THE COMPANY FOR COOPERATIVE INSURANCE

(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2020

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020

KPMG Professional Services

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS' OF THE COMPANY FOR COOPERATIVE INSURANCE (A SAUDI JOINT STOCK COMPANY)

Opinion

We have audited the consolidated financial statements of The Company for Cooperative Insurance (the "Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS that are 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 consolidated financial statements section of our report. We are independent of the Group 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 consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter	How the matter was addressed in our audit
Valuation of ultimate claims liabilities arising from insurance contracts	
As at 31 December 2020, gross outstanding claims including incurred but not reported claims reserve (IBNR) amounted to SAR 4.1 billion as reported in note 11 of the consolidated financial statements. The valuation of the ultimate liability arising from claims made under insurance contracts is the key judgemental area for management given the level of subjectivity inherent in estimating the impact	• We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes for claims processing and payment, including controls over the completeness and accuracy of the claims estimate recorded. • We tested on a samples basis the amounts recorded for claims notified and paid; including comparing the outstanding claims

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Key audit matter	How the matter was addressed in our audit
of claim events that have occurred and incurred but not reported for which the ultimate outcome remains uncertain. The Company uses an external actuary ("the management's expert") to provide them with the estimate of these claims. A range of methods were used by the management expert to determine these claims. This requires significant judgements relating to factors and assumptions such as inflation, claims development patterns and regulatory requirements. Due to significance of amount involved, the exercise of significant judgment by management in the process for determination of ultimate claims liabilities, together with uncertainties due to COVID-19, we have determined it to be a key audit matter. *Refer to note 11 which discloses the estimated liability arising from claims under insurance contracts and notes 2(e)(i) and 3(d) which disclose accounting policies and estimates for claims liabilities.*	amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves. • We engaged our actuarial specialist to assess the methodology and assumptions used by management in determining the reserve for incurred but not reported claims. We also reviewed the actuarial reserve report issued by the Company's appointed actuary. • We evaluated the completeness and accuracy of data used by the management in their calculation of ultimate insurance contract liabilities. • We assessed the adequacy and appropriateness of the related disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information consists of the information included in the annual report but does not include the consolidated 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 consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated 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 consolidated 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 the Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

As part of an audit in accordance with ISAs 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern;

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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Date: 25 March 2021
Corresponding to: 12 Sha'ban 1442H

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

	Notes	December 31, 2020	December 31, 2019
		SAR'000	
ASSETS			
Statutory deposit	14	**125,000**	125,000
Accrued income on statutory deposit		**2,774**	2,513
Property and equipment, net	4	**191,851**	206,553
Intangible assets	5	**7,708**	3,971
Investment properties	6	**62,138**	63,427
Investments in equity accounted investments	7	**85,319**	101,520
Available for sale investments	8	**3,018,566**	2,746,748
Mudaraba / murabaha deposits	9	**3,134,932**	3,539,376
Prepaid expenses and other assets	10	**616,895**	243,912
Deferred excess of loss premiums		**12,723**	7,714
Deferred policy acquisition costs	11	**134,724**	120,845
Reinsurers' share of gross outstanding claims	11	**1,962,570**	3,100,446
Reinsurers' share of incurred but not reported claims	11	**289,784**	327,724
Reinsurers' share of unearned premiums	11	**683,698**	715,959
Receivables, net	13	**3,480,553**	1,495,894
Accrued investment income	28	**2,397**	6,333
Cash and cash equivalents	15	**445,794**	1,306,550
TOTAL ASSETS		**14,257,426**	14,114,485
LIABILITIES			
Surplus distribution payable	16	**84,893**	34,283
Defined benefits obligation	18	**134,990**	129,480
Return payable on statutory deposit		**2,774**	2,513
Claims payable, accrued expenses and other liabilities	17	**1,737,352**	1,174,982
Short-term borrowings	22	**401,998**	-
Reserve for takaful activities		**3,544**	5,006
Gross outstanding claims	11	**2,516,652**	3,684,891
Incurred but not reported claims reserve	11	**1,549,350**	1,925,584
Premium deficiency reserve	11	**52,401**	2,830
Unearned commission income	11	**37,538**	43,323
Gross unearned premiums	11	**4,319,378**	3,826,119
Reinsurers' balances payable		**254,559**	523,820
Dividends payable		**6,411**	6,411
Zakat payable	20	**346,224**	255,554
TOTAL LIABILITIES		**11,448,064**	11,614,796
EQUITY			
Share capital	21	**1,250,000**	1,250,000
Statutory reserve	23	**1,144,183**	1,065,517
Fair value reserve for investments	7,8	**89,536**	167,472
Remeasurement of defined benefits obligation	18	**(20,261)**	(14,540)
Retained earnings		**345,904**	31,240
TOTAL EQUITY		**2,809,362**	2,499,689
TOTAL LIABILITIES AND EQUITY		**14,257,426**	14,114,485
CONTINGENT LIABILITIES	36		

Abdulaziz Abdulrahman Al Khamis	Fraser David Gregory	Abdulaziz H Al Boug
Board Director	Chief Financial Officer	Chief Executive Officer

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	2020	2019
		SAR'000	
REVENUES			
Gross premiums written	11	**9,061,768**	8,375,860
Reinsurance ceded - local	11	**(95,769)**	(89,748)
Reinsurance ceded – international	11	**(1,382,577)**	(1,560,440)
Excess of loss premiums		**(22,184)**	(20,314)
Fee income from takaful		**6,667**	6,666
Net premiums written		**7,567,905**	6,712,024
Changes in unearned premiums		**(493,259)**	(5,826)
Changes in reinsurers' share of unearned premiums		**(32,261)**	171,120
Net premiums earned		**7,042,385**	6,877,318
Reinsurance commissions	11	**116,726**	122,438
Other underwriting income		**6,889**	10,530
TOTAL REVENUES		**7,166,000**	7,010,286
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid		**6,876,704**	6,955,833
Expenses incurred related to claims		**57,736**	19,325
Reinsurers' share of claims paid		**(1,127,381)**	(1,302,342)
Net claims and other benefits paid	11	**5,807,059**	5,672,816
Changes in outstanding claims		**(1,168,239)**	413,735
Changes in reinsurance share of outstanding claims		**1,137,876**	(374,637)
Changes in incurred but not reported claims reserve		**(376,234)**	241,401
Changes in reinsurance share of incurred but not reported claims		**37,940**	(135,887)
Changes in premium deficiency reserve		**49,571**	(4,442)
Net claims and other benefits incurred		**5,487,973**	5,812,986
Changes in reserves for takaful activities		**(1,462)**	(3,684)
Policy acquisition costs	11	**398,567**	359,973
Other underwriting expenses		**129,953**	13,678
Insurance share distribution	24	**142,535**	57,378
TOTAL UNDERWRITING COSTS AND EXPENSES		**6,157,566**	6,240,331
Net underwriting income		**1,008,434**	769,955
OTHER OPERATING (EXPENSES) / INCOME			
General and administrative expenses	26	**(628,162)**	(577,253)
Allowance for doubtful debts	13	**(49,199)**	(28,844)
Investment income, net	25	**208,792**	221,033
Share of profit from investments in equity accounted investments, net	7	**15,044**	31,160
Impairment of available for sale investments		**(4,812)**	-
Other income, net		**14,972**	20,397
TOTAL OTHER OPERATING EXPENSES		**(443,365)**	(333,507)
Net income for the year before attribution and zakat		**565,069**	436,448
Net income for the year attributed to the insurance operations		**(50,610)**	(34,283)
Net income for the year attributable to the shareholders before zakat		**514,459**	402,165
Zakat charge for the year	20	**(121,129)**	(74,579)
Net income for the year attributable to the shareholders after zakat		**393,330**	327,586
Earnings per share			
Basic and diluted earnings per share (in SAR)	27	**3.15**	2.62
Weighted average number of shares in issue		**125,000,000**	125,000,000

Abdulaziz Abdulrahman Al Khamis
Board Director

Fraser David Gregory
Chief Financial Officer

Abdulaziz H Al Boug
Chief Executive Officer

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	2020	2019
		SAR'000	
Net income for the year attributable to the shareholders after Zakat		**393,330**	327,586
Other comprehensive income:			
Not to be recycled back to the consolidated statement of income in subsequent years:			
Remeasurement of defined benefits obligation	18	**(5,721)**	(2,314)
To be recycled back to the consolidated statement of income in subsequent years:			
Available for sale investments:			
- Net change in fair value	8	**(27,884)**	336,752
- Net amounts transferred to the consolidated statement of income	8	**(49,298)**	27,991
Share of other comprehensive income of investment in equity accounted investments	7	**(754)**	1,453
Total comprehensive income for the year		**309,673**	691,468

Abdulaziz Abdulrahman Al Khamis
Board Director

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Fraser David Gregory
Chief Financial Officer

Abdulaziz H Al Boug
Chief Executive Officer

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THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	Share capital	Statutory reserve	Fair value reserve for investments	Remeasurement of defined benefits obligation	Retained earnings	Total
		SAR'000					
Balance at January 1, 2019		1,250,000	1,000,000	(198,724)	(12,226)	(230,829)	1,808,221
Total comprehensive income for the year:							
Net income for the year attributable to the shareholders after zakat		-	-	-	-	327,586	327,586
Actuarial losses on defined benefits obligation	18	-	-	-	(2,314)	-	(2,314)
Changes in fair value of available-for-sale investments	8	-	-	336,752	-	-	336,752
Amount transferred to the consolidated statement of income	8	-	-	27,991	-	-	27,991
Share of other comprehensive income of investments in equity accounted investments	7	-	-	1,453	-	-	1,453
Total comprehensive income for the year attributable to shareholders		-	-	366,196	(2,314)	327,586	691,468
Transfer to statutory reserve		-	65,517	-	-	(65,517)	-
Balance at December 31, 2019		1,250,000	1,065,517	167,472	(14,540)	31,240	2,499,689
Balance at January 1, 2020		**1,250,000**	**1,065,517**	**167,472**	**(14,540)**	**31,240**	**2,499,689**
Total comprehensive income for the year:							
Net income for the year attributable to the shareholders after zakat		**-**	**-**	**-**	**-**	**393,330**	**393,330**
Actuarial losses on defined benefits obligation	18	**-**	**-**	**-**	**(5,721)**	**-**	**(5,721)**
Changes in fair value of available-for-sale investments	8	**-**	**-**	**(27,884)**	**-**	**-**	**(27,884)**
Amount transferred to the consolidated statement of income	8	**-**	**-**	**(49,298)**	**-**	**-**	**(49,298)**
Share of other comprehensive income of investments in equity accounted investments	7	**-**	**-**	**(754)**	**-**	**-**	**(754)**
Total comprehensive income for the year attributable to shareholders		**-**	**-**	**(77,936)**	**(5,721)**	**393,330**	**309,673**
Transfer to statutory reserve		**-**	**78,666**	**-**	**-**	**(78,666)**	**-**
Balance at December 31, 2020		**1,250,000**	**1,144,183**	**89,536**	**(20,261)**	**345,904**	**2,809,362**

Abdulaziz Abdulrahman Al Khamis
Board Director

Fraser David Gregory
Chief Financial Officer

Abdulaziz H Al Boug
Chief Executive Officer

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	**2020**	2019
		SAR'000	
Operating activities:			
Net income for the year attributable to the shareholders before zakat		**514,459**	402,165
Adjustments for non-cash items:			
Net income attributed to the insurance operations		**50,610**	34,283
Depreciation	4,6	**29,445**	24,449
Amortisation of intangible assets	5	**1,057**	6,128
Loss on sale of property and equipment		**-**	36
Allowance for / (reversal of) doubtful debts	13	**49,199**	(7,898)
Dividend and commission income		**(163,302)**	(252,852)
Gain / (loss) on sale of investments		**(54,110)**	27,991
Impairment of available-for-sale investments		**4,812**	-
Finance cost		**1,998**	-
Share of profit from investments in equity accounted investments, net	7	**(15,044)**	(31,160)
Provision for defined benefits obligation	18	**14,255**	12,832
		433,379	215,974
Changes in operating assets and liabilities:			
Prepaid expenses and others assets		**(372,983)**	17,176
Deferred excess of loss premiums		**(5,009)**	1,061
Deferred policy acquisition costs		**(13,879)**	9,806
Reinsurers' share of gross outstanding claims		**1,137,876**	(374,637)
Reinsurers' share of claims incurred but not reported		**37,940**	(135,887)
Reinsurers' share of unearned premiums		**32,261**	(171,120)
Receivables, net		**(2,033,858)**	29,991
Reinsurers' balances payable		**(269,261)**	429,100
Gross unearned premiums		**493,259**	5,826
Unearned commission income		**(5,785)**	4,024
Gross outstanding claims		**(1,168,239)**	413,735
Incurred but not reported claims reserve		**(376,234)**	241,401
Premium deficiency reserve		**49,571**	(4,442)
Reserve for takaful activities		**(1,462)**	(3,684)
Claims payable, accrued expenses and other liabilities		**562,370**	(339,741)
		(1,500,054)	338,583
Zakat paid during the year		**(30,459)**	(56,105)
Defined benefits obligation paid	18	**(14,466)**	(18,942)
Net cash flows (used in) / generated from operating activities		**(1,544,979)**	263,536
Investing activities:			
Proceeds from sale of available-for-sale investments	8	**2,180,756**	1,423,652
Purchase of available-for-sale investments	8	**(2,470,208)**	(928,518)
Proceeds from maturity of mudaraba / murabaha deposits	9	**10,697,416**	9,597,502
Placement in mudaraba / murabaha deposits	9	**(10,292,972)**	(10,897,753)
Dividend and commission income received		**167,238**	246,519
Dividends received from investments in equity accounted investments	7	**20,241**	26,209
Purchase of property and equipment	4	**(13,454)**	(18,371)
Purchase of intangible assets	5	**(4,794)**	(6,466)
Net cash flows generated from / (used in) investing activities		**284,223**	(557,226)
Financing activities:			
Proceeds from Short-term borrowings		**400,000**	-
Net cash flows generated from financing activities		**400,000**	-
Net change in cash and cash equivalents during the year		**(860,756)**	(293,690)
Cash and cash equivalents, beginning of the year	15	**1,306,550**	1,600,240
Cash and cash equivalents, end of the year	15	**445,794**	1,306,550
Non-cash supplemental information:			
Changes in fair value for available-for-sale investments	8	**(77,182)**	364,743
Share of other comprehensive income of equity accounted investments	7	**(754)**	1,453
Loss on remeasurement of defined benefits obligation	18	**(5,721)**	(2,314)
Reclassification to available-for-sale investments from equity accounted investments	7,8	**10,250**	-

Abdulaziz Abdulrahman Al Khamis	Fraser David Gregory	Abdulaziz H Al Boug
Board Director	Chief Financial Officer	Chief Executive Officer

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

1. GENERAL

The Company for Cooperative Insurance (the "Company") is a Saudi joint stock Company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/5 and incorporated on January 18, 1986 corresponding to Jumada Al-Awal 8, 1406H under Commercial Registration No. 1010061695. The Company's head office is located on Thumamah Road (At Takhassusi) ArRabi District, P.O. Box 86959, Riyadh 11632, Kingdom of Saudi Arabia.

The purpose of the Company is to transact cooperative insurance operations and all related activities including reinsurance and agency activities. Its principal lines of business include medical, motor, marine, fire, engineering, energy, aviation, takaful and property and casualty insurance.

On July 31, 2003 corresponding to Jumada Thani 2, 1424H the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On December 1, 2004 corresponding to Shawwal 18, 1425H, the Saudi Central Bank (formerly Saudi Arabian Monetary Authority) (SAMA) as the principal authority responsible for the application and administration of the Insurance Law and its implementing regulations, granted the Company a license to transact insurance activities in Saudi Arabia.

The Company conducts the business and advances funds to the insurance operations as required. On January 20, 2004 the Company amended its Articles of Association giving authority to the Board of Directors to determine the disposition of the surplus from insurance operations.

On March 20, 2004, the Board of Directors approved the distribution of the surplus from insurance operations in accordance with the Implementing Regulations issued by SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

The Company has the following subsidiary and associates.

Name of the Subsidiary / Associate	*Registration No.*	*Registration date*	*Ownership interest*	*Financial year end*	*Principal Activities*
Subsidiary					
Teejan Al- Khaleej	1010644057	21 July 2020	100%	December 31	Developing technology based solutions and extending consultancy services for the insurance and healthcare businesses. The company has commenced its commercial operations in August 2020. The first financial statements of the company will be prepared for the year ending 31 December 2021.
Associates					
United Insurance Company B.S.C.	17337-1	12 May 1986	50%	December 31	Insurance for all motor vehicles which travel through the King Fahad Causeway in accordance with the Bahrain Insurance Company Law.
Waseel Application Service Provider Limited	1010186558	15 April 2003	45%	December 31	Internet based connectivity, information services, and B2B e-commerce capabilities for the healthcare insurance market.

These consolidated financial statements comprise the Company and its subsidiary (together referred to as the 'Group').

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA) and in compliance with Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Company.

The Company's consolidated statement of financial position is not presented using a current / non-current classification. However, the following balances would generally be classified as non-current: statutory deposit, accrued income on statutory deposit, property and equipment, intangible assets, investment properties, investments in equity accounted investments, available for sale investments, defined benefits obligation and return payable on statutory deposit. All other financial statement line items would generally be classified as current.

The Company presents its consolidated statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the consolidated financial statements accordingly (Note 32). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of cash flows of the insurance operations and shareholders operations which are presented in Note 32 of the consolidated financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive income or losses of the respective operations.

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

b) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the measurement at fair value of available-for-sale investments, investment in equity accounted investments which is accounted for under the equity method and defined benefits obligation based on actuarial valuation techniques.

c) Functional and presentation currency

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

d) Fiscal year

The Company follows a fiscal year ending December 31.

e) Seasonality of operations

Other than normal seasonality in Medical Insurance Business in the Kingdom of Saudi Arabia, there are no seasonal changes that may affect insurance operations of the Company.

2. BASIS OF PREPARATION (continued)

f) Critical accounting judgments, estimates and assumptions

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. 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.

In preparing these consolidated financial statements, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2019. However, the Company has reviewed the key sources of estimation uncertainties disclosed in the last annual financial statements against the backdrop of the COVID-19 pandemic. Management will continue to assess the situation and reflect any required changes in future reporting periods.

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

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate given the level of subjectivity inherent in estimating the impact of claim events that have occurred and incurred but not reported for which the ultimate outcome remains uncertain. 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.

The Company has appointed a qualified actuary who supports in reviewing and providing recommendation with regards to the expected ultimate claims and the associated claims reserves. The Company booked reserves following the recommendation of the appointed actuary who is currently external and independent from the Company. A range of methods were used by the appointed actuary to determine these claims such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Actuary had also used a segmentation approach including analysing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

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

ii) Impairment of available-for-sale financial assets

The Company determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value of the available-for-sale financial assets below its cost. The determination of what is significant or prolonged requires judgment. For equity and mutual funds, a period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgment, the Company also 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. The Company reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired.

iii) Impairment of receivables

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

2. BASIS OF PREPARATION (continued)

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

iv) Fair value of financial instruments

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

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Refer fair value of financial instruments disclosure in note 30.

v) Impact of Covid-19 and Council of Cooperative Health Insurance (“CCHI”) Article 11 on technical reserves

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

- In response to the spread of the Covid-19 virus in the Kingdom of Saudi Arabia including the GCC region, where the Company operates and its consequential disruption to the social and economic activities in those markets, the Company’s management has proactively assessed its impacts on its operations and has taken a series of proactive and preventative measures and processes to ensure:

  - the health and safety of its employees and the wider community where it is operating.
  - the continuity of its business throughout the Kingdom is protected and kept intact.

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

  Medical technical reserves

  Based on the management’s assessment, the management believes that the Government’s decision to assume the medical treatment costs for both Saudi citizens and expatriates has helped in reducing any unfavorable impact. During the lockdown, the Company saw a decline in medical reported claims (majorly elective and non-chronic treatment claims) which resulted in a drop in claims experience. However, subsequent to the lifting of lockdown since June 21, 2020, the Company is experiencing an increase in claims which is in line with the expectations of the Company’s management regarding delayed treatment.

  CCHI recently issued Circular 895, dated 17/12/2020, regarding the procedures, protocols and prices relating to the enforcement of Article 11. Following these procedures, government facilities will be now able to bill insurance companies for the claims incurred for some elements of their insured population. As instructed by the CCHI, the new protocols and procedures will cover all new and renewing policies incepting from 1 January 2021. Moreover, this will also cover all emergency cases for all inforce policies as of 1 January 2021.

  The Company’s management has duly considered the impact of the delayed in claims from the lockdown and the impact of Article 11 in the current estimate of future contractual cash flows of the insurance contracts in force as at December 31, 2020 for its liability adequacy test. Based on the results, the Company has booked an amount of SR 34.7 million (December 31, 2019: Nil) as a premium deficiency reserve.

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

2. BASIS OF PREPARATION (continued)

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

Motor technical reserves

The Management, in conjunction with its appointed actuary, deliberated on a variety of internal factors and concluded, that the Company considers the extension of two months in exiting motor policies as new policy and record a premium deficiency reserve, if any based on the expected claims for the extended 2 months period. The Company's actuary has performed a liability adequacy test using current estimates of future cash flows under its insurance contracts at a segmented level for motor line of business and no additional liability recorded as premium deficiency reserve as at December 31, 2020.

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

Other financial assets

To cater for any potential impacts the Covid-19 pandemic may have had on the financial assets of the Company, the Company has performed an assessment in accordance with its accounting policy, to determine whether there is an objective evidence that a financial asset or a group of financial assets has been impaired. For debt financial assets, these include factors such as, significant financial difficulties of issuers or debtors, default or delinquency in payments, probability that the issuer or debtor will enter bankruptcy or other financial reorganization, etc. In case of equities classified under available-for-sale, the Company has performed an assessment to determine whether there is a significant or prolonged decline in the fair value of financial assets below their cost .

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and risk management policies adopted in the preparation of these consolidated financial statements are consistent with the Company's audited consolidated financial statements for the year ended December 31, 2019, except for the adoption of the amendments to existing standards which has had no material impact on the consolidated financial statements of the Company and investment in subsidiary as follows.

Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date of acquisition or incorporation, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The consolidated financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Non-controlling interests (NCI)
NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of income. Any interest retained in the former subsidiary is measured at fair value when control is lost. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealized income and expenses and cash flows relating to transactions arising from intra-group transactions, are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

a) Standards issued but not yet effective

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting year beginning on 1 January 2020 and is currently assessing their impact:

IFRS 17 – Insurance Contracts

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

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

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

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

Measurement
In contrast to the requirements in IFRS 4, which permitted insurers to continue to use the accounting policies for measurement purposes that existed prior to January 2005, IFRS 17 provides the following different measurement models:

The **General Measurement Model (GMM)** is based on the following "building blocks":

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

   the Contractual Service Margin (CSM). The CSM represents the unearned profit for a group of insurance contracts and will be recognised 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 statement of income immediately. At the end of each subsequent reporting period the carrying amount of a group of insurance contracts is remeasured to be the sum of:
   - the liability for remaining coverage, which comprises the FCF related to future services and the CSM of the group at that date; and
   - the liability for incurred claims, which is measured as the FCF related to past services allocated to the group at that date.

The CSM is adjusted subsequently for changes in cash flows related to future services. Since the CSM cannot be negative, changes in future cash flows that are greater than the remaining CSM are recognised in statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Standards issued but not yet effective (Continued)

The effect of changes in discount rates will be reported in either statement of income or statement of 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, in addition to the adjustment under GMM, the CSM is also adjusted for:
i. the entity's share of the changes in the fair value of underlying items,
ii. the effect of changes in the time value of money and in 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 remaining coverage if it provides a measurement that is not materially different from the General Measurement 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 Measurement Model remains applicable for the measurement of the liability for incurred claims. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid/received in one year or less from the date the claims are incurred.

Effective date
The effective date of IFRS 17 is currently 1 January 2023 and will supersede IFRS 4 "Insurance Contracts". Earlier adoption is permitted if both IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" have also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the consolidated statement of income and the consolidated statement of financial position. The Company has decided not to early adopt this new standard.

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

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

Impact
The Company has performed an operational gap assessment which has focused on the impact of IFRS 17 across data, systems, processes and people. The Company is currently assessing the impact of the application and implementation of IFRS 17 and in the process of applying. As of the date of the publication of these consolidated financial statements, the financial impact of adopting the standard has yet to be fully assessed by the Company. The key areas identified to date are as follows:

Impact Area	Summary of Impact
Financial Impact	Based on the initial assessment, the majority of Company's products (which provide cover for annual periods or less) are expected to be measured using the simplified approach (PAA) which requires less changes to the existing approach under IFRS 4. As a result, the financial impact of measuring contracts under IFRS 17 is not expected to be significant.
Data Impact	Where the GMM is applied to measure the Liability for Remaining Coverage, additional data to inform the assumptions made will be required to generate cash-flow models. Yield curves and other financial market information will also be required to determine suitable discount rates and the credit risk of reinsurers.
IT Systems	Cash-flow models will be required to cater for the calculation of the Liability for Remaining Coverage. In addition, model development will be required to allow for the calculation, updating and amortisation of the Contractual Service Margin. Amendments will also be required to the current chart of accounts and reporting disclosures.
Process Impact	A process will need to be established to assess the expected profitability of contracts issued, at the issuing date. Cost allocation processes will need refinement to ensure directly attributable costs are identified according to the requirements of IFRS 17 and are then used as part of cash flow projections. The financial statement close process will also require changes to allow for more frequent interaction between the finance and actuarial teams.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Standards issued not yet effective (Continued)

Impact on RI Arrangements	IFRS 17 is not expected to significantly impact the structure of the reinsurance arrangements currently in place for Tawuniya. It is however expected that further insight into the expected (and subsequently actual) performance of reinsurance treaties will be derived under IFRS 17.
Impact on Policies & Control Frameworks	Various decisions need to be made and policies drafted which cover the below (amongst other items): • Allocating directly attributable expenses • Onerous contract identification and measurement • Risk adjustment

The Company has started with a detailed data gap assessment as well as the development of an implementation plan which considers the key IFRS 17 design principles. In addition, the Company has set up an IFRS 17 Steering Committee.

IFRS 9 - "Financial instruments"

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

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

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

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

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

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 recognised in profit or loss.

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

ii) 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 recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Standards issued not yet effective (Continued)

iv) 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:

- Apply a temporary exemption from implementing IFRS 9 until the earlier of:
  - the effective date of a new insurance contract standard; or
  - annual reporting periods beginning on or after January 1, 2023. On March 17, 2020, the International Accounting Standards Board ("IASB") decided to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 from January 1, 2021 to January 1, 2023. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; or
- Adopt IFRS 9 but, for designated financial assets, remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contract standard is implemented. During the interim period, additional disclosures are required.

The Company has performed a detailed assessment beginning January 1, 2018: (1) The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and (2) the total carrying amount of the company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. The Company's total liabilities were 10,543 million and liabilities connected with insurance in the statement of financial position primarily included the liabilities arising in the course of writing insurance business and were valued at 9,723 million. 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 consolidated financial statements.

(v) Impact assessment

As at December 31, 2020, the Company has total financial assets and insurance related assets amounting to SAR 7,036 million (2019: SAR 7,761 million) and SAR 6,564 million (2019: SAR 5,794 million), respectively. Currently, financial assets held at amortised cost consist of cash and cash equivalents and certain other receivables amounting to SAR 3,711 million (2019: SAR 4,979 million). Other financial assets consist of available for sale investments amounting to SAR 3,018 million (2019: SAR 2,746 million). The Company expect to use the FVOCI classification of 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 and discretionary portfolio management – equity shares classified under available for sale investments amounting to SAR 1,413 million (2019: SAR 985) will be at FVSI under IFRS 9. As at December 31, 2020, debt securities are measured at fair value of SAR 1, 596 million (2019: 1,601 million) with changes in fair value during the year of SAR 27 million (2019: SAR 245 million). Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 31(d). The Company financial assets have low credit risk as at December 31, 2020 and 2019. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9: However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

b) Revenue Recognition

Recognition of premium and commission revenue

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

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

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

Reinsurance commissions directly relates to the reinsurance contracts are deferred and earned to the statement of income in the same order that commission revenue is recognised over the period of risk.

Fee income from takaful

Fee income from takaful is calculated in accordance with the terms of agreement and is accounted for on an accrual basis.

Investment income

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

Dividend income

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

Rental income

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

c) Insurance contracts

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

d) Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and is charged to "Changes in outstanding claims and reserves" in the statement of income as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Salvage and subrogation reimbursement

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

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

f) Reinsurance

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

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

g) Deferred policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognised as an expense when incurred. Amortisation is recorded in the "Policy acquisition costs" in the statement of income.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortisation of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test at each reporting date.

h) Liability adequacy test

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

i) Receivables

Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in "Other general and administrative expenses" in the consolidated statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 13 fall under the scope of IFRS 4 "Insurance contracts".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Available-for-sale investments

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

Dividend, commission income and foreign currency gain/loss on available-for-sale investments are recognised in the related statements of income as part of the net investment income / loss.

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the statement of income, as impairment charges.

Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values based on the latest available net assets value of the mutual fund. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics. The Company also considers appropriate assumptions for credit spread.

For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

k) Investments in equity accounted investments

An associate is an entity in which the Company has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

Investments in equity accounted investments are carried in the consolidated statement of financial position at cost, plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments.

The consolidated statement of income reflects the Company's share of the results of operations of the associate, while the Company share of other comprehensive income / loss is included in the consolidated statement of other comprehensive income. Dividend from such investments is recognised when received and is credited to the investment account. Where there has been a change recognised directly in the equity of the associate, the Company recognises its share of any such changes and presents, when applicable, in the consolidated statement of changes in equity

When the company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligation or made payments on behalf of the associate.

At each reporting date, the Company determines whether there is objective evidence that the investment in associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement of income, as the case may be.

l) De-recognition of financial instruments

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

m) Offsetting

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

n) Trade date accounting

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Impairment of financial assets

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

Evidence of impairment may include:

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

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

- For equities and fund carried at fair value, impairment is the significant or prolong decline in the fair value of the financial asset.
- For debt securities and sukuks carried at amortised cost, impairment is based on estimated future cash flows that are discounted at the original effective commission rate.

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

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

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

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of income for the year. The determination of what is 'significant' or 'prolonged' requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred. Land is not depreciated. The cost of other items of property and equipment is depreciated on the straight line method to allocate the cost over estimated useful lives, as follows:

	Years
Buildings	40-48
Furniture and fixtures	10
Computer equipment	4
Vehicles	4

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

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

q) Intangible assets

Separately acquired intangible assets are shown at historical cost. They have a finite useful life and are subsequent carried at cost less accumulated amortisation and impairment losses. The Company amortises intangible assets with a limited useful life using straight-line method over the following period:

	Years
Software licenses	4

r) Investment property

Investment property include property (land or a building or part of a building or both) that is held by the Company to earn rentals or for capital appreciation purposes or both. Investment property is measured at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated based on the depreciable amount, which is the cost of an asset or other amount substitute for cost, less its residual value. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. The cost is depreciated on a straight line basis over the estimated useful lives of the assets. When parts of an item of investment property have different useful lives, they are accounted for as separate items (major components) of investment property.

The cost of replacing a part of an item of investment property is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of investment property are recognised in consolidated statement of profit or loss and other comprehensive income as incurred.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of profit or loss and other comprehensive income. The estimated useful lives of the investment property for the calculation of depreciation are as follows:

	31 December 2020 (in years)	31 December 2019 (in years)
Buildings	**38 -40**	38 -40

The depreciation methods, useful lives and residual values are reviewed at each reporting date and are adjusted prospectively, if required. Transfers are made from investment properties to other operating assets categories only when there is a change in use evidenced by commencement of related activity such as development with a view to sell. Such transfers are made at the carrying value of the properties at the date of transfer.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Mudaraba / murabaha deposits

Mudaraba / murabaha deposits, with original maturity of more than three months, 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 consolidated statement of income when the investment is derecognised or impaired.

t) Leases

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets

Company applies cost model, and measure right of use (RoU) asset at cost;

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any re-measurement of the lease liability for lease modifications

Generally, RoU asset would be equal to the lease liability. However, if there are additional costs such as Site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

After the commencement date, Company measures the lease liability by:

- Increasing the carrying amount to reflect interest on the lease liability.
- Reducing the carrying amount to reflect the lease payments made and;

Re-measuring the carrying amount to reflect any re-assessment or lease modification. The lease liability is measured at Amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in consolidated statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Impairment of non-financial assets

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

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

v) Employees' benefits

Defined benefits obligation

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

Short term employee benefits

Short term employee benefits obligation are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or any other benefits if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

w) Provisions, accrued expenses and other liabilities

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

x) Zakat

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

y) Withholding tax

The Company withholds taxes on certain transactions with non-resident parties as required under Saudi Arabian Income Tax Law

z) Value Added Tax (VAT)

Output VAT related to revenue is payable to tax authorities on the earlier of:

(a) collection of receivables from customers or

(b) delivery of services to customers.

Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales/services and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and a liability.

VAT that is not recoverable is charged to consolidated statement of income as expense

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

aa) Expenses

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are recorded in policy acquisition cost. All other operating expenses are classified as general and administrative expenses

bb) Dividend distribution

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

cc) Cash and cash equivalents

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

dd) Cash flow statement

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

ee) Foreign currencies

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

ff) Operating segments

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

- Medical - coverage for health insurance.
- Medical Umrah - coverage for health insurance for pilgrims; the profit of this segment is shared with other insurance companies.
- Motor insurance.
- Manafeth - third party liability insurance for foreign vehicles; the profit of this segment is shared with other insurance companies.
- Property and Casualty - coverage for property, engineering, marine, aviation, energy and general accidents insurance.
- General accidents insurance - coverage for pilgrims; the profit of this segment is shared with other insurance companies.
- Protection & Savings.
- Shareholders' segment - reporting shareholder operations of the Company includes balances of its subsidiary "Teejan Al- Khaleej". The revenues shareholders' earned from investment income along with operations of its subsidiary "Teejan Al- Khaleej". Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriation basis. The surplus or loss from the insurance operations is allocated to this segment on an appropriation basis.

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

gg) Insurance shared agreement

As described in note 24, the shared agreements is an insurance pooling arrangement related to motor, medical and general accidents in KSA. This is an arrangement between different number of insurance companies in KSA where the entity is the leader in providing insurance coverages for motor vehicles entering in KSA (Manafeth) also medical and general accidents for the pilgrims entering KSA (Umrah). The entity does not act as an agent on behalf of the other insurers in agreement. Therefore the Company accounts for Manafeth and Umrah shared agreements by recording the premiums under the gross written premium and claims under gross claims paid. The relevant assets and liabilities are also recorded as a separate operating segment along with the assets and liabilities of other operating segments. The distribution of share of income to other participating insurance companies is recorded as an expense in "Insurance share distribution" in the consolidated statement of income

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

hh) Contingencies and commitments

Contingent liability is:
(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
(ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets are not recognised in the consolidated financial statements and are disclosed, unless the probability of an outflow of resources embodying economic benefits is remote.

Commitments represent binding agreements of the Company to carry out specified courses of action involving in a transfer of cash or other asset to the respective counterparties.

ii) Statutory reserve

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

4. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Furniture and fixtures	Computer equipment	Vehicles	Total 2020	Total 2019
				SAR'000			
Cost:							
January 1	**41,417**	**148,899**	**72,848**	**147,634**	**456**	**411,254**	396,520
Additions	**-**	**-**	**4,272**	**9,182**	**-**	**13,454**	18,371
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	(3,637)
December 31	**41,417**	**148,899**	**77,120**	**156,816**	**456**	**424,708**	411,254
Accumulated Depreciation:							
January 1	**-**	**20,598**	**60,495**	**123,210**	**398**	**204,701**	185,142
Charge for the year	**-**	**3,562**	**8,718**	**15,818**	**58**	**28,156**	23,160
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	(3,601)
December 31	**-**	**24,160**	**69,213**	**139,028**	**456**	**232,857**	204,701
Net book value							
December 31, 2020	**41,417**	**124,739**	**7,907**	**17,788**	**-**	**191,851**	-
December 31, 2019	41,417	128,301	12,353	24,424	58	-	206,553

Depreciation is charged to general and administrative expenses in the consolidated statement of income.

5. INTANGIBLE ASSETS

	2020	2019
	SAR'000	
Cost:		
January 1	**22,417**	15,951
Additions	**4,794**	6,466
December 31	**27,211**	22,417
Accumulated Amortisation:		
January 1	**18,446**	12,318
Charge for the year	**1,057**	6,128
December 31	**19,503**	18,446
Net book value	**7,708**	3,971

Amortisation is charged to general and administrative expenses in the consolidated statement of income.

6. INVESTMENT PROPERTIES

	Land	**Building**	**Total 2020**	Total 2019
		SAR'000		
Cost:				
January 1	**21,480**	**51,027**	**72,507**	72,507
December 31	**21,480**	**51,027**	**72,507**	72,507
Accumulated depreciation:				
January 1	**-**	**9,080**	**9,080**	7,791
Charge for the year	**-**	**1,289**	**1,289**	1,289
December 31	**-**	**10,369**	**10,369**	9,080
Net book value	**21,480**	**40,658**	**62,138**	63,427

a) Measurement of fair values:

For the purpose of the disclosure requirements in accordance with IAS 40 “Investment properties”, the Company has appointed Ejadah Saudia for Valuation, professionally qualified independent valuers accredited by the Saudi Authority for Accredited Valuers (Taqeem), with License No. (1210000003) for the purpose of estimating the land and buildings fair value as at December 31, 2020, which amounted to SAR 82.3 million.

To determine the fair value of the investment property, the fair value has been determined using the market value of the property. Market value of the property has been determined in accordance with the Practice Statements and relevant Guidance notes of the Royal Institution of Chartered Surveyors (RICS) appraisal and valuation and approved by the International Valuation Standards Committee (IVSC) as follows: Market value is the estimated amount for which as asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. Market value of the property has been assessed using a combination of Discounted Cash flow (‘DCF’) approach and Cost approach for properties which are complete and using Cost approach. Independent valuer has applied weights over determined values under both approaches. IVSC allows the concept of weighting to valuation results under DCF approach and Cost approach to arrive at an overall market value of properties. Under cost approach value of land and building has been assessed using market comparative approach that comparing the property being evaluated with similar properties from the market, to find the capital or rental value of the property directly. This method considers that the market price is the best indicator of value, and the market price can be inferred by looking for evidence and evidence available for transactions and transactions that have recently taken place in the market for properties similar to the property under valuation and applied to it with the introduction consider adjustments to variable factors such as the age and location of the property. The discount rate is adopted by reference to the yield rates observed by the independent valuer for similar properties in the locality and adjusted based on the independent valuer’s knowledge for the factors specific to the respective properties. Any significant movement in the assumptions used for fair valuation of investment properties such as discount rate, yield, rental growth etc. would result in significantly lower / higher fair value of these assets. The fair value measurement for all of the investment properties has been categorized under Level 3 of the fair value hierarchy.

7. INVESTMENTS IN EQUITY ACCOUNTED INVESTMENTS

	2020	2019
	SAR’000	
Insurance Operations		
Balance, January 1	**10,358**	7,921
Share of (loss) / profit	**(108)**	2,437
Reclassification to available-for-sale investments (note 8)	**(10,250)**	-
Balance, December 31	**-**	10,358
Shareholders Operations		
Balance, January 1	**91,162**	87,195
Share of profit	**15,152**	28,723
Dividends received	**(20,241)**	(26,209)
Share of other comprehensive (loss) / income	**(754)**	1,453
Balance, December 31	**85,319**	91,162
Total Investments in equity accounted investments	**85,319**	101,520

7. INVESTMENTS IN EQUITY ACCOUNTED INVESTMENTS (Continued)

The Company's interest in equity accounted investments, which is unquoted, is as follows along with summarized financial information:

Insurance Operations:

Due to change in board structure of Najm Insurance Services, the Company lost significant influence and resultantly classified the investment as available for sale investment.

Shareholders Operations:

a) United Insurance Company

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held	Carrying amount
				SAR'000			
November 30, 2020 *	Bahrain	**237,198**	**101,599**	**37,243**	**18,437**	**50%**	**67,799**
December 31, 2019 *	Bahrain	281,411	132,896	95,092	46,509	50%	74,256

* Based on latest available management accounts.

b) Waseel Application Services Provider

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held	Carrying amount
				SAR'000			
November 30, 2020 *	Saudi Arabia	**58,448**	**19,512**	**29,381**	**9,221**	**45%**	**17,520**
December 31, 2019 *	Saudi Arabia	64,000	40,000	39,500	15,000	45%	16,906

* Based on latest available management accounts.

8. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise the following:

	2020	2019
	SAR'000	
Insurance Operations		
Local funds	**5,060**	53,165
Local funds with regional / foreign exposure	**258,304**	-
Local fixed income investments	**86,545**	354,556
Regional / foreign fixed income investments	**1,391,831**	865,095
Local discretionary portfolio management – equity shares	**187,217**	91,269
Foreign discretionary portfolio management – equity shares	**-**	65,815
Funds with portfolio manager	**89,707**	81,624
Total	**2,018,664**	1,511,524
Shareholders' Operations		
Local funds	**-**	587,726
Local funds with regional / foreign exposure	**486,053**	-
Local fixed income investments	**27,217**	164,315
Regional / foreign funds	**140,975**	64,191
Regional / foreign fixed income investments	**139,805**	224,029
Local discretionary portfolio management – equity shares	**53,145**	48,189
Local discretionary portfolio management – regional equity shares	**53,171**	-
Foreign discretionary portfolio management – equity shares	**57,970**	74,534
Funds with portfolio manager	**41,566**	72,240
Total	**999,902**	1,235,224
Total available-for-sale investments	**3,018,566**	2,746,748

8. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

As at December 31, 2020 the Company has invested in Shariah Notes having fair value amounting to SAR 2.8 billion (2019: SAR 2.5 billion). The Shariah Notes are issued by a special purpose vehicle "SPV" established in Cayman Islands. The administrator of these Shariah Notes is a Company registered in Dubai International Financial Center in Dubai. The underlying investments of Shariah Notes include funds, discretionary portfolio management – equity shares and fixed income portfolios. The legal ownership of these underlying investments is not with the Company, however, the Company is the ultimate beneficial owner of the underlying investments while having control over the Shariah Notes and underlying investments. The custody of the underlying investments is in the custody account of the SPV or its nominee entity opened with fund and portfolio managers.

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

	2020			2019		
	Quoted securities	**Unquoted securities**	**Total**	Quoted securities	Unquoted securities	Total
			SAR'000			
Insurance operations						
Balance, January 1	**162,837**	**1,348,687**	**1,511,524**	-	1,234,907	1,234,907
Purchases	**472,665**	**1,304,457**	**1,777,122**	153,750	360,277	514,027
Reclassification from investment in equity accounted investments	**-**	**10,250**	**10,250**	-	-	-
Disposals	**(447,393)**	**(763,828)**	**(1,211,221)**	-	(430,787)	(430,787)
Changes in fair value of investments	**57,456**	**(126,467)**	**(69,011)**	9,087	184,290	193,377
Balance, December 31	**245,565**	**1,773,099**	**2,018,664**	162,837	1,348,687	1,511,524
Shareholders' operations						
Balance, January 1	**194,980**	**1,040,244**	**1,235,224**	-	1,670,223	1,670,223
Purchases	**-**	**693,086**	**693,086**	179,939	234,552	414,491
Disposals	**(132,207)**	**(837,328)**	**(969,535)**	-	(992,865)	(992,865)
Changes in fair value of investments	**(6,801)**	**47,928**	**41,127**	15,041	128,334	143,375
Balance, December 31	**55,972**	**943,930**	**999,902**	194,980	1,040,244	1,235,224
Total	**301,537**	**2,717,029**	**3,018,566**	357,817	2,388,931	2,746,748

The movement of changes in fair value of available for sale investments is as follows:

	2020	2019
	SAR'000	
Insurance operations		
Change in fair value	**(69,011)**	193,377
Net gain transferred to the consolidated statement of income on disposal of investments	**(52,336)**	-
Impairment on available-for-sale investments	**2,637**	-
	(118,710)	193,377
Shareholders' operations		
Change in fair value	**41,127**	143,375
Net (gain) / loss transferred to the consolidated statement of income on disposal of investments	**(1,774)**	27,991
Impairment on available-for-sale investments	**2,175**	-
	41,528	171,366
Total	**(77,182)**	364,743

The cumulative unrealized loss for available for sale investments and investment in equity accounted investments share of other comprehensive income amounts to SAR 89.5 million (December 31, 2019: SAR 167.4 million).

9. MUDARABA / MURABAHA DEPOSITS

The deposits are held with banks and financial institution registered with Capital Market Authority in the Kingdom of Saudi Arabia. These deposits are predominately in Mudaraba structures. These deposits are denominated in Saudi riyals and have an original maturity of more than three months to one year and yield on average financial incomes at rates 1.51%. (2019: 2.24%).

The movements in deposits during the year ended December 31, 2020 and 2019, are as follows:

	2020	2019
	SAR'000	
Insurance Operations		
Balance, January 1	**1,577,912**	1,387,500
Placed during the year	**4,687,222**	5,534,846
Proceeds during the year	**(4,973,669)**	(5,344,434)
Balance, December 31	**1,291,465**	1,577,912
Shareholders Operations		
Balance, January 31	**1,961,464**	851,625
Placed during the year	**5,605,750**	5,362,907
Proceeds during the year	**(5,723,747)**	(4,253,068)
Balance, December 31	**1,843,467**	1,961,464
Total	**3,134,932**	3,539,376

10. PREPAID EXPENSES AND OTHER ASSETS

	2020	2019
	SAR'000	
Advances to medical service providers and others	**270,329**	169,132
Prepaid expenses	**39,983**	40,159
Other assets	**306,583**	34,621
	616,895	243,912

Other assets represents payment made by the Company in relation to VAT assessment raised by General Authority of Zakat and Tax ("GAZT") for 2018 and 2019 financial years amounting to Saudi Riyals 306.58 million. The payments were made to GAZT to avoid penalties along with objection filed against the assessment. GAZT has rejected the objection and the Company has submitted appeal with General Secretariat of Tax Committees ("GSTC") in accordance with the provisions of the law. The Company's management strongly believes that there is a reasonable basis such that the assessment raised at GSTC will be in the Company's favour.

11. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS

a) Deferred policy acquisition costs

	2020	2019
	SAR'000	
Balance, January 1	**120,845**	130,651
Incurred during the year	**412,446**	350,167
Amortised during the year	**(398,567)**	(359,973)
Balance, December 31	**134,724**	120,845

b) Unearned commission income

	2020	2019
	SAR'000	
Balance, January 1	**43,323**	39,299
Commission received during the year	**110,941**	126,462
Commission earned during the year	**(116,726)**	(122,438)
Balance, December 31	**37,538**	43,323

11. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS (Continued)

c) Unearned premiums

	2020			2019		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
			SAR'000			
Balance, January 1	**3,826,119**	**(715,959)**	**3,110,160**	3,820,293	(544,839)	3,275,454
Premiums written during the year	**9,061,768**	**(1,478,346)**	**7,583,422**	8,375,860	(1,650,188)	6,725,672
Premiums earned during the year	**(8,568,509)**	**1,510,607**	**(7,057,902)**	(8,370,034)	1,479,068	(6,890,966)
Balance, December 31	**4,319,378**	**(683,698)**	**3,635,680**	3,826,119	(715,959)	3,110,160

d) Outstanding claims and other reserves

	2020			2019		
	Gross	**Reinsurers share**	**Net**	Gross	Reinsurers share	Net
			SAR'000			
Balance, January 1	**5,613,305**	**(3,428,170)**	**2,185,135**	4,962,611	(2,917,646)	2,044,965
Claims paid	**(6,934,440)**	**1,127,381**	**(5,807,059)**	(6,975,158)	1,302,342	(5,672,816)
Claims incurred	**5,439,538**	**48,435**	**5,487,973**	7,625,852	(1,812,866)	5,812,986
Balance, December 31	**4,118,403**	**(2,252,354)**	**1,866,049**	5,613,305	(3,428,170)	2,185,135
Outstanding claims	**2,548,105**	**(1,962,570)**	**585,535**	3,717,931	(3,100,446)	617,485
Salvage and subrogation	**(31,453)**	**-**	**(31,453)**	(33,040)	-	(33,040)
Gross outstanding claims	**2,516,652**	**(1,962,570)**	**554,082**	3,684,891	(3,100,446)	584,445
Incurred but not reported claims reserves	**1,549,350**	**(289,784)**	**1,259,566**	1,925,584	(327,724)	1,597,860
Premium deficiency reserve	**52,401**	**-**	**52,401**	2,830	-	2,830
Balance, December 31	**4,118,403**	**(2,252,354)**	**1,866,049**	5,613,305	(3,428,170)	2,185,135

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

As at December 31, 2020, based on the recommendations of appointed actuary, management had recorded technical reserves (Gross outstanding claims and other reserves) which amounted to SAR 4.1 billion (2019: SAR 5.6 billion). Significant portion of reserves relates to medical line of business. As at December 31, 2020 the Company booked five significant outstanding claims amounting to SAR 917 million (2019: four claims of SAR 1.5 billion) with a reinsurance share of outstanding claim at 99.8% (2019: 99%) relating to property and casualty line of business.

12. REINSURERS' SHARE OF OUTSTANDING CLAIMS, NET

Reinsurers' share of outstanding claims comprise net amounts due from the following:

	2020	2019
	SAR'000	
Reinsurers' share of insurance liabilities	**2,253,812**	3,434,638
Impairment provision	**(1,458)**	(6,468)
	2,252,354	3,428,170

Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the date of the consolidated statement of financial position. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern. Reinsurance arrangements are made with counterparties with sound credit ratings under Standard and Poor's ratings methodology and ratings as per other reputable agencies.

Amounts due from reinsurers relating to claims already paid by the Company are included in receivables, net (Note 13).

13. RECEIVABLES, NET

Receivables comprise net amounts due from the following:

	2020	2019
	SAR'000	
Policyholders	**1,978,212**	668,599
Brokers and agents	**1,443,859**	806,205
Related parties (Note 29)	**135,786**	122,283
	3,557,857	1,597,087
Receivables from reinsurers	**120,281**	45,015
Administrative service plan	**3,256**	5,434
	3,681,394	1,647,536
Provision for doubtful receivables	**(200,841)**	(151,642)
Receivables, net	**3,480,553**	1,495,894

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

	2020	2019
	SAR'000	
Balance, January 1	**151,642**	159,540
Provision for the year	**49,199**	28,844
Write-offs	**-**	(36,742)
Balance, December 31	**200,841**	151,642

As at December 31, the ageing of receivables is as follows:

			Past due but not impaired			**Past due and impaired**		
	Total	**Neither past due nor impaired**	**Less than 30 days**	**31 – 60 days**	**61 - 90 days**	**91 - 180 days**	**181 - 360 days**	**More than 360 days**
	SAR'000							
2020								
Premium and reinsurance receivables								
- Policyholders'	**1,978,212**	**807,677**	**169,141**	**43,025**	**567,317**	**39,248**	**245,314**	**106,490**
- Brokers and agents	**1,443,859**	**692,210**	**164,020**	**170,900**	**39,173**	**229,528**	**107,126**	**40,902**
- Due from related parties	**135,786**	**18,397**	**104,771**	**1,786**	**2,803**	**7,870**	**6**	**153**
- Receivable from reinsurers	**120,281**	**-**	**17,923**	**5,391**	**42,164**	**50,847**	**657**	**3,299**
- Administrative service plan	**3,256**	**-**	**792**	**-**	**-**	**-**	**-**	**2,464**
Total	**3,681,394**	**1,518,284**	**456,647**	**221,102**	**651,457**	**327,493**	**353,103**	**153,308**

			Past due but not impaired			Past due and impaired		
	Total	Neither past due nor impaired	Less than 30 days	31 – 60 days	61 - 90 days	91 - 180 days	181 - 360 days	More than 360 days
	SAR'000							
2019								
Premium and reinsurance receivables								
- Policyholders'	668,599	485,953	7,452	9,755	14,348	24,386	47,046	79,659
- Brokers and agents	806,205	494,870	96,321	72,836	42,624	43,638	26,478	29,438
- Due from related parties	122,283	22,792	87,103	8,013	224	2,130	806	1,215
- Receivable from reinsurers	45,015	-	4,649	1,456	18,681	15,210	1,515	3,504
- Administrative service plan	5,434	-	2,970	-	-	-	-	2,464
Total	1,647,536	1,003,615	198,495	92,060	75,877	85,364	75,845	116,280

The Company only enters into insurance and reinsurance 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.

13. RECEIVABLES, NET (continued)

Receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia and reinsurance companies mainly outside the Kingdom of Saudi Arabia. Receivables include an amount of SAR 455 million (2019: SAR 418 million) due in foreign currencies, mainly in US dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of the transaction. Arrangements with reinsurers normally require settlement within a certain agreed period. The five largest customers account for 37% (December 31, 2019: 42%) of the premium receivable as at December 31, 2020.

14. STATUTORY DEPOSIT

In compliance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company has deposited 10 percent of its share capital, amounting to SAR 125 million (December 31, 2019: SAR 125 million), in a bank designated by SAMA. The statutory deposit is maintained with the National Commercial Bank and can be withdrawn only with the consent of SAMA.

15. CASH AND CASH EQUIVALENTS

	2020	2019
	SAR'000	
Insurance operations		
Banks balances and cash	**337,359**	1,297,401
Total	**337,359**	1,297,401
Shareholders Operations		
Banks balances and cash	**108,435**	9,149
Total	**108,435**	9,149
Total cash and cash equivalents	**445,794**	1,306,550

Bank balances and cash includes call account balance of SAR 93 million (December 31, 2019: SAR 1.2 million). Bank balances (including off-balance sheet exposures) are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology.

16. SURPLUS DISTRIBUTION PAYABLE

Insurance Operations' surplus

The insurance operations' invests its surplus funds in investments as disclosed in Notes 7 and 8. Changes in the fair value of available-for-sale investments at December 31, 2020 are not considered as part of the net surplus available for distribution to policyholders. At the time such investments are sold or gains and losses are realized, they will be included in the consolidated statement of income as surplus attributable to insurance operation.

17. CLAIMS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

	2020	2019
	SAR'000	
Payables to policyholders and hospitals	**1,196,957**	822,200
Payable - General Authority of Zakat and Tax	**108,879**	77,527
Accrued expenses	**188,928**	148,839
Marketing representative commissions	**19,172**	29,287
Insurance share of profit distribution payable	**142,535**	57,378
Payable - Ministry of Hajj and Umrah	**13,909**	-
Provision for leave encashment	**21,366**	13,486
Employees' savings plan (17.1)	**32,834**	17,577
Other liabilities	**12,772**	8,688
	1,737,352	1,174,982

17.1 The Company has a savings plan for its Saudi employees under which a definite percentage of the employees' salary is periodically deducted, with Tawuniya investing this amount through one of the investment funds compatible with the rules of Islamic Shariah. The total number of subscribers at the end of 2020 reached 253 employees with a subscription amounting to SAR 20,6 million.

18 DEFINED BENEFITS OBLIGATION

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

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

18.1 The amounts recognised in the consolidated statement of financial position based on its present value are as follows:

	2020	2019
	SAR'000	
Present value of defined benefits obligation	**134,990**	129,480
	134,990	129,480

18.2 Movement of defined benefits obligation

	2020	2019
	SAR'000	
Opening balance	**129,480**	133,276
Charge to the consolidated statement of income	**14,255**	12,832
Charge to the consolidated statement of comprehensive income	**5,721**	2,314
Payment of benefits during the year	**(14,466)**	(18,942)
Closing balance	**134,990**	129,480

18.3 Reconciliation of present value of defined benefits obligation

	2020	2019
	SAR'000	
Present value of defined benefits obligation as at January 1	**129,480**	133,276
Current service costs	**11,244**	9,885
Financial costs	**3,011**	2,947
Actuarial loss from experience adjustments	**5,721**	2,314
Benefits paid during the year	**(14,466)**	(18,942)
Present value of defined benefits obligation as at December 31	**134,990**	129,480

18.4 Principal actuarial assumptions

The following range of significant actuarial assumptions was used by the Company for the valuation of post-employment benefits liability:

	2020	2019
Valuation discount rate	**3%**	3%
Expected rate of increase in salary level across different age bands	**0.5% - 6%**	0.5% - 6%

18.5 Sensitivity analysis of actuarial assumptions

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

	2020	2019
	SAR '000	
	Impact on defined benefits obligation	
Valuation discount rate		
- Increase by 0.5%	**(4,766)**	(4,679)
- Decrease by 0.5%	**5,085**	5,000
Expected rate of increase in salary level across different age bands		
- Increase by 0.5%	**5,005**	4,825
- Decrease by 0.5%	**(4,499)**	(4,337)

19. CLAIMS DEVELOPMENT TABLE

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the periods beginning from 2015 onwards whose claim experience has not been fully developed.

Claims triangulation analysis is by accident years spanning a number of financial years.

Claims development table gross of reinsurance:

2020

Accident year	**2015 & Earlier**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
				SAR '000			
Estimate of ultimate claims cost:							
At the end of accident year	**27,341,158**	**5,004,460**	**5,842,642**	**7,423,498**	**5,946,045**	**4,554,242**	
One year later	**28,069,379**	**6,045,645**	**7,065,784**	**8,583,529**	**7,129,338**		
Two years later	**27,923,794**	**6,161,715**	**7,263,141**	**8,587,813**			
Three years later	**27,828,004**	**6,251,565**	**7,303,280**				
Four years later	**27,796,982**	**6,250,074**					
Five years later	**27,781,129**						
Current estimate of cumulative claims	**27,781,129**	**6,250,074**	**7,303,280**	**8,587,813**	**7,129,338**	**4,554,242**	**61,605,876**
Cumulative payments to date	**(27,579,803)**	**(6,039,881)**	**(7,100,444)**	**(7,965,675)**	**(6,240,366)**	**(4,131,602)**	**(59,057,771)**
Liability recognised in the consolidated statement of financial position	**201,326**	**210,193**	**202,836**	**622,138**	**888,972**	**422,640**	**2,548,105**
Salvage and subrogation							**(31,453)**
Incurred but not reported claims	**31,503**	**14,012**	**10,140**	**19,974**	**41,437**	**1,432,284**	**1,549,350**
Premium deficiency reserve							**52,401**
Outstanding claims and reserves							**4,118,403**

2019

Accident year	2014 & Earlier	2015	2016	2017	2018	2019	Total
				SAR '000			
Estimate of ultimate claims cost:							
At the end of accident year	22,065,276	4,862,126	5,004,460	5,842,642	7,423,498	5,946,045	
One year later	22,479,032	5,580,651	6,045,645	7,065,784	8,583,529		
Two years later	22,488,728	5,615,040	6,161,715	7,263,141			
Three years later	22,308,754	5,792,120	6,251,565				
Four years later	22,035,884	5,782,349					
Five years later	22,014,633						
Current estimate of cumulative claims	22,014,633	5,782,349	6,251,565	7,263,141	8,583,529	5,946,045	55,841,262
Cumulative payments to date	(21,850,162)	(5,630,004)	(6,029,679)	(6,927,581)	(7,152,701)	(4,533,204)	(52,123,331)
Liability recognised in the consolidated statement of financial position	164,471	152,345	221,886	335,560	1,430,828	1,412,841	3,717,931
Salvage and subrogation							(33,040)
Incurred but not reported claims	24,295	6,187	8,452	38,529	408,229	1,439,892	1,925,584
Premium deficiency reserve							2,830
Outstanding claims and reserves							5,613,305

19. CLAIMS DEVELOPMENT TABLE (Continued)

Claims development table net of reinsurance:

2020

Accident year	**2015 & Earlier**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
				SAR '000			
Estimate of ultimate claims cost:							
At the end of accident year	**20,905,829**	**4,468,422**	**5,444,158**	**5,219,686**	**4,773,695**	**4,370,007**	
One year later	**21,575,478**	**5,423,773**	**6,521,216**	**5,952,086**	**5,824,840**		
Two years later	**21,617,362**	**5,618,128**	**6,693,505**	**6,302,817**			
Three years later	**21,595,623**	**5,631,093**	**6,713,412**				
Four years later	**21,589,556**	**5,628,993**					
Five years later	**21,574,975**						
Current estimate of cumulative claims	**21,574,975**	**5,628,993**	**6,713,412**	**6,302,817**	**5,824,840**	**4,370,007**	**50,415,044**
Cumulative payments to date	**(21,478,701)**	**(5,584,862)**	**(6,662,809)**	**(6,253,776)**	**(5,779,322)**	**(4,070,039)**	**(49,829,509)**
Liability recognised in the consolidated statement of financial position	**96,274**	**44,131**	**50,603**	**49,041**	**45,518**	**299,968**	**585,535**
Salvage and subrogation							**(31,453)**
Incurred but not reported claims	**28,815**	**13,655**	**9,742**	**16,661**	**33,317**	**1,157,376**	**1,259,566**
Premium deficiency reserve							**52,401**
Outstanding claims and reserves							**1,866,049**

2019

Accident year	2014 & Earlier	2015	2016	2017	2018	2019	Total
				SAR '000			
Estimate of ultimate claims cost:							
At the end of accident year	16,719,437	3,662,092	4,468,422	5,444,158	5,219,686	4,773,695	
One year later	17,243,737	4,288,552	5,423,773	6,521,216	5,952,086		
Two years later	17,286,926	4,341,976	5,618,128	6,693,505			
Three years later	17,275,386	4,342,816	5,631,093				
Four years later	17,252,807	4,341,711					
Five years later	17,247,845						
Current estimate of cumulative claims	17,247,845	4,341,711	5,631,093	6,693,505	5,952,086	4,773,695	44,639,935
Cumulative payments to date	(17,172,549)	(4,298,743)	(5,578,696)	(6,632,709)	(5,884,552)	(4,455,201)	(44,022,450)
Liability recognised in the consolidated statement of financial position	75,296	42,968	52,397	60,796	67,534	318,494	617,485
Salvage and subrogation							(33,040)
Incurred but not reported claims	24,400	6,186	8,449	37,654	398,424	1,122,747	1,597,860
Premium deficiency reserve							2,830
Outstanding claims and reserves							2,185,135

20. ZAKAT

a) The current year's provision is based on the following:

	2020	2019
	SAR'000	
Share capital	**1,250,000**	1,250,000
Reserves, opening provisions and other adjustments	**1,629,843**	1,494,664
Book value of long term assets	**(472,016)**	(438,440)
	2,407,827	2,306,224
Adjusted net income	**591,204**	376,042
Zakat @ 2.578% on Zakat base	**62,074**	59,454
Zakat @ 2.5% on adjusted net income	**14,780**	9,401
	76,854	68,855

As the zakat base for the year is higher than the zakatable income, the zakat for the year is calculated at 2.578% on the zakat base and 2.5% on adjusted net income for the year.

b) The movement in the zakat provision for the year was as follows:

	2020	2019
	SAR'000	
Balance, January 1	**255,554**	237,080
Provided during the year	**76,854**	68,855
Charge for the prior years	**44,275**	5,724
Payments during the year	**(30,459)**	(56,105)
Balance, December 31	**346,224**	255,554

c) Status of Assessments:

The Company had filed Zakat returns with the General Authority of Zakat and Tax ("GAZT") for the years from 2014 to 2019. The GAZT issued assessments for 2014 and 2015 to 2018 years, an objection was lodged subsequently. For 2014, GAZT rejected the objection, the same has been appealed again with the higher committee being GSTC and a hearing date is awaited. No further progress has been made following the objection filing with GAZT for 2015 to 2018 years. Furthermore, GAZT has yet to commence its review and assessments for the year 2019. Management believes that appropriate and adequate provisions have been created and that the finalization of the above mentioned assessments is not expected to have a material impact on the consolidated financial statements for the year ended 2020.

21. SHARE CAPITAL

The authorized, issued and paid up capital of the Company is SAR 1.25 billion at December 31, 2020 (2019: SAR 1.25 billion) consisting of 125 million shares of SAR 10 each.

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

	2020		
	Authorized and issued		**Paid up**
	No. of Shares	**SAR'000**	
Held by the public	**79,025,509**	**790,255**	**790,255**
Public Pension Agency	**23,612,685**	**236,127**	**236,127**
General Organization for Social Insurance	**22,361,806**	**223,618**	**223,618**
	125,000,000	**1,250,000**	**1,250,000**

	2019		
	Authorized and issued		Paid up
	No. of Shares	SAR'000	
Held by the public	79,025,509	790,255	790,255
Public Pension Agency	23,612,685	236,127	236,127
General Organization for Social Insurance	22,361,806	223,618	223,618
	125,000,000	1,250,000	1,250,000

22. SHORT-TERM BORROWINGS

The Company entered into a credit facility on 28 June 2020 of 400 million with Riyadh Bank for SIBOR 3 months + 0.65% for a period of 360 days for it's operations. As at December 31, 2020 the Company has utilised SAR 400 million (December 31, 2019: SAR Nil). The accrued interest expense on this running finance facility amounts to SAR 1.99 million.

23. STATUTORY RESERVE

In accordance with the Articles of Association of the Company and in compliance with Article 70(2)(g) of the Insurance Implementing Regulations issued by SAMA, the Company is required to allocate 20% of its net income for the year to the statutory reserve until it equals the value of share capital. This transfer is only made at the year end. The statutory reserve is not available for distribution to the shareholders until the liquidation of the Company.

24. INSURANCE SHARE DISTRIBUTION

(i) Manafeth shared agreement:

On January 13, 2015 the Company, together with 25 other insurance companies, signed the Manafeth shared agreement relating to third party liability motor insurance which is effective from January 1, 2015. The agreement relates to motor insurance for vehicles entering the Kingdom of Saudi Arabia. The agreement was subsequently renewed for two years from January 1, 2019 to December 31, 2020 with 25 other insurance companies.

The main terms of the agreement are as follows:

- The Company obtains 15% management fee of the net result of the Manafeth portfolio;
- The Company obtains 4.25% of Manafeth's gross premiums written to cover the related indirect expenses; and
- The net result of the Manafeth portfolio after deducting the two above mentioned items is shared equally by the Company and other insurers.

Effective from January 1, 2021, in accordance with a new shared agreement signed together with 3 other insurance companies and Najm Insurance Services "Najm", Najm would be in charge of managing the Manafeth (Outpost Offices) and will be acting as an agent on behalf of the insurers in the agreement. The purpose of this restructuring is to handle the sale of insurance policies for the foreign vehicles entering or crossing the borders of the Kingdom of Saudi Arabia, on behalf of the participating insurance companies. Najm will be sharing the insurance policies equally with the participating insurance companies and the accounting of premiums and related claims cost will be recorded separately by each of the participating insurance companies in their respective financial statements.

(ii) Umrah shared agreement:

On January 1, 2020 the Company, together with 28 other insurance companies, signed the Umrah shared agreement relating to medical and general accidents insurance which is effective from January 1, 2020. The agreement relates to insurance of pilgrims who enter the Kingdom of Saudi Arabia.

The main terms of the agreement are as follows:

- The Company obtains 2% management fee of the net result of the Umrah portfolio;
- The Company obtains 2.5% of Umrah's gross premiums written to cover the related indirect expenses;
- The Company obtains 0.3% of investing portfolio funds;
- The company pays 7.5% brokerage commission of Umrah's gross premiums written through broker;
- The company pays 10% of Umrah's portfolio surplus to Ministry of Hajj and Umrah; and
- The net result of the Umrah portfolio after deducting all the above mentioned items is shared equally by the Company and other insurers.

25. INVESTMENT INCOME, net

	2020	2019
	SAR'000	
Insurance Operations		
Available-for-sale:		
- Dividend income	**2,318**	-
- Commission income	**102,833**	147,988
- Realized gain on sale (Note 8)	**52,336**	-
Investment income, net	**157,487**	147,988
Shareholders Operations		
Available-for-sale:		
- Dividend income	**6,124**	-
- Commission income	**52,027**	104,864
- Realized gain / (loss) on sale (Note 8)	**1,774**	(27,991)
- Investment fees	**(8,620)**	(3,828)
Investment income, net	**51,305**	73,045
Total investment income, net	**208,792**	221,033

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
	SAR'000	
Salaries and benefits	**421,306**	385,486
Advertising	**45,426**	24,769
Insurance, utilities and maintenance	**16,959**	16,591
Rent	**5,073**	6,662
Depreciation (Note 4,6)	**29,445**	24,449
Communications	**10,576**	9,398
Office supplies and printing	**3,359**	3,308
Training and education	**4,478**	4,210
Professional fees	**5,901**	30,137
Indirect cost charge	**9,165**	6,499
License and other charges	**32,104**	22,887
Others	**44,370**	42,857
	628,162	577,253

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share have been calculated by dividing the income for the year by 125 million shares.

28. ACCRUED INVESTMENT INCOME

The Company has recorded an accrued investment income on available-for-sale investments amounting to SAR 2.4 million (2019: SAR 6.3 million).

29. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors. The following are the details of the major related party transactions during the year and the related balances at December 31:

	Amount of transactions for the year ended SAR'000		Balance receivable / (payable) as at SAR'000	
	2020	2019	**2020**	2019
Major shareholders				
Insurance premium written	**62,906**	54,295	**6,786**	3,862
Allowance for doubtful debts	**-**	-	**(476)**	(384)
Claims paid to hospitals	**346**	438	**-**	-
General Organization for Social Insurance - other services	**134**	127	**-**	-
Rent expenses paid	**125**	131	**-**	-
Associates				
Insurance premium written	**742**	15,283	**-**	674
Allowance for doubtful debts	**-**	-	**-**	(70)
Claims paid to hospitals	**-**	17	**-**	-
Waseel fees paid	**3,983**	17,433	-	-
United Insurance Company B.S.C. fees and claims	**7,297**	11,887	**223**	2,663
Entities controlled, jointly controlled or significantly influenced by related parties				
Insurance premiums written	**226,811**	288,730	**129,000**	117,747
Allowance for doubtful debts	**-**	-	**(821)**	(978)
Claims paid to hospitals	**1,610**	2,554	**-**	-
Rent expenses paid	**763**	740	**(561)**	(561)
Amount of claims paid to hospitals	**-**	52,937	**-**	(4,197)

In accordance with the Company's Articles of Association, the Board of Directors is entitled each year to remuneration up to 10% of the remaining profit from Shareholders' operations, as defined, based on a decision by the General Assembly.

Remuneration and compensation of BOD Members and Top Executives

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and five top executives for the year ended December 31, 2020 and 2019:

2020	**BOD members (Executives)**	**BOD members (Non-Executive)**	**Top Executives including the CEO and CFO**
		SAR'000	
Salaries and compensation	**-**	**-**	**7,279**
Allowances	**-**	**763**	**3,063**
Motivational plans	**-**	**-**	**1,556**
Annual remuneration	**-**	**3,780**	**8,710**
End of service indemnities	**-**	**-**	**819**
Total	**-**	**4,543**	**21,427**

2019	BOD members (Executives)	BOD members (Non-Executive)	Top Executives including the CEO and CFO
		SAR'000	
Salaries and compensation	-	-	7,245
Allowances	-	822	2,992
Motivational plans	-	-	2,093
Annual remuneration	-	3,335	2,443
End of service indemnities	-	-	776
Total	-	4,157	15,549

30. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Determination of fair value and fair value hierarchy

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

- Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.
- 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.
- Level 3: valuation techniques for which any significant input is not based on observable market data.

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

	SAR'000			
2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for- sale investments				
Insurance operations				
Local funds (mutual funds)	**-**	**263,364**	**-**	**263,364**
Fixed income investments (Governments and corporations securities)	**1,032,744**	**445,632**	**-**	**1,478,376**
Discretionary portfolio management – equity shares	**176,967**	**-**	**-**	**176,967**
Private equity investment	**-**	**-**	**10,250**	**10,250**
Funds with portfolio manager	**89,707**	**-**	**-**	**89,707**
	1,299,418	**708,996**	**10,250**	**2,018,664**
Shareholders operations				
Local funds (mutual funds)	**-**	**627,028**	**-**	**627,028**
Fixed income investments (Governments and corporations securities)	**27,217**	**139,805**	**-**	**167,022**
Discretionary portfolio management – equity shares	**111,141**	**-**	**-**	**111,141**
Private equity investment	**-**	**-**	**53,145**	**53,145**
Funds with portfolio manager	**41,566**	**-**	**-**	**41,566**
	179,924	**766,833**	**53,145**	**999,902**
Total	**1,479,342**	**1,475,829**	**63,395**	**3,018,566**

	SAR'000			
2019	Level 1	Level 2	Level 3	Total
Available-for- sale investments				
Insurance operations				
Local funds (mutual funds)	-	53,165	-	53,165
Fixed income investments (Governments and corporations securities)	-	1,213,310	-	1,213,310
Discretionary portfolio management – equity shares	157,084	-	-	157,084
Fixed income investments (sukuks)	-	-	6,341	6,341
Funds with portfolio manager	81,624	-	-	81,624
	238,708	1,266,475	6,341	1,511,524
Shareholders operations				
Local funds (mutual funds)	-	598,772	-	598,772
Fixed income investments (Governments and corporations securities)	-	388,344	-	388,344
Discretionary portfolio management – equity shares	122,723	-	-	122,723
Private equity investment	-	-	53,145	53,145
Funds with portfolio manager	72,240	-	-	72,240
	194,963	987,116	53,145	1,235,224
Total	433,671	2,253,591	59,486	2,746,748

30. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The valuation of each publicly traded investment classified under level 1 is based upon the closing market price of that security as of the valuation date, less a discount if the security is restricted. The fair value of Level 2 fixed income investments and mutual funds are taken from reliable and third party sources including Reuters, Bloomberg, etc. Fair value of private equity investment and mutual funds classified in Level 3 are determined based on the investees' latest reported net assets values and fund administrator reports as at the date of the consolidated statement of financial position taking into account the fair value of underlying investments by the fund. Fair values of sukuks classified in Level 3 are determined based on discounted cash flows, which incorporate assumptions regarding an appropriate credit spread. There were no transfers in between levels during the year ended December 31, 2020 and 2019. As at December 31, 2020, the Company has invested an amount of SAR 2.9 billion (2019: SAR 2.5 billion) classified under available for sale investments in Shariah Notes issued by Cayman Shariah Vehicle.

The fair values of statutory deposits, accrued investment income on statutory deposit, mudaraba / murabaha deposits, bank balances and other financial assets in the consolidated statement of financial position which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements due to the short term nature of balances.

Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy

				SAR'000		
				Total gain or loss recognised in		
December 31, 2020	**Balance January 1**	**Purchases / Transfers**	**Sales**	**Consolidated statement of income**	**Other comprehensive income**	**Balance December 31**
Insurance operations						
Sukuks	**6,341**	**-**	**(6,341)**	**-**	**-**	**-**
Private equity investment	**-**	**10,250**	**-**	**-**	**-**	**10,250**
	6,341	**10,250**	**(6,341)**	**-**	**-**	**10,250**
Shareholders operations						
Private equity investment	**53,145**	**-**	**-**	**-**	**-**	**53,145**
	53,145	**-**	**-**	**-**	**-**	**53,145**
Total	**59,486**	**10,250**	**(6,341)**	**-**	**-**	**63,395**

				SAR'000		
				Total gain or loss recognised in		
December 31, 2019	Balance January 1	Purchases / Re-class	Sales/ Re-class	Consolidated statement of income	Other comprehensive income	Balance December 31
Insurance operations						
Sukuks	225,140	-	(218,799)	-	-	6,341
	225,140	-	(218,799)	-	-	6,341
Shareholders operations						
Mutual funds	601,629	37,500	(707,071)	(26,846)	94,788	-
Private equity investment	-	53,145	-	-	-	53,145
Sukuks	90,000	-	(90,000)	-	-	-
	691,629	90,645	(797,071)	(26,846)	94,788	53,145
Total	916,769	90,645	(1,015,870)	(26,846)	94,788	59,486

30. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The below table shows significant unobservable inputs used in the valuation of level 3 investments.

Description	Fair value as at Dec 31, 2020 (SAR)	Fair value as at Dec 31, 2019 (SAR)	Unobservable Inputs	Range of inputs 2020 & 2019	Relationships of unobservable inputs to fair value
Sukuks	-	6,341	Assumption of credit spreads, rates, etc.	+/- 0.1%	Increased risk premium of 10 bps will have a change in fair value of these debt securities of Nil (2019: SAR 0.06 million)
Private equity investment	63,395	53,145	Annual growth rate 6%	+/- 25%	N/A

Sensitivity analysis of Level 3 investments

December 31, 2020	**Sensitivity factor**	**Impact on fair value due to increase in sensitivity factor**	**Impact on fair value due to decrease in sensitivity factor**
		SAR'000	
Insurance Operations			
Private equity investment	**+/- 10% change in credit spread**	1,025	(1,025)
Shareholders operations			
Private equity investment	**+/- 10% change in credit spread**	5,315	(5,315)

December 31, 2019	Sensitivity factor	Impact on fair value due to increase in sensitivity factor	Impact on fair value due to decrease in sensitivity factor
		SAR'000	
Insurance Operations			
Sukuks	+/- 10% change in credit spread	634	(634)
Shareholders operations			
Private equity investment	+/- 10% change in credit spread	5,315	(5,315)

31. OPERATING SEGMENTS

Consistent with the Company's internal reporting process, operating segments have been approved by the management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker.

Segment assets do not include insurance operations' property and equipment, intangible assets, investment properties, available for sale investments, mudaraba / murabaha deposits, prepaid expenses and other assets, receivables, net, accrued investment income and cash and cash equivalents. Accordingly, they are included in unallocated assets. Segment liabilities do not include insurance operations' surplus distribution payable, defined benefits obligation, claims payable, accrued expenses and other liabilities, short term borrowings and reinsurers' balances payable. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premiums receivable and depreciation on the property and equipment) are not reported to chief operating decision maker under related segments and are monitored on a centralized basis. Total shareholders' operation also include balances from the subsidiary "Teejan Al- Khaleej" that has been consolidated this year.

31. OPERATING SEGMENTS (Continued)

	2020									
Operating Segments	**Medical**	**Medical - Umrah**	**Motor**	**Manafeth**	**Property & casualty**	**General Accidents - Umrah**	**Protection & Savings**	**Total - Insurance operations**	**Total Shareholders' operations**	**Total**
	SAR'000									
REVENUES										
Gross premiums written										
- Retail	27,027	145,176	497,145	75,931	19,450	92,385	264	857,378		857,378
- Micro Enterprises	348,577	-	19,070	-	18,651	-	-	386,298		386,298
- Small Enterprises	244,336	-	11,812	-	24,146	-	186	280,480		280,480
- Medium Enterprises	287,308	-	27,678	-	30,237	-	926	346,149		346,149
- Corporates	5,662,745	-	44,993	-	1,453,399	-	30,326	7,191,463		7,191,463
	6,569,993	145,176	600,698	75,931	1,545,883	92,385	31,702	9,061,768		9,061,768
Reinsurance ceded - local	-	-	-	-	(72,281)	-	(23,488)	(95,769)		(95,769)
Reinsurance ceded - international	(1,332)	-	-	-	(1,375,919)	-	(5,326)	(1,382,577)		(1,382,577)
Excess of loss premiums	-	-	(5,299)	(2,634)	(11,348)	(2,903)	-	(22,184)		(22,184)
Fees income from takaful	-	-	-	-	-	-	6,667	6,667		6,667
Net premiums written	6,568,661	145,176	595,399	73,297	86,335	89,482	9,555	7,567,905		7,567,905
Changes in unearned premiums, net	(551,772)	(22)	16,678	8,439	988	(14)	183	(525,520)		(525,520)
Net premiums earned	6,016,889	145,154	612,077	81,736	87,323	89,468	9,738	7,042,385		7,042,385
Reinsurance commissions	1,303	-	-	-	115,423	-	-	116,726		116,726
Other underwriting income	1,362	-	4,051	-	1,476	-	-	6,889		6,889
TOTAL REVENUES	6,019,554	145,154	616,128	81,736	204,222	89,468	9,738	7,166,000		7,166,000
UNDERWRITING COSTS AND EXPENSES										
Gross claims paid and expenses incurred related to claims	5,452,457	54,824	311,972	18,489	1,063,816	2,432	30,450	6,934,440		6,934,440
Reinsurers' share of claims paid	(55,939)	-	(4,352)	-	(1,038,634)	-	(28,456)	(1,127,381)		(1,127,381)
Net claims and other benefits paid	5,396,518	54,824	307,620	18,489	25,182	2,432	1,994	5,807,059		5,807,059
Changes in outstanding claims, net	(31,068)	-	(5,157)	4,270	1,120	-	472	(30,363)		(30,363)
Changes in incurred but not reported claims reserve, net	(299,209)	277	(5,345)	(6,569)	(27,950)	31	471	(338,294)		(338,294)
Changes in premium deficiency reserves	34,707	-	-	-	14,898	-	(34)	49,571		49,571
Net claims and other benefits incurred	5,100,948	55,101	297,118	16,190	13,250	2,463	2,903	5,487,973		5,487,973
Changes in reserve for takaful activities	-	-	-	-	-	-	(1,462)	(1,462)		(1,462)
Policy acquisition costs	231,165	10,887	82,231	26,479	40,063	6,928	814	398,567		398,567
Other underwriting expenses	93,617	14,172	(996)	4,430	6,101	11,814	815	129,953		129,953
Insurance share distribution	-	57,751	-	22,072	-	62,712	-	142,535		142,535
TOTAL UNDERWRITING COSTS AND EXPENSES	5,425,730	137,911	378,353	69,171	59,414	83,917	3,070	6,157,566		6,157,566
Net underwriting income	593,824	7,243	237,775	12,565	144,808	5,551	6,668	1,008,434		1,008,434
General and administrative expenses								(622,165)	(5,997)	(628,162)
Allowance for doubtful debts								(49,199)	-	(49,199)
Investment income, net								157,487	51,305	208,792
Share of profit from investments in equity accounted investments, net								(108)	15,152	15,044
Impairment of available for sale investments								(2,637)	(2,175)	(4,812)
Other income, net								14,292	680	14,972
Net income for the year before attribution and zakat								506,104	58,965	565,069

31. OPERATING SEGMENTS (Continued)

	2019							
Operating Segments	Medical	Motor	Manafeth	Property & casualty	Protection & Savings	Total - Insurance operations	Total Shareholders' operations	Total
	SAR'000							
REVENUES								
Gross premiums written								
- Retail	31,612	550,946	152,927	25,472	419	761,376		761,376
- Micro Enterprises	232,100	16,600	-	47,696	-	296,396		296,396
- Small Enterprises	303,452	14,951	-	22,748	195	341,346		341,346
- Medium Enterprises	401,940	19,882	-	17,744	1,073	440,639		440,639
- Corporates	4,967,790	36,268	-	1,507,435	24,610	6,536,103		6,536,103
	5,936,894	638,647	152,927	1,621,095	26,297	8,375,860		8,375,860
Reinsurance ceded - local	-	-	-	(72,861)	(16,887)	(89,748)		(89,748)
Reinsurance ceded - international	(97,870)	-	-	(1,455,877)	(6,693)	(1,560,440)		(1,560,440)
Excess of loss premiums	-	(12,895)	(1,958)	(5,461)	-	(20,314)		(20,314)
Fees income from takaful	-	-	-	-	6,666	6,666		6,666
Net premiums written	5,839,024	625,752	150,969	86,896	9,383	6,712,024		6,712,024
Changes in unearned premiums, net	155,397	1,532	(2,583)	10,636	312	165,294		165,294
Net premiums earned	5,994,421	627,284	148,386	97,532	9,695	6,877,318		6,877,318
Reinsurance commissions	2,777	148	-	119,513	-	122,438		122,438
Other underwriting income	-	10,530	-	-	-	10,530		10,530
TOTAL REVENUES	5,997,198	637,962	148,386	217,045	9,695	7,010,286		7,010,286
UNDERWRITING COSTS AND EXPENSES								
Gross claims paid and expenses incurred related to claims	5,370,659	336,889	26,685	1,227,345	13,580	6,975,158		6,975,158
Reinsurers' share of claims paid	(80,163)	(8,131)	-	(1,201,662)	(12,386)	(1,302,342)		(1,302,342)
Net claims and other benefits paid	5,290,496	328,758	26,685	25,683	1,194	5,672,816		5,672,816
Changes in outstanding claims, net	639	41,801	3,551	(5,776)	(1,117)	39,098		39,098
Changes in incurred but not reported claims reserve, net	153,124	(46,280)	(325)	(1,128)	123	105,514		105,514
Changes in premium deficiency reserves	(4,510)	-	-	34	34	(4,442)		(4,442)
Net claims and other benefits incurred	5,439,749	324,279	29,911	18,813	234	5,812,986		5,812,986
Changes in reserve for takaful activities	-	-	-	-	(3,684)	(3,684)		(3,684)
Policy acquisition costs	200,652	86,264	32,413	39,719	925	359,973		359,973
Other underwriting expenses	54,880	(28,060)	11,295	(26,349)	1,912	13,678		13,678
Insurance share distribution	-	-	57,378	-	-	57,378		57,378
TOTAL UNDERWRITING COSTS AND EXPENSES	5,695,281	382,483	130,997	32,183	(613)	6,240,331		6,240,331
Net underwriting income	301,917	255,479	17,389	184,862	10,308	769,955		769,955
General and administrative expenses						(569,103)	(8,150)	(577,253)
Allowance for doubtful debts						(28,844)	-	(28,844)
Investment income, net						147,988	73,045	221,033
Share of profit from investments in in equity accounted investments, net						2,437	28,723	31,160
Other income, net						20,397	-	20,397
Net income for the year before attribution and zakat						342,830	93,618	436,448

31. OPERATING SEGMENTS (Continued)

Operating Segments	As at December 31, 2020									
	Medical	Medical - Umrah	Motor	Manafeth	Property & casualty	General Accidents - Umrah	Protection & Savings	Total - Insurance operations	Total Shareholders' operations	Total
	SAR'000									
Assets										
Deferred excess of loss premiums	-	-	-	443	12,280	-	-	12,723		12,723
Deferred policy acquisition costs	92,474	2	22,907	1,075	18,052	1	213	134,724		134,724
Reinsurer's share of gross outstanding claims	21	-	18,674	5,038	1,919,448	-	19,389	1,962,570		1,962,570
Reinsurer's share of incurred but not reported claims	7,344	-	6,503	-	264,912	-	11,025	289,784		289,784
Reinsurer's share of unearned premiums	-	-	-	-	680,291	-	3,407	683,698		683,698
Unallocated assets:										
Investments (includes investment properties, investments in equity accounted investments, available for sale investments, mudaraba / murabaha deposits and accrued investment income)								3,373,600	2,929,752	6,303,352
Receivables, net								3,480,289		3,480,289
Cash and cash equivalents								337,359	108,435	445,794
Other unallocated assets								816,454	127,774	944,228
Total assets								11,091,465	3,165,961	14,257,426
Liabilities										
Reserve for takaful activities	-	-	-	-	-	-	3,544	3,544		3,544
Gross outstanding claims	225,320	-	189,561	24,951	2,055,952	-	20,868	2,516,652		2,516,652
Incurred but not reported claims reserve	1,119,716	277	149,579	7,028	260,835	31	11,884	1,549,350		1,549,350
Premium deficiency reserve	34,707	-	-	-	17,694	-	-	52,401		52,401
Unearned commission income	-	-	-	-	36,761	-	777	37,538		37,538
Gross unearned premiums	3,253,532	22	309,300	18,207	734,376	14	3,927	4,319,378		4,319,378
Unallocated liabilities:										
Reinsurers' balances payable								254,559		254,559
Other unallocated liabilities								2,355,152	359,490	2,714,642
Total liabilities								11,088,574	359,490	11,448,064

31. OPERATING SEGMENTS (continued)

Operating Segments	As at December 31, 2019							
	Medical	Motor	Manafeth	Property & casualty	Protection & Savings	Total - Insurance operations	Total - Shareholders' operations	Total
	SAR'000							
Assets								
Deferred excess of loss premiums	-	2,650	-	5,064	-	7,714		7,714
Deferred policy acquisition costs	84,932	21,645	1,431	12,447	390	120,845		120,845
Reinsurer's share of gross outstanding claims	22	20,581	5,241	3,057,935	16,667	3,100,446		3,100,446
Reinsurer's share of incurred but not reported claims	24,365	13,017	-	285,815	4,527	327,724		327,724
Reinsurer's share of unearned premiums	51,951	-	-	659,903	4,105	715,959		715,959
Unallocated assets:								
Investments (includes investment properties, investments in equity accounted investments, available for sale investments, mudaraba / murabaha deposits and accrued investment income)						3,113,846	3,289,992	6,403,838
Receivables, net						1,495,894		1,495,894
Cash and cash equivalents						1,297,401	9,149	1,306,550
Other unallocated assets						508,002	127,513	635,515
Total assets						10,687,831	3,426,654	14,114,485
Liabilities								
Reserve for takaful activities	-	-	-	-	5,006	5,006		5,006
Gross outstanding claims	256,389	196,625	20,884	3,193,319	17,674	3,684,891		3,684,891
Incurred but not reported claims reserve	1,435,946	161,438	13,597	309,688	4,915	1,925,584		1,925,584
Premium deficiency reserve	-	-	-	2,796	34	2,830		2,830
Unearned commission income	1,271	-	-	41,170	882	43,323		43,323
Gross unearned premiums	2,753,711	325,978	26,646	714,976	4,808	3,826,119		3,826,119
Unallocated liabilities:								
Reinsurers' balances payable						523,820		523,820
Other unallocated liabilities						1,334,585	268,638	1,603,223
Total liabilities						11,346,158	268,638	11,614,796

32. SUPPLEMENTARY INFORMATION

a) Consolidated statement of financial position

	As at December 31, 2020			As at December 31, 2019		
	Insurance operations	**Shareholders' operations**	**Total**	Insurance operations	Shareholders' operations	Total
			SAR'000			
ASSETS						
Statutory deposit	-	125,000	125,000	-	125,000	125,000
Accrued income on statutory deposit	-	2,774	2,774	-	2,513	2,513
Property and equipment, net	191,851	-	191,851	206,553	-	206,553
Intangible assets	7,708	-	7,708	3,971	-	3,971
Investment properties	62,138	-	62,138	63,427	-	63,427
Investments in equity accounted investments	-	85,319	85,319	10,358	91,162	101,520
Available for sale investments	2,018,664	999,902	3,018,566	1,511,524	1,235,224	2,746,748
Mudaraba / murabaha deposits	1,291,465	1,843,467	3,134,932	1,577,912	1,961,464	3,539,376
Due from / to Shareholder's operations	(27,091)	27,091	-	758,558	(758,558)	-
Prepaid expenses and other assets	616,895	-	616,895	243,912	-	243,912
Deferred excess of loss premiums	12,723	-	12,723	7,714	-	7,714
Deferred policy acquisition costs	134,724	-	134,724	120,845	-	120,845
Reinsurers' share of gross outstanding claims	1,962,570	-	1,962,570	3,100,446	-	3,100,446
Reinsurers' share of incurred but not reported claims	289,784	-	289,784	327,724	-	327,724
Reinsurers' share of unearned premiums	683,698	-	683,698	715,959	-	715,959
Receivables, net	3,480,553	-	3,480,553	1,495,894	-	1,495,894
Accrued investment income	1,333	1,064	2,397	4,191	2,142	6,333
Cash and cash equivalents	337,359	108,435	445,794	1,297,401	9,149	1,306,550
TOTAL ASSETS	11,064,374	3,193,052	14,257,426	11,446,389	2,668,096	14,114,485
LIABILITIES						
Surplus distribution payable	84,893	-	84,893	34,283	-	34,283
Defined benefits obligation	134,990	-	134,990	129,480	-	129,480
Return payable on statutory deposit	-	2,774	2,774	-	2,513	2,513
Claims payable, accrued expenses and other liabilities	1,733,271	4,081	1,737,352	1,170,822	4,160	1,174,982
Short term borrowings	401,998	-	401,998	-	-	-
Reserve for takaful activities	3,544	-	3,544	5,006	-	5,006
Gross outstanding claims	2,516,652	-	2,516,652	3,684,891	-	3,684,891
Incurred but not reported claims reserve	1,549,350	-	1,549,350	1,925,584	-	1,925,584
Premium deficiency reserve	52,401	-	52,401	2,830	-	2,830
Unearned commission income	37,538	-	37,538	43,323	-	43,323
Gross unearned premiums	4,319,378	-	4,319,378	3,826,119	-	3,826,119
Reinsurers' balances payable	254,559	-	254,559	523,820	-	523,820
Dividends payable	-	6,411	6,411	-	6,411	6,411
Zakat payable	-	346,224	346,224	-	255,554	255,554
TOTAL LIABILITIES	11,088,574	359,490	11,448,064	11,346,158	268,638	11,614,796
EQUITY						
Share capital	-	1,250,000	1,250,000	-	1,250,000	1,250,000
Statutory reserve	-	1,144,183	1,144,183	-	1,065,517	1,065,517
Fair value reserve for investments	(3,939)	93,475	89,536	114,771	52,701	167,472
Remeasurement of defined benefits obligation	(20,261)	-	(20,261)	(14,540)	-	(14,540)
Retained earnings	-	345,904	345,904	-	31,240	31,240
TOTAL EQUITY	(24,200)	2,833,562	2,809,362	100,231	2,399,458	2,499,689
TOTAL LIABILITIES AND EQUITY	11,064,374	3,193,052	14,257,426	11,446,389	2,668,096	14,114,485

32. SUPPLEMENTARY INFORMATION (continued)

b) **Consolidated statement of income**

	2020			2019		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR'000			
REVENUES						
Gross premiums written	**9,061,768**		**9,061,768**	8,375,860		8,375,860
Reinsurance ceded	**(1,478,346)**		**(1,478,346)**	(1,650,188)		(1,650,188)
Excess of loss premiums	**(22,184)**		**(22,184)**	(20,314)		(20,314)
Fee income from takaful	**6,667**		**6,667**	6,666		6,666
Net premiums written	**7,567,905**		**7,567,905**	6,712,024		6,712,024
Changes in unearned premiums, net	**(525,520)**		**(525,520)**	165,294		165,294
Net premiums earned	**7,042,385**		**7,042,385**	6,877,318		6,877,318
Reinsurance commissions	**116,726**		**116,726**	122,438		122,438
Other underwriting income	**6,889**		**6,889**	10,530		10,530
Total revenues	**7,166,000**		**7,166,000**	7,010,286		7,010,286
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	**6,876,704**		**6,876,704**	6,955,833		6,955,833
Expenses incurred related to claims	**57,736**		**57,736**	19,325		19,325
Reinsurers' share of claims paid	**(1,127,381)**		**(1,127,381)**	(1,302,342)		(1,302,342)
Net claims and other benefits paid	**5,807,059**		**5,807,059**	5,672,816		5,672,816
Changes in outstanding claims, net	**(30,363)**		**(30,363)**	39,098		39,098
Changes in incurred but not reported claims, net	**(338,294)**		**(338,294)**	105,514		105,514
Changes in premium deficiency reserves	**49,571**		**49,571**	(4,442)		(4,442)
Net claims and other benefits incurred	**5,487,973**		**5,487,973**	5,812,986		5,812,986
Changes in reserves for takaful activities	**(1,462)**		**(1,462)**	(3,684)		(3,684)
Policy acquisition costs	**398,567**		**398,567**	359,973		359,973
Other underwriting expenses	**129,953**		**129,953**	13,678		13,678
Insurers share distribution	**142,535**		**142,535**	57,378		57,378
Total underwriting costs and expenses	**6,157,566**		**6,157,566**	6,240,331		6,240,331
Net underwriting income	**1,008,434**		**1,008,434**	769,955		769,955
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses	**(622,165)**	**(5,997)**	**(628,162)**	(569,103)	(8,150)	(577,253)
Allowance for doubtful debts	**(49,199)**	**-**	**(49,199)**	(28,844)	-	(28,844)
Investment income, net	**157,487**	**51,305**	**208,792**	147,988	73,045	221,033
Share of profit from investments in equity accounted investments, net	**(108)**	**15,152**	**15,044**	2,437	28,723	31,160
Impairment of available for sale investments	**(2,637)**	**(2,175)**	**(4,812)**			
Other income, net	**14,292**	**680**	**14,972**	20,397	-	20,397
Net income for the year before attribution and zakat	**506,104**	**58,965**	**565,069**	342,830	93,618	436,448
Surplus transferred to Shareholders' operations	**(455,494)**	**455,494**	**-**	(308,547)	308,547	-
Net income for the year after Shareholders' appropriations before zakat	**50,610**	**514,459**	**565,069**	34,283	402,165	436,448
Zakat charge for the year	**-**	**(121,129)**	**(121,129)**	-	(74,579)	(74,579)
Net income for the year after zakat	**50,610**	**393,330**	**443,940**	34,283	327,586	361,869

32. SUPPLEMENTARY INFORMATION (continued)

c) Consolidated statement of comprehensive income

	2020			2019		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR'000			
Net income for the year after zakat	**50,610**	**393,330**	**443,940**	34,283	327,586	361,869
Other comprehensive income:						
Not to be recycled back to the consolidated statement of income in subsequent years:						
Remeasurement of defined benefits obligation	**(5,721)**	**-**	**(5,721)**	(2,314)	-	(2,314)
To be recycled back to the consolidated statement of income in subsequent years:						
Available for sale investments						
- Net change in fair value	**(69,011)**	**41,127**	**(27,884)**	193,377	143,375	336,752
- Net amounts transferred to the consolidated statement of income	**(49,699)**	**401**	**(49,298)**	-	27,991	27,991
Share of other comprehensive income of investment in in equity accounted investments	**-**	**(754)**	**(754)**	-	1,453	1,453
Total comprehensive income for the year	**(73,821)**	**434,104**	**360,283**	225,346	500,405	725,751
Reconciliation:						
Less: Net income attributable to insurance operations transferred to surplus distribution payable			**(50,610)**			(34,283)
Total comprehensive income for the year			**309,673**			691,468

32. SUPPLEMENTARY INFORMATION (continued)

d) Consolidated Statement of cash flows

	2020			2019		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR'000			
Operating activities:						
Net income for the year before attribution and zakat	**-**	**514,459**	**514,459**	-	402,165	402,165
Adjustments for non-cash items:						
Net income attributed to the insurance operations	**50,610**	**-**	**50,610**	34,283	-	34,283
Depreciation	**29,445**	**-**	**29,445**	24,449	-	24,449
Amortisation of intangible assets	**1,057**	**-**	**1,057**	6,128	-	6,128
Loss on sale of property and equipment	**-**	**-**	**-**	36	-	36
Allowance for / (reversal of) doubtful debts	**49,199**	**-**	**49,199**	(7,898)	-	(7,898)
Dividend and commission income	**(105,151)**	**(58,151)**	**(163,302)**	(147,988)	(104,864)	(252,852)
(Gain) / loss on sale of available-for-sale investments	**(52,336)**	**(1,774)**	**(54,110)**	-	27,991	27,991
Impairment of available-for-sale-investments	**2,637**	**2,175**	**4,812**	-	-	-
Finance cost	**1,998**	**-**	**1,998**	-	-	-
Share of profit from investments in equity accounted investments, net	**108**	**(15,152)**	**(15,044)**	(2,437)	(28,723)	(31,160)
Provision for defined benefits obligation	**14,255**	**-**	**14,255**	12,832	-	12,832
	(8,178)	**441,557**	**433,379**	(80,595)	296,569	215,974
Changes in operating assets and liabilities:						
Prepaid expenses and others assets	**(372,983)**	**-**	**(372,983)**	17,176	-	17,176
Deferred excess of loss premiums	**(5,009)**	**-**	**(5,009)**	1,061	-	1,061
Deferred policy acquisition costs	**(13,879)**	**-**	**(13,879)**	9,806	-	9,806
Reinsurers' share of outstanding claims	**1,137,876**	**-**	**1,137,876**	(374,637)	-	(374,637)
Reinsurers' share of claims incurred but not reported	**37,940**	**-**	**37,940**	(135,887)	-	(135,887)
Reinsurers' share of unearned premiums	**32,261**	**-**	**32,261**	(171,120)	-	(171,120)
Receivables, net	**(2,033,858)**	**-**	**(2,033,858)**	29,991	-	29,991
Reinsurers' balances payable	**(269,261)**	**-**	**(269,261)**	429,100	-	429,100
Gross unearned premiums	**493,259**	**-**	**493,259**	5,826	-	5,826
Unearned commission income	**(5,785)**	**-**	**(5,785)**	4,024	-	4,024
Gross outstanding claims	**(1,168,239)**	**-**	**(1,168,239)**	413,735	-	413,735
Incurred but not reported claims reserve	**(376,234)**	**-**	**(376,234)**	241,401	-	241,401
Premium deficiency reserve	**49,571**	**-**	**49,571**	(4,442)	-	(4,442)
Reserve for takaful activities	**(1,462)**	**-**	**(1,462)**	(3,684)	-	(3,684)
Claims payable, accrued expenses and other liabilities	**562,449**	**(79)**	**562,370**	(336,079)	(3,662)	(339,741)
	(1,941,532)	**441,478**	**(1,500,054)**	45,676	292,907	338,583
Zakat paid during the year	**-**	**(30,459)**	**(30,459)**	-	(56,105)	(56,105)
Defined benefits obligation paid	**(14,466)**	**-**	**(14,466)**	(18,942)	-	(18,942)
Net cash flows (used in) / generated from operating activities	**(1,955,998)**	**411,019**	**(1,544,979)**	26,734	236,802	263,536

32. SUPPLEMENTARY INFORMATION (continued)

d) Consolidated Statement of cash flows (continued)

	2020			2019		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR'000			
Investing activities:						
Proceeds from sale of available-for-sale investments	**1,211,221**	**969,535**	**2,180,756**	430,787	992,865	1,423,652
Purchase of available-for-sale investments	**(1,777,122)**	**(693,086)**	**(2,470,208)**	(514,027)	(414,491)	(928,518)
Proceeds from maturity of mudaraba / murabaha deposits	**4,973,669**	**5,723,747**	**10,697,416**	5,344,434	4,253,068	9,597,502
Placement in mudaraba / murabaha deposits	**(4,687,222)**	**(5,605,750)**	**(10,292,972)**	(5,534,846)	(5,362,907)	(10,897,753)
Dividend and commission income received	**108,009**	**59,229**	**167,238**	143,797	102,722	246,519
Dividends received from investments in in equity accounted investments	**-**	**20,241**	**20,241**	-	26,209	26,209
Purchase of property and equipment	**(13,454)**	**-**	**(13,454)**	(18,371)	-	(18,371)
Purchase of intangible assets	**(4,794)**	**-**	**(4,794)**	(6,466)	-	(6,466)
Net cash flows (used in) / generated from investing activities	**(189,693)**	**473,916**	**284,223**	(154,692)	(402,534)	(557,226)
Financing activities:						
Proceeds from Short-term borrowings	**400,000**	**-**	**400,000**	-	-	-
Due to shareholders	**785,649**	**(785,649)**	**-**	308,101	(308,101)	-
Net cash flows generated from / (used in) financing activities	**1,185,649**	**(785,649)**	**400,000**	308,101	(308,101)	-
Net change in cash and cash equivalents during the year	**(960,042)**	**99,286**	**(860,756)**	180,143	(473,833)	(293,690)
Cash and cash equivalents, beginning of the year	**1,297,401**	**9,149**	**1,306,550**	1,117,258	482,982	1,600,240
Cash and cash equivalents, end of the year	**337,359**	**108,435**	**445,794**	1,297,401	9,149	1,306,550
Non-cash supplemental information:						
Changes in fair value for available-for-sale investments	**(118,710)**	**41,528**	**(77,182)**	193,377	171,366	364,743
Share of other comprehensive income in equity accounted investments	**-**	**(754)**	**(754)**	-	1,453	1,453
Loss on remeasurement of defined benefits obligation	**(5,721)**	**-**	**(5,721)**	(2,314)	-	(2,314)
Reclassification to available-for-sale investments from investment in equity accounted investments	**10,250**	**-**	**10,250**	-	-	-

33. RISK MANAGEMENT

(a) Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefits payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid being greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.

Significant portion of reinsurance business ceded is placed on treaty and facultative basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the consolidated statement of financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligation to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligation assumed under such reinsurance arrangements.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management.

Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in medical segment.

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

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

Sources of uncertainty in estimation of future claim payments

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the consolidated statement of financial position date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the consolidated statement of financial position date.

33. RISK MANAGEMENT (Continued)

(a) Insurance risk (continued)

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

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

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve in result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as at the consolidated statement of financial position date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

Sensitivity analysis
The Company believes that the claim liabilities under insurance contracts outstanding at the year end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the consolidated financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process.

A hypothetical 10% change in the claim ratio, net of reinsurance, would impact income from insurance operations as follows;

	Surplus from insurance operations	
Impact of change in claim ratio by + / - 10%	**2020**	2019
	SAR'000	
Medical	**137,238**	166,795
Medical -Umrah	**28**	-
Motor	**31,396**	35,371
Manafeth	**2,694**	2,924
Property and casualty	**15,012**	16,205
General Accidents - Umrah	**3**	-
Protection & Savings	**234**	143
	186,605	221,438

(b) Reinsurance risk

In order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes.

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

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

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

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

Reinsurance ceded contracts do not relieve the Company from its obligation 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 obligation under the reinsurance agreements.

33. RISK MANAGEMENT (Continued)

(c) Market Risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market commission rates or the market price of securities or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

The Board of Directors of the Company ensure that the overall market risk exposure is maintained at prudent levels and is consistent with the available capital. While the Board gives a strategic direction and goals, risk management function related to market risk is mainly the responsibility of investment management team supported by risk management team. The team prepares forecasts showing the effects of various possible changes in market conditions related to risk exposures. This risk is being mitigated through the proper selection of securities. The Company maintains diversified portfolio and performs regular monitoring of developments in related markets. In addition, the key factors that affect stock and sukuk market movements are monitored, including analysis of the operational and financial performance of investees.

Market risk comprises of three types of risk: currency risk, commission rate risk and other price risk.

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

The Company has foreign currency transactions in respect of its insurance activities, available for sale investments and mudaraba / murabaha deposits which are predominantly conducted in USD and SAR. The Company is not exposed to its dealing in USD since SAR is pegged with USD. The transactions in currencies other than SAR and USD are not significant and accordingly the Company is not exposed to currency risk.

Commission Rate Risk
The Company invests in securities and has deposits that are subject to commission rate risk. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates and by investing in floating rate instruments.

An increase or decrease of 100 basis points in interest yields would result in a change in the profit for the year by SAR 3.1 million (2019: SAR 3.6 million).

The commission and non-commission bearing investments of the Company and their maturities as at December 31, 2020 and 2019 are as follows:

	Less than 1 year	More than 1 year	Non-commission bearing	Total
Insurance Operations		SAR'000		
2020				
Mudaraba / murabaha deposits	**1,291,465**	**-**	**-**	**1,291,465**
Available for sale investments	**24,574**	**847,267**	**1,146,823**	**2,018,664**
Cash and cash equivalents	**-**	**-**	**337,359**	**337,359**
Total	**1,316,039**	**847,267**	**1,484,182**	**3,647,488**
2019				
Mudaraba / murabaha deposits	1,577,912	-	-	1,577,912
Available for sale investments	-	1,219,651	291,873	1,511,524
Cash and cash equivalents	-	-	1,297,401	1,297,401
Total	1,577,912	1,219,651	1,589,274	4,386,837
Shareholders Operations				
2020				
Mudaraba / murabaha deposits	**1,843,467**	**-**	**-**	**1,843,467**
Available for sale investments	**3,048**	**171,284**	**825,570**	**999,902**
Cash and cash equivalents	**-**	**-**	**108,435**	**108,435**
Total	**1,846,515**	**171,284**	**934,005**	**2,951,804**
2019				
Mudaraba / murabaha deposits	1,961,464	-	-	1,961,464
Available for sale investments	-	388,344	846,880	1,235,224
Cash and cash equivalents	-	-	9,149	9,149
Total	1,961,464	388,344	856,029	3,205,837

33. RISK MANAGEMENT (Continued)

(c) Market risk (continued)

The impact of hypothetical change of a 10% increase and 10% decrease in the commission rates of investments on the Company's profit would be as follows:

	Rate change	Effect on Company's income SAR'000
December 31, 2020	+ / - 10%	15,486
December 31, 2019	+ / - 10%	25,285

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from commission rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company's investments amounting SAR 351.5 million (2019: SAR 332.9 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

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

	Fair value change	Effect on Company's income SAR'000
December 31, 2020	+ / - 10%	35,150
December 31, 2019	+ / - 10%	33,297

The sensitivity analysis presented is based upon the portfolio position as at December 31, 2020 and 2019. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company. The sensitivity of level 3 investments is disclosed in note 30.

(d) Credit Risk

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

The Company seeks to manage its credit risk with respect to customers by following the Company's credit control policy and monitoring outstanding receivables on an on-going basis in order to reduce the Company's exposure to bad debts. The management estimates specific impairment provisions on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the premiums receivable. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits and investments with reputable financial institutions. The Company enters into reinsurance contracts with recognised, creditworthy third parties (rated A or above).

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

	2020	2019
	SAR'000	
ASSETS - INSURANCE OPERATIONS		
Cash and cash equivalents	**337,359**	1,297,401
Receivables, net	**3,480,553**	1,495,894
Available-for-sale investments	**2,018,664**	1,511,524
Mudaraba / murabaha deposits	**1,291,465**	1,577,912
Accrued investment income	**1,333**	4,191
Other assets	**576,912**	203,753
Reinsurers' share of gross outstanding claims, net (including IBNR)	**2,252,354**	3,428,170
Total	**9,958,640**	9,518,845

33. RISK MANAGEMENT (Continued)

(d) Credit risk (Continued)

	2020	2019
	SAR'000	
ASSETS - SHAREHOLDERS' OPERATIONS		
Cash and cash equivalents	**108,435**	9,149
Available-for-sale investments	**999,902**	1,235,224
Mudaraba / murabaha deposits	**1,843,467**	1,961,464
Accrued investment income	**1,064**	2,142
Statutory deposit (including accrued income)	**127,774**	127,513
Total	**3,080,642**	3,335,492

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Approximately 99% (2019: approximately 99%) of the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk. For concentration of credit risk pertaining to receivables, refer note 13. The Company has significant exposure amounting to SAR 2.9 billion (2019: SAR 2.5 billion) classified as available for sale investments in Shariah Notes issued by Castle Investments Limited (Refer Note 8).

Credit risk exposure investments

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade ratings refers to companies with sound credit standing of AA to BBB- (as per S&P) and/or Aaa to Baa3 (as per Moody's). Ratings below the mentioned threshold are considered sub-investment grade with a higher default risk.

	2020 SAR '000			2019 SAR '000		
ASSETS INSURANCE OPERATIONS	**Investment Grade**	**Non-investment Grade**	**Unrated**	Investment Grade	Non-investment Grade	Unrated
Available-for-sale investments	**2,018,664**	**-**	**-**	1,511,524	-	-
Mudaraba / murabaha deposits	**1,291,465**	**-**	**-**	1,577,912	-	-
Receivables, net	**-**	**-**	**3,480,553**	-	-	1,495,894
Accrued investment income	**1,333**	**-**	**-**	4,191	-	-
Cash and cash equivalents	**337,359**	**-**	**-**	1,297,401	-	-
Total	**3,648,821**	**-**	**3,480,553**	4,391,028	-	1,495,894

	2020 SAR '000			2019 SAR '000		
ASSETS SHAREHOLDERS OPERATIONS	**Investment Grade**	**Non-investment Grade**	**Unrated**	Investment Grade	Non-investment Grade	Unrated
Available-for-sale investments	**999,902**	**-**	**-**	1,235,224	-	-
Mudaraba / murabaha deposits	**1,843,467**	**-**	**-**	1,961,464	-	-
Accrued investment income	**1,064**	**-**	**-**	2,142	-	-
Cash and cash equivalents	**108,435**	**-**	**-**	9,149	-	-
Total	**2,952,868**	**-**	**-**	3,207,979	-	-

33. RISK MANAGEMENT (Continued)

(e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligation and commitments associated with financial liabilities. The Company has a proper cash management system, where daily cash collections and payments are strictly monitored and reconciled on a regular basis. The Company manages liquidity risk by maintaining maturities of financial assets and financial liabilities and investing in liquid financial assets.

The table below summarizes the maturities of the Company's discounted contractual obligation relating to financial assets and liabilities:

Maturity Profile		**2020 SAR '000**			2019 SAR '000	
ASSETS INSURANCE OPERATIONS	**Less than one year**	**More than one year**	**Total**	Less than one year	More than one year	Total
Available-for-sale investments	**1,171,397**	**847,267**	**2,018,664**	291,873	1,219,651	1,511,524
Mudaraba / murabaha deposits	**1,291,465**	**-**	**1,291,465**	1,577,912	-	1,577,912
Receivables, net	**3,480,553**	**-**	**3,480,553**	1,495,894	-	1,495,894
Prepaid expenses and other assets	**616,895**	**-**	**616,895**	243,912	-	243,912
Accrued investment income	**1,333**	**-**	**1,333**	4,191	-	4,191
Cash and cash equivalents	**337,359**	**-**	**337,359**	1,297,401	-	1,297,401
Reinsurers' share of gross outstanding claims	**1,962,570**	**-**	**1,962,570**	3,100,446	-	3,100,446
Reinsurers' share of incurred but not reported claims	**289,784**	**-**	**289,784**	327,724	-	327,724
Total	**9,151,356**	**847,267**	**9,998,623**	8,339,353	1,219,651	9,559,004
LIABILITIES INSURANCE OPERATIONS						
Reinsurers' balances payable	**254,559**	**-**	**254,559**	523,820	-	523,820
Gross outstanding claims	**2,516,652**	**-**	**2,516,652**	3,684,891	-	3,684,891
Incurred but not reported claims reserve	**1,549,350**	**-**	**1,549,350**	1,925,584	-	1,925,584
Premium deficiency reserve	**52,401**	**-**	**52,401**	2,830	-	2,830
Reserve for takaful activities	**3,544**	**-**	**3,544**	5,006	-	5,006
Claims payable, accrued expenses and other liabilities	**1,733,271**	**-**	**1,733,271**	1,170,822	-	1,170,822
Defined benefits obligation	**-**	**134,990**	**134,990**	-	129,480	129,480
Short term borrowings	**401,998**	**-**	**401,998**	-	-	-
Surplus distribution payable	**84,893**	**-**	**84,893**	34,283	-	34,283
	6,596,668	**134,990**	**6,731,658**	7,347,236	129,480	7,476,716
Total liquidity gap	**2,554,688**	**712,277**	**3,266,965**	992,117	1,090,171	2,082,288

33. RISK MANAGEMENT (Continued)

(e) Liquidity risk (Continued)

	2020 SAR '000			2019 SAR '000		
ASSETS SHAREHOLDERS OPERATIONS	**Less than one year**	**More than one year**	**Total**	Less than one year	More than one year	Total
Available-for-sale investments	**828,618**	**171,284**	**999,902**	846,880	388,344	1,235,224
Accrued investment income	**1,064**	-	**1,064**	2,142	-	2,142
Mudaraba / murabaha deposits	**1,843,467**	-	**1,843,467**	1,961,464	-	1,961,464
Statutory deposit (including accrued income)	**2,774**	**125,000**	**127,774**	2,513	125,000	127,513
Cash and cash equivalents	**108,435**	**-**	**108,435**	9,149	-	9,149
Total	**2,784,358**	**296,284**	**3,080,642**	2,822,148	513,344	3,335,492
LIABILITIES SHAREHOLDERS OPERATIONS						
Dividends payable	**6,411**	-	**6,411**	6,411	-	6,411
Return payable on statutory deposit	**2,774**	-	**2,774**	2,513	-	2,513
Claims payable, accrued expenses and other liabilities	**4,081**	-	**4,081**	4,160	-	4,160
	13,266	-	**13,266**	13,084	-	13,084
Total liquidity gap	**2,771,092**	**296,284**	**3,067,376**	2,809,064	513,344	3,322,408

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

The assets with maturity less than one year are expected to realize as follows:
- Available for sale investments are held for cash management purposes and expected to be matured / settled within 12 months from the consolidated statement of financial position date.
- Accrued investment income is expected to be realized within 1 to 3 months from consolidated statement of financial position's date.
- Mudaraba / murabaha deposits are deposits placed with high credit rating financial institutions with maturity within six months from the date of placement.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims majorly pertain to property and casualty segment and are generally realized within three to six months based on settlement of balances with reinsurers.

The liabilities with maturity less than one year are expected to settle as follows:
- Reinsurers' balances payable are settled on a quarterly basis as per terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to be settled within two months in accordance with statutory timelines for payment. Property and casualty policies due to the inherent nature are generally settled within one month from the date of receipt of loss adjustor report.
- The claims payable, accrued expenses and other liabilities are expected to settle within a period of three months from the period end date.
- Surplus distribution payable is to be settled within six months of annual general meeting in which consolidated financial statements are approved.

33. RISK MANAGEMENT (Continued)

(f) Operational Risk

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

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

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

Senior Management ensures that the Company's staff has adequate training and experience and fosters effective communication related to operational risk management.

34. CAPITAL MANAGEMENT

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

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

- Minimum Capital Requirement of SAR 200 million
- Premium Solvency Margin
- Claims Solvency Margin

As at December 31, 2020 the Company's solvency level is higher than the minimum solvency margin required by the Implementing Regulations of the Cooperative Insurance Companies Control Law. The capital structure of the Company as at December 31, 2020 consists of paid-up share capital of SAR 1,250 million, statutory reserves of SAR 1,144 million and retained earnings of SAR 345.9 million (December 31, 2019: paid-up share capital of SAR 1,250 million, statutory reserves of SAR 1,066 million and retained earnings of SAR 31.2 million) in the consolidated statement of financial position.

35. REALIZED GAINS / (LOSS) ON FINANCIAL ASSETS, NET

	2020	2019
INSURANCE OPERATIONS	**SAR'000**	
Realized gain on available-for-sale financial assets	**52,336**	-
Realized gain on financial assets, net	**52,336**	-
SHAREHOLDERS OPERATIONS		
Realized gain / (loss) on available-for-sale financial assets	**1,774**	(27,991)
Realized gain / (loss) on financial assets, net	**1,774**	(27,991)

36. CONTINGENT LIABILITIES

As at December 31, 2020, the Company was contingently liable for letters of guarantees, issued on its behalf by the banks, amounting to SAR 200 million (December 31, 2019: SAR 200 million) occurring in the normal course of business.

The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. Appropriate provisions have been made in relation to pending cases and management believes that finalization of these court cases is not expected to have a material impact on the consolidated financial statements.

37. RECLASSIFICATION OF COMPARATIVE FIGURES

Reclassifications made to the consolidated financial statements during the year are as follows:

Reclassification from the consolidated statement of financial position	**Reclassification to the consolidated statement of financial position**	**Amount** **SAR '000**
Property and equipment	Investment properties	53,566

As of December 31, 2020, the Company reclassified a land and buildings held for the purposes of earning rentals and capital appreciation, having carrying value of SAR 53 million, from property and equipment to investment property in the consolidated statement of financial position. These changes does not have any impact on the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows.

38. DUE FROM SHAREHOLDERS/ DUE TO INSURANCE OPERATIONS

During the year, shareholders have absorbed 90% of surplus from insurance operations amounting to SAR 455.5 million resulting in due from insurance operation balance as at December 31, 2020 amounting to SAR 27 million.

39. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors, on Sha'ban 07, 1442H, corresponding to March 20, 2021.