to SR 35,000 thousand in a bank designated by the SAMA. The Company cannot withdraw this deposit without SAMA's approval. This deposit is held with Bank AlJazira "the founding shareholder".

10. UNIT RESERVE

	2019 SR'000	*2018 SR'000*
Balance at beginning of the year	**130,290**	107,177
Investible contributions	**57,466**	48,513
Surrenders	**(21,740)**	(18,830)
Changes in fair value of available-for-sale investments (note 6)	**21,963**	(6,570)
Balance at the end of the year	**187,979**	130,290

11. MATHEMATICAL RESERVE

Mathematical reserve is created, as per the report received from the Independent Actuary, as detailed below:

	2019 SR'000	*2018 SR'000*
Balance at beginning of the year	**557**	958
Changes in mathematical reserve, net	**(197)**	(401)
Balance at the end of the year	**360**	557

12. MOVEMENT IN UNEARNED CONTRIBUTION

	2019			2018		
	Gross SR'000	Reinsurers' share SR'000	Net SR'000	Gross SR'000	Reinsurers' share SR'000	Net SR'000
Balance at beginning of the year	**22,774**	**(9,006)**	**13,768**	18,342	(7,261)	11,081
Contributions written/(ceded) during the year	**130,283**	**(20,815)**	**109,468**	101,145	(18,625)	82,520
	153,057	**(29,821)**	**123,236**	119,487	(25,886)	93,601
Investible contributions and contributions earned during the year	**(117,970)**	**16,898**	**(101,072)**	(96,713)	16,880	(79,833)
Balance at the end of the year	**35,087**	**(12,923)**	**22,164**	22,774	(9,006)	13,768

13. OUTSTANDING CLAIMS INCLUDING IBNR

	2019			2018		
	Gross SR'000	Reinsurers' share SR'000	Net SR'000	Gross SR'000	Reinsurers' share SR'000	Net SR'000
At 1 January						
Reported claims	**10,015**	**(7,918)**	**2,097**	12,901	(10,685)	2,216
IBNR	**10,997**	**(8,089)**	**2,908**	8,338	(4,901)	3,437
	21,012	**(16,007)**	**5,005**	21,239	(15,586)	5,653
Incurred during the year	**31,381**	**(29,004)**	**2,377**	10,964	(9,566)	1,398
(Paid)/recovered during the year	**(11,845)**	**9,920**	**(1,925)**	(11,191)	9,145	(2,046)
At 31 December	**40,548**	**(35,091)**	**5,457**	21,012	(16,007)	5,005
At 31 December						
Reported claims	**33,525**	**(29,422)**	**4,103**	10,015	(7,918)	2,097
IBNR	**7,023**	**(5,669)**	**1,354**	10,997	(8,089)	2,908
	40,548	**(35,091)**	**5,457**	21,012	(16,007)	5,005

14. CLAIMS DEVELOPMENT TABLE

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

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

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

Gross

Accident year	*2014*	*2015*	*2016*	*2017*	*2018*	***2019***	***Total***
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	***SR'000***	***SR'000***
At end of accident year	716	4,232	4,271	4,161	3,388	**19,115**	
One year later	3,736	8,817	13,245	10,269	22,410	-	
Two years later	4,195	9,529	13,892	13,366	-	-	
Three years later	4,195	9,970	15,704	-	-	-	
Four years later	4,402	11,036	-	-	-	-	
Five years later	5,273	-	-	-	-	-	
Current estimate of cumulative claims incurred	5,273	11,036	15,704	13,366	22,410	**19,115**	**86,904**
Cumulative payments to date	(5,159)	(10,165)	(13,892)	(10,497)	(7,252)	**(6,414)**	**(53,379)**
Total reported claims	114	871	1,812	2,869	15,158	**12,701**	**33,525**
IBNR (note 13)							**7,023**
Total outstanding claims (note 13)							**40,548**

Net

Accident year	*2014*	*2015*	*2016*	*2017*	*2018*	***2019***	***Total***
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	***SR'000***	***SR'000***
At end of accident year	120	749	1,028	1,188	548	2,092	
One year later	480	1,435	1,984	2,210	2,742	-	
Two years later	570	1,637	2,103	2,961	-	-	
Three years later	570	1,727	2,514	-	-	-	
Four years later	630	1,953	-	-	-	-	
Five years later	720	-	-	-	-	-	
Current estimate of cumulative claims incurred	720	1,953	2,514	2,961	2,742	**2,092**	**12,982**
Cumulative payments to date	(690)	(1,803)	(2,103)	(2,307)	(1,524)	**(452)**	**(8,879)**
Total reported claims	30	150	411	654	1,218	**1,640**	**4,103**
IBNR (note 13)							**1,354**
Total outstanding claims (note 13)							**5,457**

15. ACCRUED EXPENES AND OTHER LIABILITIES

	2019			*2018*		
	Insurance operations	***Shareholders' operations***	***Total***	*Insurance operations*	*Shareholders' operations*	*Total*
	SR'000	***SR'000***	***SR'000***	*SR'000*	*SR'000*	*SR'000*
Accrued expenses	**9,372**	**2,641**	**12,013**	9,869	2,734	12,603
Contribution deposit	**1,104**	**-**	**1,104**	2,068	-	2,068
Advance contribution	**938**	**-**	**938**	631	-	631
Other liabilities	**4,541**	**55**	**4,596**	1,190	55	1,245
Total	**15,955**	**2,696**	**18,651**	13,758	2,789	16,547

16. EMPLOYEE BENEFITS

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

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

	2019	*2018*
	SR'000	*SR'000*
Present value of employee benefit obligation	**2,624**	2,050

16.2 Movement of defined benefit obligation

	2019	*2018*
	SR'000	*SR'000*
Opening balance	**2,050**	1,960
Charge to statement of income	**706**	951
Actuarial loss/(gain) from experience adjustments	**131**	(82)
Benefits paid during the year	**(263)**	(779)
Closing balance	**2,624**	2,050

16.3 Reconciliation of present value of defined benefit obligation

	2019	*2018*
	SR'000	*SR'000*
Balance at beginning of the year	**2,050**	1,960
Current service costs	**586**	873
Past service costs	**44**	-
Financial costs	**76**	78
Actuarial loss/(gain) from experience adjustments	**131**	(82)
Benefits paid during the year	**(263)**	(779)
	2,624	2,050

16 EMPLOYEE BENEFITS (continued)

16.4 Principal actuarial assumptions

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

	2019	*2018*
Discount rate	**2.80%**	3.80 %
Expected rate of increase in salary level across different age bands	**5.00%**	4.00 %
Normal retirement age	**60 years**	60 years
Number of employees	**113**	138

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

	2019 *SR'000*	*2018* *SR'000*
Discount rate		
- Increase by 1%	**241**	188
- Decrease by 1%	**268**	231
Expected rate of increase in salary level across different age bands		
- Increase by 1%	**245**	215
- Decrease by 1%	**227**	188

Projected future benefit payment (6 years)	*2019* *SR'000*	*2018* *SR'000*
2020	**203**	154
2021	**258**	170
2022	**251**	188
2023	**249**	208
2024	**267**	272
2025	**312**	-

The average duration of the employee benefits at the end of the reporting period is 2.7 years (2018: 1.9 years).

17. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 350 million consisting of 35 million shares (2018: 35 million) of SR 10 each and subscribed by the following:

	% holding		*2019*	*2018*
	2019	*2018*	*SR'000*	*SR'000*
Founding Shareholders	**49.29**	54.71	**172,515**	191,485
General public	**50.71**	45.29	**177,485**	158,515
	100	100	**350,000**	350,000

18. STATUTORY RESERVE

As required by Saudi Arabian Insurance Laws and Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. The Company makes this transfer on an annual basis at 31 December. As at 31 December 2019, SR 7,342 thousand (2018: SR 6,368 thousand) had been set aside as a statutory reserve.

The statutory reserve is not available for distribution.

19. TRANSACTIONS WITH RELATED PARTIES

Related parties represent major shareholders, Board members 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. Contract pricing policies and terms are conducted on an arm's length basis and transactions approved by the Company's management, or where required and applicable the Company's Board of Directors.

a) In addition to the disclosures set out in notes 1, 4, 6, 7, 9, 20 and 21 following are the details of major related party transactions during the year ended:

Related party	***Nature of transactions***	***Amount of transactions***	
		2019	*2018*
		SR'000	*SR'000*
Bank AlJazira	Commission earned from held-to-maturity investment	**8,300**	9,795
	Commission income on deposits	**56**	673
	Gross written contribution	**55,523**	41,453
	Claims paid	**10,729**	10,486
	Surplus distributed	**1,169**	1,450
	Purchase of sukuk	**175,447**	-
Founding shareholders	Dividends paid	**-**	17,150
	Board of directors' remuneration and fee	**1,335**	1,280
AlJazira Capital	Profit earned on mutual funds	**2,597**	429
Aman Insurance Agency Company	Commission	**1,991**	130
Board of directors & committee members	Gross written contribution	**55**	55
Key management personnel	Short-term employee benefits	**1,102**	997
	Gross contribution written	**91**	34

b) Amount due from related parties

	2019	*2018*
	SR'000	*SR'000*
Bank AlJazira (see note 1)	**28,176**	7,444
AlJazira Capital	**2,191**	47
	30,367	7,491

c) Contributions receivable shown in statement of financial position includes SR 1,732 thousand (2018: SR 1,126 thousand) from Bank AlJazira "the founding shareholder".

20. GENERAL AND ADMINISTRATIVE EXPENSES, NET

	2019			2018		
	Insurance operations SR'000	***Shareholders' operations SR'000***	***Total SR'000***	*Insurance operations SR'000*	*Shareholders' operations SR'000*	*Total SR'000*
Employee related expenses	**27,583**	-	**27,583**	26,910	-	26,910
Legal and professional fees	**1,392**	**1,168**	**2,560**	1,481	1,319	2,800
Computer expenses	**1,932**	-	**1,932**	638	-	638
Utilities, postage and telecommunications	**1,325**	-	**1,325**	1,317	-	1,317
Repair and maintenance	**1,100**	-	**1,100**	312	-	312
Advertising and marketing	**1,026**	-	**1,026**	227	-	227
Travelling, hotel and conveyance	**685**	-	**685**	920	-	920
Rent for use of furniture and fixtures	**544**	-	**544**	701	-	701
Rent	**409**	-	**409**	779	-	779
Depreciation	**141**	-	**141**	42	-	42
Stationery	**85**	-	**85**	31	-	31
Other expenses	**976**	**357**	**1,335**	328	439	767
Board remuneration	-	**900**	**900**	-	900	900
Committees' expenses	-	**846**	**846**	-	863	863
Board attendance fees	-	**435**	**435**	-	380	380
	37,198	**3,706**	**40,904**	33,686	3,901	37,587
Allocated to the founding shareholder (note 1)	**(30,064)**	**(597)**	**(30,661)**	(27,926)	(708)	(28,634)
Total	**7,134**	**3,109**	**10,243**	5,760	3,193	8,953

a) Board remuneration is paid in accordance with By-Laws of the Company.
b) Board attendance fee represents allowances for attending board meetings and committee meetings.
c) Committee expenses include fees of non-board members for attending the committee meetings and other related expenses.

21. OTHER INCOME

	2019 SR'000	*2018 SR'000*
Rebate income from AlJazira Capital "the founding shareholder"	**1,000**	32
Others	**46**	79
	1,046	111

22. ZAKAT AND INCOME TAX

The Zakat and income tax payable by the Company has been calculated in accordance with Zakat and tax regulations in the Kingdom of Saudi Arabia.

(a) Zakat

The Zakat provision for the year, attributable to the Saudi shareholders, is based on the following:

	2019 ***SR'000***	*2018* *SR'000*
Equity	**392,736**	391,544
Dividend paid	**-**	(24,500)
Provisions and other adjustments	**2,078**	1,960
Book value of long-term assets	**(441,456)**	(372,299)
Zakat base (A)	**(46,642)**	(3,295)
Zakatable income for the year (B)	**38,381**	34,844
Higher of A and B	**38,381**	34,844
Attributable to Saudi shareholders	**37,884**	34,147

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

The movement in the Zakat payable during the year ended 31 December is as follows:

	2019 ***SR'000***	*2018* *SR'000*
Balance at the beginning of the year	**907**	895
Zakat for the year	**947**	854
Zakat paid during the year	**(872)**	(842)
Balance at the end of the year	**982**	907

(b) Income tax

Income tax has been provided based on the adjusted income attributable to the non-Saudi shareholders.

The movement in income tax payable during the year ended 31 December is as follows:

	2019 ***SR'000***	*2018* *SR'000*
Balance at the beginning of the year	**132**	128
Income tax for the year	**100**	142
Income tax paid during the year	**(104)**	(138)
Balance at the end of the year	**128**	132

22. ZAKAT AND INCOME TAX (continued)

(d) Status of assessments

The Company has submitted its Zakat and income tax returns for the years 2014 to 2018 with General Authority of Zakat and Tax ("GAZT") and obtained restricted certificates.

During the year, GAZT has issued initial assessments for the years 2014 through 2018 disallowing investments from the Zakat base and withholding tax liability with additional Zakat liability of SR 41,166 thousand. The Company has filed an appeal against these initial assessments and is confident of a favourable outcome.

23. EARNINGS PER SHARE

The basic earnings per share have been calculated by dividing the net income for the year attributable to the shareholders by the weighted average number of ordinary shares issued and outstanding at the year end. Diluted earnings per share is not applicable to the Company.

	2019	*2018*
	SR'000	*SR'000*
		(Restated)
Net income for the year attributable to the shareholders	**36,708**	30,844
Weighted average number of ordinary shares	**35,000**	35,000
Earnings per share (in SR)	**1.05**	0.88

24. DIVIDENDS

On 25 Rajab 1439H (corresponding to 11 April 2018), the Company's Board of Directors proposed to pay a dividend of SR 0.7 per share totaling SR 24,500 thousand to its shareholders. This dividend proposal was approved by the shareholders in the Ordinary General Assembly Meeting held on 5 Ramadan 1439H (corresponding to 20 May 2018). Accordingly, the dividends were paid on 23 Ramadan 1439H (corresponding to 7 June 2018).

25. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to contingencies disclosed in note 22, as at the statement of financial position date, the Company had no contingent liabilities and commitments (2018: nil).

26. FAIR VALUES OF FINANCIAL INSTRUMENTS

a) 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 Company's financial assets consist of cash at banks, contribution receivables, available for sale investments held to cover unit-linked liabilities, FVIS investments, held to maturity investments, other assets, statutory deposit, due from related parties and its financial liabilities consist of other liabilities, reinsurance balances payable and outstanding claims. The fair values of financial instruments are not materially different from their carrying values. As at 31 December 2019, apart from the investments which are carried at fair value (notes 6 and 7), there were no other financial instruments held by the Company that were measured at fair value.

b) 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 (i.e. without modification or repackaging);
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.

26. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

The following table presents the Company's financial assets that are measured at fair values:

			2019 (SR'000) Fair Value		
	Carrying Value	**Amortised cost**	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value:					
Available for sale investments held to cover unit-linked liabilities	**185,178**	**-**	**-**	**185,178**	**185,178**
Investments	**411,414**	**198,264**	**185,153**	**225,945**	**411,098**
Total	**596,592**	**198,264**	**185,153**	**411,123**	**596,276**

			2018 (SR'000) Fair Value		
	Carrying Value	Amortised cost	Level 1	Level 2	Total
Financial assets measured at fair value:					
Available for sale investments held to cover unit-linked liabilities	128,230	-	-	128,230	128,230
Investments	395,829	-	322,381	73,448	395,829
Total	524,059	-	322,381	201,678	524,059

There are no financial assets where fair value is measurable as Level 3 fair value.
There are no transfers between Level 1, Level 2 and Level 3 during the year.

c) Measurement of fair value

Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 fair value at 31 December 2019 and 31 December 2018, as well as the significant unobservable inputs used.

Type	***Valuation technique***	***Significant unobservable inputs***	***Inter-relationship between significant unobservable inputs and fair value measurement***
Sukuks and mutual funds	Valuations are based on quotations as received by the custodians at the end of each period and on published Net Asset Value (NAV) closing prices.	Not applicable	Not applicable

27. OPERATING SEGMENTS

Operating segments are reported in manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Managing Director that makes strategic decisions. For management purposes, the activities of Insurance Operations, which are all in the Kingdom of Saudi Arabia, are reported under three business units, as detailed below:

Insurance – individual segment offers life insurance products on an individual basis including unit-linked investment oriented products.

Insurance – group life has segment offers life protection programs to the members of organizations on a group basis, and credit protection benefits in respect of personal loan given by financing organization. This segment also includes protection benefits in respect of various credit facilities other than personal loans extended by the financing organizations to its customers.

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

27. OPERATING SEGMENTS (continued)

	2019		
	Individual SR'000	***Group SR'000***	***Total SR'000***
ASSETS			
Contributions receivable, net	**-**	**2,094**	**2,094**
Reinsurers' share of unearned contributions	**-**	**12,923**	**12,923**
Reinsurers' share of outstanding claims	**77**	**29,345**	**29,422**
Reinsurers' share of claims incurred but not reported	**-**	**5,669**	**5,669**
Available for sale investments held to cover unit link liabilities	**185,178**	**-**	**185,178**
	185,255	**50,031**	**235,286**
Unallocated assets:			
Cash at banks			**19,687**
Investments			**411,414**
Due from related parties			**30,367**
Prepayments and other assets			**2,473**
Fixtures, furniture and equipment			**809**
Statutory deposit			**35,000**
TOTAL ASSETS			**735,036**
LIABILITIES			
Reinsurers' balances payable	**160**	**10,615**	**10,775**
Unearned contributions	**-**	**35,087**	**35,087**
Outstanding claims	**257**	**33,268**	**33,525**
Claims incurred but not reported	**-**	**7,023**	**7,023**
Unit reserve	**187,979**	**-**	**187,979**
Mathematical reserve	**360**	**-**	**360**
	188,756	**85,993**	**274,749**
Unallocated liabilities and surplus:			
Accrued expenses and other liabilities			**18,651**
Employee benefits			**2,624**
Zakat and income tax			**1,110**
Surplus from Insurance Operations			**3,355**
TOTAL LIABILITIES			**300,489**
EQUITY			
Share capital			**350,000**
Statutory reserve			**30,595**
Retained earnings			**54,001**
TOTAL SHAREHOLDERS' EQUITY			**434,596**
Remeasurement reserve of employee benefits - related to insurance operations			**(49)**
TOTAL EQUITY			**434,547**
TOTAL LIABILITIES AND EQUITY			**735,036**

27. OPERATING SEGMENTS (continued)

	2018		
	Individual SR'000	*Group SR'000*	*Total SR'000*
ASSETS			
Contributions receivable, net	-	1,633	1,633
Reinsurers' share of unearned contributions	-	9,006	9,006
Reinsurers' share of outstanding claims	42	7,876	7,918
Reinsurers' share of claims incurred but not reported	-	8,089	8,089
Available-for-sale investments held to cover unit link liabilities	128,230	-	128,230
	128,272	26,604	154,876
Unallocated assets:			
Cash at banks			17,015
Investments			395,829
Due from related parties			7,491
Prepayments and other assets			720
Fixtures, furniture and equipment			260
Statutory deposit			35,000
TOTAL ASSETS			611,191
LIABILITIES			
Reinsurers' balances payable	449	15,676	16,125
Unearned contributions	-	22,774	22,774
Outstanding claims	141	9,874	10,015
Claims incurred but not reported	-	10,997	10,997
Unit reserve	130,290	-	130,290
Mathematical reserve	557	-	557
	131,437	59,321	190,758
Unallocated liabilities and surplus:			
Accrued expenses and other liabilities			16,547
Employee benefits			2,050
Zakat and income tax			1,039
Surplus from Insurance Operations			2,827
TOTAL LIABILITIES			213,221
EQUITY			
Share capital			350,000
Statutory reserve			23,253
Retained earnings			24,635
TOTAL SHAREHOLDERS' EQUITY			397,888
Remeasurement reserve of employee benefits - related to insurance operations			82
TOTAL EQUITY			397,970
TOTAL LIABILITIES AND EQUITY			611,191

27. OPERATING SEGMENTS (continued)

Year ended 31 December 2019	***Individual SR'000***	***Group SR'000***	***Total SR'000***
REVENUES			
Gross written contributions:			
Individual	**73,680**	**-**	**73,680**
Small & Medium enterprises	**-**	**445**	**445**
Corporate	**-**	**56,158**	**56,158**
	73,680	**56,603**	**130,283**
Contributions ceded:			
Local	**-**	**-**	**-**
Foreign	**(882)**	**(19,933)**	**(20,815)**
Net written contributions	**72,798**	**36,670**	**109,468**
Change in unearned contributions, net	**-**	**(8,396)**	**(8,396)**
Net contribution earned	**72,798**	**28,274**	**101,072**
Other underwriting income	**1,594**	**-**	**1,594**
TOTAL REVENUES	**74,392**	**28,274**	**102,666**
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	**(128)**	**(11,717)**	**(11,845)**
Reinsurance share of claims paid	**38**	**9,882**	**9,920**
Net claims paid	**(90)**	**(1,835)**	**(1,925)**
Changes in outstanding claims, net	**(81)**	**(1925)**	**(2,006)**
Changes in claims incurred but not reported, net	**-**	**1,554**	**1,554**
Net claims incurred	**(171)**	**(2,206)**	**(2,377)**
Investible contributions, net	**(57,466)**	**-**	**(57,466)**
Change in mathematical reserve	**197**	**-**	**197**
Policy acquisition costs	**(3,655)**	**(255)**	**(3,910)**
Supervision and inspection fees	**(368)**	**(283)**	**(651)**
TOTAL UNDERWRITING COSTS AND EXPENSES	**(61,463)**	**(2,744)**	**(64,207)**
NET UNDERWRITING INCOME	**12,929**	**25,530**	**38,459**
OTHER OPERATING (EXPENSES)/ INCOME			
Impairment of receivables			**(183)**
General and administrative expenses			**(10,243)**
Commission from held to maturity Investments			**10,076**
Commission income on deposits			**56**
Unrealized gain on FVIS investments			**735**
Realized gain on FVIS investments			**1,164**
Other income			**1,046**
TOTAL OTHER OPERATING INCOME, NET			**2,651**
Income before surplus, Zakat and income tax			**41,110**
Income attributed to the insurance operations			**(3,355)**
Income for the year attributable to the shareholders before Zakat and income tax			**37,755**
Zakat			**(947)**
Income tax			**(100)**
Net income for the year attributable to the shareholders			**36,708**

27. OPERATING SEGMENTS (continued)

Year ended 31 December 2018	*Individual SR'000*	*Group SR'000*	*Total SR'000 (Restated)*
REVENUES			
Gross written contributions:			
Individual	58,126	-	58,126
Small & Medium enterprises	-	766	766
Corporate	-	42,253	42,253
	58,126	43,019	101,145
Contributions ceded:			
Local	-	-	-
Foreign	(804)	(17,821)	(18,625)
Net written contributions	57,322	25,198	82,520
Change in unearned contributions, net	-	(2,687)	(2,687)
Net contribution earned	57,322	22,511	79,833
Other underwriting income	4,545	-	4,545
TOTAL REVENUES	61,867	22,511	84,378
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	(250)	(10,941)	(11,191)
Reinsurance share of claims paid	150	8,995	9,145
Net claims paid	(100)	(1,946)	(2,046)
Changes in outstanding claims, net	(99)	218	119
Changes in claims incurred but not reported, net	-	529	529
Net claims incurred	(199)	(1,199)	(1,398)
Investible contributions, net	(48,513)	-	(48,513)
Change in mathematical reserve	401	-	401
Policy acquisition costs	(1,387)	(135)	(1,522)
Supervision and inspection fees	(291)	(215)	(506)
TOTAL UNDERWRITING COSTS AND EXPENSES	(49,989)	(1,549)	(51,538)
NET UNDERWRITING INCOME	11,878	20,962	32,840
OTHER OPERATING (EXPENSES)/ INCOME			
Impairment of receivables			(55)
General and administrative expenses			(8,953)
Commission from held to maturity Investments			9,795
Commission income on deposits			673
Unrealized gain on FVIS investments			220
Realized gain on FVIS investments			28
Dividend income			8
Other income			111
TOTAL OTHER OPERATING INCOME, NET			1,827
Income before surplus, Zakat and income tax			34,667
Income attributed to the insurance operations			(2,827)
Income for the year attributable to the shareholders before Zakat and income tax			31,840
Zakat			(854)
Income tax			(142)
Net income for the year attributable to the shareholders			30,844

28. RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of on-going identifications, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risk through strategic planning process. The strategy considers the impact of market conditions and available expertise on inherent risks to which the Company is exposed.

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

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

Senior management
Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's Board authorised risk appetite parameters.

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

Risk Committee
The Risk Committee is elected by the Board of Directors. The Risk Committee is responsible for the Company's risk management strategy to ensure that the Company's exposure to risks is minimal.

Internal Audit
All key operational, financial and risk management processes are audited by Internal Audit. Internal Audit examines the adequacy of the relevant policies and procedures, the Company's compliance with internal policies and regulatory guidelines. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

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

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 factors other than credit, market and liquidity risks such as those arising from regulatory requirements. Operational risks arise from all of the Company's activities.

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

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

Insurance risk
Insurance risk is the risk that actual claims payable to policyholders exceed the carrying amount of reserve for insurance activities. This is influenced by the frequency and amounts of claims paid and subsequent development of long term claims. Therefore, the objective of the Insurance Operations is to ensure that sufficient reserves are available to cover these liabilities. The Insurance Operations manages this risk by ensuring that adequate reinsurance cover is taken to restrict the maximum loss payable for any individual claim.

28. RISK MANAGEMENT (continued)

Insurance risk (continued)
Concentration of insurance risk
The Company's insurance risk exposure relating to contract holders is concentrated in Kingdom of Saudi Arabia.

Key assumptions
The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risk, civil riots, etc. The Company manages these risks through conservative underwriting strategies and effective use of reinsurance arrangements.

Frequency and amount of claims
For individual life business, the main risk is the mortality and morbidity (permanent or temporary disability) of the insured. This is managed through an effective and clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/ consultants and comprehensive medical tests.

Frequency and amount of claims (continue)
The Company also assesses financial, lifestyle and occupational information to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

For group life and group credit protection, the main risks are mortality and morbidity (permanent or temporary disability) of the insured. The mortality risk is compounded due to the concentration of lives, for e.g. employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/ consultants and comprehensive medical tests. The Company also looks at the nature of activity carried out by the group, group size, mix of lives by geographical regions, cultural background and manual/non-manual worker split.

The individual life business and group credit protection portfolios are protected through an efficient reinsurance arrangement. This protects the Company from adverse mortality/morbidity experience.

Sensitivity of claims
Insurance claim liabilities are sensitive to the various assumptions mentioned above. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. A hypothetical 5% change in the net claims ratio, with other variable held constant, would impact net underwriting income for the year by approximately SR ±15,054 thousand (2018: SR ±3,992 thousand) in aggregate.

Independent actuarial review of claims and claims reserve.
In further mitigation of the insurance risk, the Company utilizes an independent actuary who performs periodical reviews of the Company’s claims modeling and claims projections as well as verifying that the annual closing claims are adequate.

Reinsurance risk
In common with other insurance companies, in order to minimise the financial exposure arising from large claims, the Company in normal course of business, enters into reinsurance arrangements with the reinsurers. Such reinsurance arrangements provide for greater diversification of business, allow the management to control exposure potential losses arising from large risk, and provide additional capacity for growth. All of the reinsurance is affected under treaty, Quota share and Surplus reinsurance contracts.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

Reinsurers are selected using the following parameters and guidelines set by the Company’s Board of Directors and Reinsurance Committee. The criteria may be summarized as follows:

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

28. RISK MANAGEMENT (continue)

Reinsurance risk (continued)

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

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

Regulatory framework risk

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

Capital management (solvency) risk

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

The Company is required to maintain solvency margin in accordance with the calculation described under Article 67 of the Implementing Insurance Regulations. The Company complied with the relevant regulations.

Financial risk

The Company's principal financial instruments are cash at banks, available for sale investments held to cover unit-linked liabilities, contribution receivable, reinsurance share of outstanding claims, other assets, held to maturity investments, FVIS investments, due from related parties, statutory deposit, reinsurance balances payable, accrued expenses and other liabilities, due to Shareholders' operations and other payables. The Company does not enter into derivative transactions.

The main risks arising from the financial instruments of Insurance Operations and Shareholders' Operations are foreign currency risk, commission rate risk, credit risk, liquidity risk and fund price risk. The management reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is minimal risk of losses due to exchange rate fluctuations as the Insurance Operations and Shareholders' Operations primarily deal in Saudi Riyals and in US Dollar. Saudi Riyal which is pegged to the US Dollar.

Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its murabaha deposits.

The sensitivity of the income is the effect of assumed changes in commission rates, with all other variables held constant, on the Company's profit for one year, based on the floating rate financial assets held at 31 December 2019. A hypothetical 50 basis points change in the weighted average commission rates of the floating rate financial assets balances at 31 December 2019 would impact commission income on murabaha deposits by approximately SR 1,917 thousand (2018: SR 1,612 thousand) over the remaining period of maturity.

Credit risk

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

The Company issues unit linked investment policies. In unit linked business the plan holder bears the investment risk on the assets held in the unit linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on the unit linked financial assets.

28. RISK MANAGEMENT (continue)

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

- To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurance counterparties. Accordingly, as a pre-requisite, the parties with whom reinsurance is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- Contributions receivable are only receivable from corporate customers. The Company seeks to limit the credit risk by setting credit limits and monitoring outstanding receivables. In respect of contribution receivable, one of the policy holders account for 74% of the balance as at 31 December 2019 (2018: 67%).

The Company's investments comprise of murabaha securities, sukuks and mutual funds. The Company limits its credit risk on investments by setting out a minimum acceptable security rating level affirming their financial strength.

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

	2019	*2018*
	SR'000	*SR'000*
Cash at banks	**19,687**	17,015
Investments	**411,414**	395,829
Contributions receivable	**2,332**	1,688
Reinsurance share of outstanding claims	**29,422**	7,918
Reinsurers' share of claims incurred but not reported	**5,669**	8,089
Due from related parties	**30,367**	7,491
Other assets	**2,291**	639
Statutory deposit	**35,000**	35,000
	536,182	473,669

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a timely basis and management ensures that sufficient funds are available to meet any commitments as they arise.

All assets of Insurance Operations and Shareholders' Operations are current, except for investments, statutory deposit and fixtures, furniture and equipment which is non-current in nature.

The insurance operations' financial liabilities consist of outstanding claims, reinsurance balances payable, accrued expenses and other liabilities and the shareholders' financial liabilities consist of accrued expenses and other liabilities. All these financial liabilities are expected to be settled within 12 months from the date of statement of financial position except employee benefits.

Market price risk
Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Insurance Operations and Shareholders' Operations are exposed to market risk with respect to their investments in units of open-ended mutual funds. The underlying investments of the mutual funds are in equities, Sukuks and Murabaha purchased in the local and international markets and unit price of the fund is dependent on the movements in the market prices of these instruments. The fund manager limits market risk by monitoring the developments in the relevant markets for these instruments.

A 5% change in the net asset value of the funds, with all other variables held constant, would impact the net assets by SR 10,659 thousand (2018: SR 10,065 thousand).

28. RISK MANAGEMENT (continue)

Price risk

Price risk is the potential change in the fair value of financial instruments as a result of instrument-specific developments or systemic factors affecting the overall market in which the instrument is being traded.

The total size of investments which are exposed to market price risk are SR 411,414 thousand (2018: SR 395,829 thousand). The Company manages this risk conducting thorough due diligence on each instrument prior to investing as well as maintaining exposure limits guidelines to minimise the potential impact of marking to market on the overall portfolio.

The potential impact of a 10% increase or decrease in the market prices of investments on Company's profit would be as follows:

	Fair value change	Effect on Company's profit SR'000
2019	**± 10%**	**± 2,800**
2018	± 10%	± 7,345

The above sensitivity analysis is only on FVIS investments which directly impact the Company's profit.

29. SUPPLEMENTARY INFORMATION

a) STATEMENT OF FINANCIAL POSITION

	Insurance operations SR'000	***Shareholders' operations SR'000***	***2019 SR'000***	*Insurance operations SR'000*	*Shareholders' operations SR'000*	*2018 SR'000*
ASSETS						
Cash at banks	**15,454**	**4,233**	**19,687**	13,208	3,807	17,015
Contributions receivable, net	**2,094**	-	**2,094**	1,633	-	1,633
Reinsurers' share of unearned contributions	**12,923**	-	**12,923**	9,006	-	9,006
Reinsurers' share of outstanding claims	**29,422**	-	**29,422**	7,918	-	7,918
Reinsurers' share of claims incurred but not reported	**5,669**	-	**5,669**	8,089	-	8,089
Available for sale investments held to cover unit-linked liabilities	**185,178**	-	**185,178**	128,230	-	128,230
Investments	**43,911**	**367,503**	**411,414**	58,530	337,299	395,829
Due from related parties	**28,176**	**2,191**	**30,367**	7,444	47	7,491
Prepayments and other assets	**2,405**	**68**	**2,473**	679	41	720
Fixtures, furniture and equipment	**809**	-	**809**	260	-	260
Due from Insurance Operations	-	**29,407**	**29,407**	-	25,522	25,522
Statutory deposit	-	**35,000**	**35,000**	-	35,000	35,000
	326,041	**438,402**	**764,443**	234,997	401,716	636,713
Less: Inter-operations eliminations	-	**(29,407)**	**(29,407)**	-	(25,522)	(25,522)
TOTAL ASSETS	**326,041**	**408,995**	**735,036**	234,997	376,194	611,191
LIABILITIES						
Accrued expenses and other liabilities	**15,955**	**2,696**	**18,651**	13,758	2,789	16,547
Reinsurers' balances payable	**10,775**	-	**10,775**	16,125	-	16,125
Unearned contributions	**35,087**	-	**35,087**	22,774	-	22,774
Outstanding claims	**33,525**	-	**33,525**	10,015	-	10,015
Claims incurred but not reported	**7,023**	-	**7,023**	10,997	-	10,997
Unit reserve	**187,979**	-	**187,979**	130,290	-	130,290
Mathematical reserve	**360**	-	**360**	557	-	557
Employee benefits	**2,624**	-	**2,624**	2,050	-	2,050
Zakat and income tax	-	**1,110**	**1,110**	-	1,039	1,039
Due to Shareholders' Operations	**29,407**	-	**29,407**	25,522	-	25,522
Surplus from Insurance Operations	**3,355**	-	**3,355**	2,827	-	2,827
	326,090	**3,806**	**329,896**	234,915	3,828	238,743
Less: Inter-operations eliminations	**(29,407)**	-	**(29,407)**	(25,522)	-	(25,522)
TOTAL LIABILITIES	**296,683**	**3,806**	**300,489**	209,393	3,828	213,221
EQUITY						
Share capital	-	**350,000**	**350,000**	-	350,000	350,000
Statutory reserve	-	**30,595**	**30,595**	-	23,253	23,253
Retained earnings	-	**54,001**	**54,001**	-	24,635	24,635
Remeasurement reserve of employee benefits – related to insurance operations	**(49)**	-	**(49)**	82	-	82
TOTAL EQUITY	**(49)**	**434,596**	**434,547**	82	397,888	397,970
TOTAL LIABILITIES AND EQUITY	**296,634**	**438,402**	**735,036**	209,475	401,716	611,191

29. SUPPLEMENTARY INFORMATION (continued)

b) STATEMENT OF INCOME

	Insurance operations SR'000	***Shareholders' operations SR'000***	***2019 SR'000***	*Insurance operations SR'000*	*Shareholders' operations SR'000*	*2018 SR'000 (Restated)*
REVENUES						
Gross written contributions:						
Individual	**73,680**	-	**73,680**	58,126	-	58,126
Small & Medium Enterprises	**445**	-	**445**	766	-	766
Corporate	**56,158**	-	**56,158**	42,253	-	42,253
	130,283	-	**130,283**	101,145	-	101,145
Contributions ceded:						
Local	-	-	-	-	-	-
Foreign	**(20,815)**	-	**(20,815)**	(18,625)	-	(18,625)
Net written contributions	**109,468**	-	**109,468**	82,520	-	82,520
Change in unearned contributions, net	**(8,396)**	-	**(8,396)**	(2,687)	-	(2,687)
Net contribution earned	**101,072**	-	**101,072**	79,833	-	79,833
Other underwriting income	**1,594**	-	**1,594**	4,545	-	4,545
TOTAL REVENUES	**102,666**	-	**102,666**	84,378	-	84,378
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	**(11,845)**	-	**(11,845)**	(11,191)	-	(11,191)
Reinsurance share of claims paid	**9,920**	-	**9,920**	9,145	-	9,145
Net claims paid	**(1,925)**	-	**(1,925)**	(2,046)	-	(2,046)
Changes in outstanding claims, net	**(2,006)**	-	**(2,006)**	119	-	119
Changes in IBNR, net	**1,554**	-	**1,554**	529	-	529
Net claims incurred	**(2,377)**	-	**(2,377)**	(1,398)	-	(1,398)
Investible contributions, net	**(57,466)**	-	**(57,466)**	(48,513)	-	(48,513)
Change in mathematical reserve	**197**	-	**197**	401	-	401
Policy acquisition costs	**(3,910)**	-	**(3,910)**	(1,522)	-	(1,522)
Supervision and inspection fees	**(651)**	-	**(651)**	(506)	-	(506)
TOTAL UNDERWRITING COSTS AND EXPENSES	**(64,207)**	-	**(64,207)**	(51,538)	-	(51,538)
NET UNDERWRITING INCOME	**38,459**	-	**38,459**	32,840	-	32,840
OTHER OPERATING (EXPENSES)/ INCOME						
Impairment of receivables	**(183)**	-	**(183)**	(55)	-	(55)
General and administrative expenses	**(7,134)**	**(3,109)**	**(10,243)**	(5,760)	(3,193)	(8,953)
Commission from held to maturity investments	**456**	**9,620**	**10,076**	456	9,339	9,795
Commission income on deposits	**49**	**7**	**56**	637	36	673
Unrealised gain on FVIS investments	**735**	-	**735**	72	148	220
Realized gain on FVIS investments	**189**	**975**	**1,164**	-	28	28
Dividend income	-	-	-	-	8	8
Other income	**981**	**65**	**1,046**	79	32	111
TOTAL OTHER OPERATING (EXPENSES)/INCOME	**(4,907)**	**7,558**	**2,651**	(4,571)	6,398	1,827

29. SUPPLEMENTRY INFORMATION (continued)

b) STATEMENT OF INCOME (continued)

	Insurance operations SR'000	***Shareholders' operations SR'000***	***2019 SR'000***	*Insurance operations SR'000*	*Shareholders' operations SR'000*	*2018 SR'000 (Restated)*
NET SURPLUS FROM OPERATIONS	**33,552**	**7,558**	**41,110**	28,269	6,398	34,667
Surplus transferred to Shareholders	**(30,197)**	**30,197**	**-**	(25,442)	25,442	-
NET INCOME FOR THE YEAR BEFORE ZAKAT AND INCOME TAX	**3,355**	**37,755**	**41,110**	2,827	31,840	34,667
Zakat	**-**	**(947)**	**(947)**	-	(854)	(854)
Income tax	**-**	**(100)**	**(100)**	-	(142)	(142)
NET INCOME FOR THE YEAR	**3,355**	**36,708**	**40,063**	2,827	30,844	33,671
Weighted average number of ordinary shares outstanding (in thousands)	**-**	**35,000**	**35,000**	-	35,000	35,000
Basic earnings per share for the year (SR)	**-**	**1.05**	**-**	-	0.88	-

c) STATEMENT OF COMPREHENSIVE INCOME

	Insurance operations SR'000	***Shareholders' operations SR'000***	***2019 SR'000***	*Insurance operations SR'000*	*Shareholders' operations SR'000*	*2018 SR'000 (Restated)*
NET INCOME FOR THE YEAR	**3,355**	**36,708**	**40,063**	2,827	30,844	33,671
Remeasurement reserve of employee benefits	**(131)**	**-**	**(131)**	82	-	82
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,224**	**36,708**	**39,932**	2,909	30,844	33,753

29. SUPPLEMENTARY INFORMATION (continued)

d) STATEMENT OF CASH FLOWS

	Insurance operations SR'000	*Shareholders' operations SR'000*	*2019 SR'000*	*Insurance operations SR'000*	*Shareholders' operations SR'000*	*2018 SR'000*
OPERATING ACTIVITIES						
Net income for the year	**3,355**	**37,755**	**41,110**	2,827	31,840	34,667
Adjustments for non-cash items:						
Reinsurers' share of unearned contributions	**(3,917)**	-	**(3,917)**	(1,745)	-	(1,745)
Unearned contributions	**12,313**	-	**12,313**	4,432	-	4,432
Impairment of receivables	**183**	-	**183**	55	-	55
Commission from held to maturity investments	**(456)**	**(9,620)**	**(10,076)**	(457)	(9,338)	(9,795)
Unrealised gain on FVIS investments	**(735)**	-	**(735)**	(72)	(148)	(220)
Realised gain on FVIS investments	**(189)**	**(976)**	**(1,165)**	-	(28)	(28)
Depreciation	**141**	-	**141**	42	-	42
Employee benefits	**706**	-	**706**	951	-	951
	11,401	**27,159**	**38,560**	6,033	22,326	28,359
Changes in operating assets and liabilities:						
Contributions receivable, net	**(644)**	-	**(644)**	(1,485)	-	(1,485)
Reinsurers' share of outstanding claims	**(21,504)**	-	**(21,504)**	2,767	-	2,767
Reinsurers' share of claims incurred but not reported	**2,420**	-	**2,420**	(3,188)	-	(3,188)
Available for sale investments held to cover unit-linked liabilities, net	**(56,948)**	-	**(56,948)**	(21,604)	-	(21,604)
Due from related parties	**(20,732)**	**(2,144)**	**(22,876)**	(2,012)	(47)	(2,059)
Prepayments and other assets	**(1,726)**	**(27)**	**(1,753)**	29	5	34
Accrued expenses and other liabilities	**2,198**	**(93)**	**2,105**	969	89	1,058
Reinsurers' balances payable	**(5,350)**	-	**(5,350)**	8,160	-	8,160
Outstanding claims	**23,510**	-	**23,510**	(2,886)	-	(2,886)
Claims incurred but not reported	**(3,974)**	-	**(3,974)**	2,659	-	2,659
Unit reserve	**57,689**	-	**57,689**	23,113	-	23,113
Mathematical reserve	**(197)**	-	**(197)**	(401)	-	(401)
Due to Shareholders' Operations	**3,885**	-	**3,885**	1,034	-	1,034
Due from Insurance Operations	-	**(3,885)**	**(3,885)**	-	(1,034)	(1,034)
Cash (used in)/from operations	**(9,972)**	**21,010**	**11,038**	13,188	21,339	34,527
Employee benefits paid	**(263)**	-	**(263)**	(779)	-	(779)
Distribution of surplus to policyholders	**(2,827)**	-	**(2,827)**	(2,713)	-	(2,713)
Zakat and income tax paid	-	**(976)**	**(976)**	-	(980)	(980)
Net cash (used in)/ generated from operating activities	**(13,062)**	**20,034**	**6,972**	9,696	20,359	30,055
INVESTING ACTIVITIES						
Purchase of held to maturity investments	-	**(197,800)**	**(197,800)**	-	-	-
Proceeds from maturity of held to maturity investment	-	**145,423**	**145,423**	-	-	-
Proceeds from disposal of FVIS investment	**15,998**	**36,271**	**52,269**	-	24,500	24,500
Purchase of FVIS investment	-	**(4,919)**	**(4,919)**	(43,000)	(23,000)	(66,000)
Purchase of fixtures, furniture and equipment	**(690)**	-	**(690)**	(302)	-	(302)
Commission from held to maturity investments	-	**1,417**	**1,417**	-	-	-
Net cash from/(used in) investing activities	**15,308**	**(19,608)**	**(4,300)**	(43,302)	1,500	(41,802)
FINANCING ACTIVITY						
Dividend paid	-	-	-	-	(24,500)	(24,500)
Net increase/(decrease) in cash at banks	**2,246**	**426**	**2,672**	(33,606)	(2,641)	(36,247)
Cash at banks at the beginning of the year	**13,208**	**3,807**	**17,015**	46,814	6,448	53,262
Cash at banks at the end of the year	**15,454**	**4,233**	**19,687**	13,208	3,807	17,015

30. SUBSEQUENT EVENT

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

31. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors on 22 Rajab 1441H, corresponding to 17 March 2020.