

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

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
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Ibrahim Ahmed Al-Bassam & Co
Certified Public Accountants - Al-Bassam & Co.
(Member firm of PKF International)



Crowe
Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants
Member Crowe Global

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

Opinion

We have audited the financial statements of **Saudi Arabian Cooperative Insurance Company** (a Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at December 31, 2020, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its 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).

Basis for Opinion

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

Key Audit Matter

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



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 TO THE SHAREHOLDERS OF SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
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Key Audit Matter (continued)

The key audit matter	How the matter was addressed in our audit
<p><u>Valuation of ultimate claim liabilities arising from insurance contracts</u></p> <p>The Company as at December 31, 2020 has gross technical reserves amounting to SR 503.3 million as reported in Note 7 of the financial statements, which includes outstanding claims, claims incurred but not reported (IBNR), additional premium and other technical reserves.</p> <p>The Company uses a range of actuarial methodologies to estimate these claims. This requires significant judgments relating to factors and assumptions such as inflation, claims development pattern and regulatory requirements.</p> <p>The valuation of technical reserves is a key judgmental area for the management given the level of subjectivity inherent in estimating the impact of claim events that have occurred for which the ultimate outcome remains uncertain.</p> <p>Due to the significance of the amounts involved and the exercise of significant judgment by the management in the process for determination of the technical reserves, we have determined it to be a key audit matter.</p> <p><i>Refer to notes 2(d)(i) which discloses the estimated liability arising from claims under insurance contracts and note 3 which discloses accounting policies for claims.</i></p>	<p>We evaluated the design and tested the implementation of key controls over the Company's processes for the claims processing and payment, including controls over the completeness and accuracy of the claim estimates recorded.</p> <p>We evaluated the appropriateness of the reserving methodologies used in estimating the insurance claim liability as part of our substantive procedures.</p> <p>We performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claims and technical reserves.</p> <p>To challenge management's methodologies and assumptions, we were assisted by an actuary engaged by us as auditors' expert to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuary performed the following:</p> <ul style="list-style-type: none"> - Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods, seeking sufficient justification for significant differences. - Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge. - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions. <p>We also assessed the appropriateness of the financial statements disclosures relating to this matter against the requirements of IFRS that are endorsed in the Kingdom of Saudi Arabia.</p>



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TO THE SHAREHOLDERS OF SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
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Other Information

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

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

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

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

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

The Management are responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs 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 the Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



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**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
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Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management;
- Conclude on the appropriateness of Management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

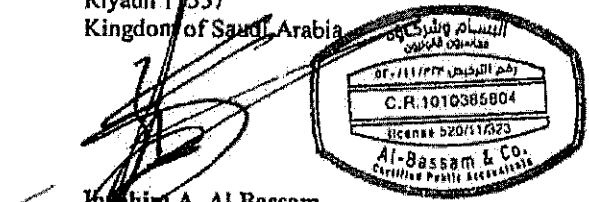
**INDEPENDENT AUDITORS' REPORT
 TO THE SHAREHOLDERS OF SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
 (A SAUDI JOINT STOCK COMPANY) - (CONTINUED)**

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

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

PKF Al Bassam & Co

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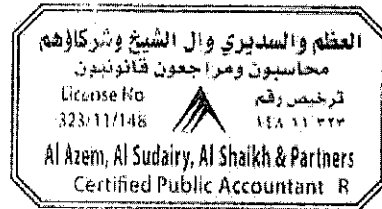
Sha'ban 11, 1442H
 March 24, 2021G

Al Azem & Al Sudairy, Al Shaikh & Partners

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 P. O. Box 10504
 Riyadh 11443
 Kingdom of Saudi Arabia



Abdullah M. Al Azem
 Certified Public Accountant
 Registration No. 335



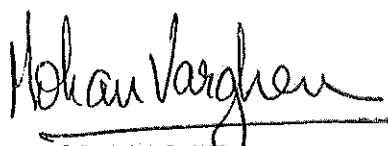
**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

STATEMENT OF FINANCIAL POSITION

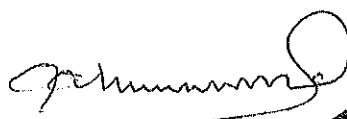
As at 31 December 2020


(All amounts in Saudi Riyals unless otherwise stated)

	Note	2020	2019
ASSETS			
Cash and cash equivalents	4	49,999,727	44,190,245
Murabaha deposits	5	341,916,296	393,005,161
Premiums and reinsurers' receivable - net	6	245,872,196	217,877,042
Reinsurers' share of unearned premiums	7b	39,420,956	34,093,154
Reinsurers' share of outstanding claims	7a	339,166,728	364,623,633
Reinsurers' share of claims incurred but not reported	7a	43,367,257	41,470,036
Deferred policy acquisition costs	7d	18,459,055	16,877,051
Available-for-sale investments	8a	1,923,080	1,923,080
Fair value through profit or loss investments	8b	90,028,540	90,671,601
Held-to-maturity investment	8c	35,531,657	10,192,936
Prepayments and other assets	9	58,309,900	52,629,988
Property and equipment	10	4,833,267	4,035,618
Intangible assets	10	9,803,358	7,626,598
Statutory deposit	11	30,000,000	30,000,000
Accrued income on statutory deposit		2,799,638	2,363,024
TOTAL ASSETS		1,311,431,655	1,311,579,167
LIABILITIES			
Policyholders' claims payable		21,607,449	23,331,651
Accrued expenses and other liabilities	12	64,916,997	43,143,731
Surplus distribution payable	13	5,577,137	-
Reinsurance balances payable		53,730,084	93,268,021
Unearned premiums	7b	265,548,157	255,633,330
Unearned reinsurance commission	7c	6,759,142	6,714,158
Outstanding claims and reserves	7a	385,850,240	428,202,293
Claims incurred but not reported	7a	117,468,630	122,763,884
Accounts payable		1,445,922	1,407,836
Employees' end-of-service benefits	14	18,705,950	15,082,288
Provision for zakat	15	10,517,581	9,047,924
Accrued commission income payable to SAMA		2,799,639	2,363,024
TOTAL LIABILITIES		954,926,928	1,000,958,140
EQUITY			
Share capital	16	300,000,000	300,000,000
Statutory reserve	18	29,473,371	20,008,901
Retained earnings/(accumulated losses)		26,981,720	(10,876,161)
Re-measurement reserve of end-of-service benefits		49,636	1,488,287
TOTAL EQUITY		356,504,727	310,621,027
TOTAL LIABILITIES AND EQUITY		1,311,431,655	1,311,579,167
COMMITMENTS AND CONTINGENCIES	25		



MOHAN VARGHESE
CHIEF FINANCIAL OFFICER


ABDULAZIZ A. ABUSSUUD
BOARD MEMBER


HASSAN ABDULLA DORAR ALI
PRESIDENT AND CEO

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

STATEMENT OF INCOME


For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

	Note	2020	2019
REVENUES			
Gross premiums written	7b	795,037,966	834,341,165
Reinsurance premiums ceded			
- Local		(54,518,400)	(45,431,258)
- International (includes premium ceded through local broker)		(170,236,024)	(159,780,057)
	7b	(224,754,424)	(205,211,315)
Excess of loss expenses			
- Local		(402,364)	(757,883)
- International		(36,896,403)	(55,551,929)
		(37,298,767)	(56,309,812)
Net premiums written		532,984,775	572,820,038
Movement in unearned premiums, net		(4,587,025)	55,659,379
Net premiums earned		528,397,750	628,479,417
Reinsurance commissions	7c	31,057,481	26,686,974
Other underwriting income		6,868,488	7,642,642
NET REVENUES		566,323,719	662,809,033
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	7a	446,868,497	646,925,036
Reinsurers' share of claims paid	7a	(78,890,405)	(84,800,191)
Net claims paid		367,978,092	562,124,845
Movement in outstanding claims, IBNR and other reserves, net		(24,087,623)	(70,608,769)
Net claims incurred	7a	343,890,469	491,516,076
Policy acquisition costs	7d	58,236,814	63,250,572
Inspection and supervision fees		6,907,784	7,215,553
TOTAL UNDERWRITING COSTS AND EXPENSES		409,035,067	561,982,201
NET UNDERWRITING INCOME		157,288,652	100,826,832
OTHER INCOME/(EXPENSES)			
Income from investments		3,489,935	1,717,642
Unrealized loss/(gain) from change in fair value of FVTPL investments		(643,061)	8,359,793
Income from murabaha deposits		9,716,035	14,084,282
Other income		3,091,691	4,131,215
General and administrative expenses	19	(105,749,193)	(109,682,370)
Investments expenses		-	(2,000,000)
Provision for doubtful debts	6	(4,033,355)	(19,819,537)
TOTAL OTHER INCOME/(EXPENSES)		(94,127,948)	(103,208,975)
Total income/(loss) for the year		63,160,704	(2,382,143)
Surplus attributed to the insurance operations	13	(5,577,137)	-
Total income/(loss) for the year attributable to the shareholders before zakat		57,583,567	(2,382,143)
Zakat charge for the year	15	(10,261,216)	(8,252,798)
Total income/(loss) for the year attributable to the shareholders after zakat		47,322,351	(10,634,941)
Earnings per share	17		
Basic and diluted income/(loss) per share		1.58	(0.35)
Weighted average number of shares in issue throughout the year (in thousands)		30,000	30,000


MOHAN VARGHESE
CHIEF FINANCIAL OFFICER


ABDULAZIZ A. ABUSSUID
BOARD MEMBER


HASSAN ABDULLA DORAR ALI
PRESIDENT AND CEO

The accompanying notes 1 to 27 form an integral part of these financial statements.

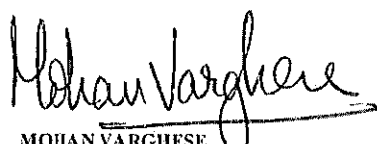
SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME

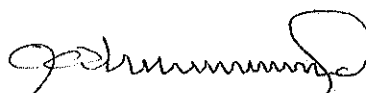
For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

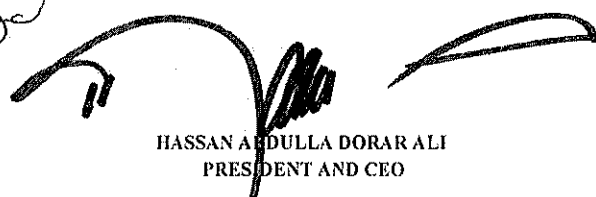
	Note	2020	2019
Total income/(loss) for the year after zakat		52,899,488	(10,634,941)
Other comprehensive income/(loss):			
<i>Items that will not be reclassified to statement of income in</i>			
- Actuarial (loss)/gains on remeasurement of employees' end-of-service benefits	14	(1,438,651)	1,491,957
<i>Items that may be reclassified to statements of income in</i>			
- Transfer of fair value reserve on disposal of AFS investment	8	-	(789,654)
Total comprehensive income/(loss) for the year after zakat		51,460,837	(9,932,638)
Total comprehensive income attributable to the insurance operations		(4,138,486)	(702,303)
Total comprehensive income/(loss) attributable to the shareholders after zakat		47,322,351	(10,634,941)



MOHAN VARGHESE
CHIEF FINANCIAL OFFICER



ABDULAZIZ A. ABUSSUUD
BOARD MEMBER



HASSAN ABDULLA DORAR ALI
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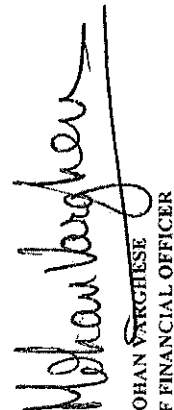
SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
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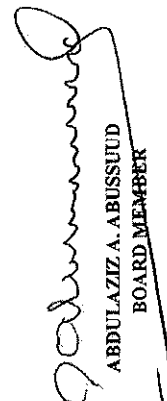
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

	2020					
Note	Share capital	Statutory reserve	(Accumulated losses)/ retained earnings	Fair value reserve for available-for-sale investment	Re-measurement reserve of employees' end-of-service benefits	Total equity
Balance at the beginning of the year	300,000,000	20,008,901	(10,876,161)	-	1,488,287	310,621,027
Comprehensive income for the year:						
Total income for the year attributable to the shareholders after zakat	-	-	47,322,351	-	-	47,322,351
Actuarial loss on remeasurement of employees' end-of-service benefits	-	-	-	-	(1,438,651)	(1,438,651)
Total comprehensive income/(loss) for the year	-	-	47,322,351	-	(1,438,651)	45,883,700
Transfer to statutory reserve	-	9,464,470	(9,464,470)	-	-	-
Balance at the end of the year	300,000,000	29,473,371	26,981,720	-	49,636	356,504,727


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BOARD MEMBER


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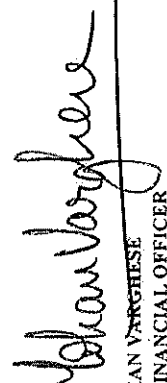
SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
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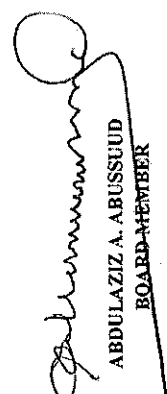
STATEMENT OF CHANGES IN EQUITY (continued)

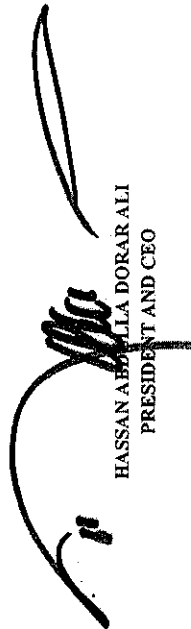
For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

	2019					Total equity
Note	Share capital	Statutory reserve	Accumulated losses	Fair value reserve for available-for-sale investment	Re-measurement reserve of employees' end-of-service	
	300,000,000	20,008,901	(241,220)	789,654	(3,670)	320,553,665
Balance at the beginning of the year						
Comprehensive income/(loss) for the year:						
Total loss for the year attributable to the shareholders after zakat	-	-	(10,634,941)	-	-	(10,634,941)
Actuarial gains on remeasurement of employees' end-of-service benefits	14	-	-	-	1,491,957	1,491,957
Change in fair value of available-for-sale investments, net	8	-	-	(789,654)	-	(789,654)
Total comprehensive loss for the year	-	-	(10,634,941)	(789,654)	1,491,957	(9,932,638)
Balance at the end of the year	300,000,000	20,008,901	(10,876,161)	-	1,488,287	310,621,027


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ABDULAZIZ A. ABUSSUUD
BOARD MEMBER


HASSAN ABDULLA DORAR ALI
PRESIDENT AND CEO

The accompanying notes 1 to 27 form an integral part of these financial statements.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Total profit/(loss) for the year before zakat		63,160,704	(2,382,143)
Adjustments for non-cash items:			
Depreciation of property and equipment	10	2,098,099	2,409,980
Amortization of intangible assets	10	1,876,845	1,348,700
Provision for doubtful debts	6	4,033,355	19,819,537
Provision for employees' end-of-service benefits	14	4,257,890	4,048,125
Gains on disposal of available-for-sale investment	8a	-	(1,269,597)
Unrealized loss/(gain) from change in fair value of FVTPL investments	8b	643,061	(8,359,793)
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		(32,028,508)	20,416,837
Reinsurers' share of unearned premiums		(5,327,802)	12,706,917
Reinsurers' share of outstanding claims		25,456,905	41,753,503
Reinsurers' share of claims incurred but not reported		(1,897,221)	(10,820,550)
Deferred policy acquisition costs		(1,582,004)	4,434,736
Deferred excess of loss premiums		-	464,904
Prepayments and other assets		(31,018,633)	(13,244,774)
Statutory deposit		-	-
Policyholders claims payable		(1,724,202)	(7,716,701)
Accrued and other liabilities		21,773,266	(24,527,889)
Reinsurance balances payable		(39,537,937)	38,275,552
Unearned premiums		9,914,827	(68,366,296)
Unearned reinsurance commission		44,984	(201,495)
Outstanding claims and reserves		(42,352,053)	(117,815,479)
Claims incurred but not reported		(5,295,254)	16,273,758
Accounts payable		38,086	82,333
Cash used in operating activities		(27,465,592)	(92,669,835)
Surplus paid to policy holders	13	-	(7,729,845)
Employees' end-of-service benefits paid	14	(2,072,879)	(2,349,880)
Zakat paid	15	(8,791,559)	(7,912,504)
Net cash used in operating activities		(38,330,030)	(110,662,064)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions of property and equipment	10	(2,895,748)	(2,657,257)
Additions of intangible assets	10	(4,053,605)	(2,952,255)
Proceed from disposal of available-for-sale investments	8a	-	5,956,853
Fair value through profit or loss investments	8b	-	(82,311,808)
Additions in murabaha deposits		(676,448,739)	(814,834,927)
Proceed on disposal of murabaha deposits		727,537,604	875,723,491
Net cash from/(used in) investing activities		44,139,512	(21,075,903)
Net change in cash and cash equivalents		5,809,482	(131,737,967)
Cash and cash equivalents at the beginning of the year	4	44,190,245	175,928,212
Cash and cash equivalents at the end of the year	4	49,999,727	44,190,245
Supplemental non-cash information:			
Change in fair value of available-for-sale investments	8a	-	(789,654)
Actuarial gains on remeasurement of employees' end-of-service benefits	14	(1,438,651)	1,491,957


MOHAN VARGHESE
CHIEF FINANCIAL OFFICER


ABDULAZIZ A. ABUSSAUD
BOARD MEMBER


HASSAMULLA DORAR ALI
PRESIDENT AND CEO

The accompanying notes 1 to 27 form an integral part of these financial statements

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Arabian Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010237214 dated 7 Shaban 1428H, (corresponding to 20 August 2007). The registered office address of the Company is P.O. Box 58073, Riyadh 11594, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company's principal lines of business include all classes of general and medical insurance. The Company was listed on the Saudi Stock Exchange ("Tadawul") on 20 Shaban 1428H, (corresponding to 3 September 2007).

Following are the details of the branches of the Company and their commercial registration numbers:

Branch Name	Branch	Commercial Registration Number	Date
Saudi Arabian Cooperative Insurance Company	Jeddah	4030208674	25 Safar 1432H (31 January 2011)
Saudi Arabian Cooperative Insurance Company	Khobar	2051044793	25 Safar 1432H (31 January 2011)
Saudi Arabian Cooperative Insurance Company	Qassim	1131034133	25 Safar 1432H (31 January 2011)

The Company has been licensed to conduct insurance business in the Kingdom of Saudi Arabia under co-operative principles in accordance with Royal Decree numbered 60/M dated 18 Ramadan 1427H (corresponding to 11 October 2006), pursuant to the Council of Ministers resolution number 233 dated 16 Ramadan 1427H (corresponding to 9 October 2006).

Following the completion of the public offering on 28 May 2007, the Ministry of Commerce and Investment ("MOCI") issued a resolution declaring the incorporation of the Company on 21 Rajab 1428H (corresponding to 5 August 2007).

On 29 Shaban 1428H (corresponding to 11 September 2007), the Saudi Central Bank ("SAMA") issued a formal approval to transact insurance business, thus authorizing the Company to commence operations as soon as product approval and related formalities are completed.

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 policy holders are to receive the remaining 10%. Any deficit arising on insurance operations is borne by the shareholders in full.

2 BASIS OF PREPARATION

(a) Basis of presentation and measurement

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organisation for Certified Public Accountants (SOCPA), Law of Companies and the Company's by-laws.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

2 BASIS OF PREPARATION (continued)

(a) Basis of presentation and measurement (continued)

These financial statements are prepared under the going concern concept and the historical cost convention, except for the measurement at fair value of available-for-sale investments, fair value through profit or loss investments and measurement at present value of employees' end-of-service benefit obligations. The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: Held to maturity investments, Property and equipment, Intangible assets, Statutory deposit, Accrued income on statutory deposit, Employees' end-of-service benefits and Accrued commission income payable to SAMA. All other financial statement line items would generally be classified as current.

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly (Note 26). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statement of income, statement of comprehensive income and statement of cash flows of the insurance operations and shareholders operations which are presented in Note 26 of the 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 statements of financial position, statements of income, statement of comprehensive income and 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 gains or losses of the respective operations.

In preparing the Company-level financial statements in compliance with IFRSs, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances and transactions 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) Functional and presentation currency

These financial statements have been presented in Saudi Riyals (SR), which is also the functional currency of the Company.

(c) Fiscal year

The Company follows a fiscal year ending 31 December.

(d) Critical accounting judgments, estimates and assumptions

The preparation of financial statements requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting 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.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

2 BASIS OF PREPARATION (continued)

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

Following are the accounting judgments and estimates that are critical in preparation of these 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. 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 period claims estimates are reassessed for adequacy and changes are made to the provision.

The provision for IBNR is an estimation of claims which are expected to be reported subsequent to the date of interim condensed statement of financial position, for which the insured event has occurred prior to the date of interim condensed statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. The actuary has also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

ii) *Impairment of Investments*

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair values of the financial assets below its cost. 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.

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.

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 values 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 are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models used 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.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

2 BASIS OF PREPARATION (continued)

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

v) Deferred policy acquisition costs

Certain acquisition costs related to sale of policies are recorded as deferred acquisition costs and are amortized over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment.

vi) Premium deficiency reserve

Estimation of the premium deficiency reserve, if any, 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 actuary looks at the claims and premiums relationship which is expected to be realized in the future.

vii) Impact of Covid-19

On 11 March 2020, the World Health Organisation ("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 GCC and other 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 reserve

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 unfavourable 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 21 June 2020, the Company is experiencing a surge in claims which is in line with the expectations of the Company's management. The Company's management has duly considered the impact of surge in claims in the current estimate of future contractual cash flows of the insurance contracts in force as at 31 December 2020 for its liability adequacy test. Based on the results, the Company has booked an amount of SR 3.77 million as a premium deficiency reserve.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

2 BASIS OF PREPARATION (continued)

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

vii) Impact of Covid-19 (continued)

Motor technical reserves

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

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 based on the expected claims for the extended two months' period.

For new policies written as per above circular, the premium is earned over the period of coverage i.e 14 month as per the Company accounting policy.

The Company has performed a liability adequacy test using current estimates of future cash flows under its insurance contracts at an aggregated (or "segmented") level for motor line of business and recorded a Premium deficiency reserve amounting to SR 4.15 million as at 31 December 2020 (31 December 2019: SR 1.53).

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 31 December 2020. The Company's management continues to monitor the situation closely.

Credit risk management

The Company has strengthened its credit risk management policies to address the fast changing and evolving risks posed by the current circumstances. These include review of credit concentrations at the granular economic sector, region and counterparty level and the Company has taken appropriate action where required. Based on the review, the Company has identified the certain sectors such as government contracting, airlines, retail sector and hospitality industry as being impacted significantly by the Covid-19 pandemic and lower oil prices.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented. There are no new standards issued, however, there are number of amendments to standards which are effective from 1 January 2020 but they do not have a material effect on the Company's Financial Statements. The Company has not early adopted any standard (interpretation) or amendments that has been issued but which are not yet effective.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

The Company has chosen not to early adopt the amendments and revisions to the IFRSs, which have been published and are mandatory for compliance for the Company with effect from future dates.

Standard/ Interpretation/ Amendment	Description	Effective from periods beginning on or after the following date
IFRS 9	Financial Instruments (refer below)	1-Jan-23
IFRS 17	Insurance Contracts (refer below)	1-Jan-23

A. IFRS 9 - Financial Instruments

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

a. Classification and measurement:

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

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

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

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

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

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

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

b. Impairment:

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

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(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A. IFRS 9 - Financial Instruments (continued)

c. Hedge accounting:

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

Effective date

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

1. apply a temporary exemption from implementing IFRS 9 until the earlier of
 - a. the effective date of a new insurance contract standard; or
 - b. annual reporting periods beginning on or after 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
2. adopt IFRS 9 but, for designated financial assets, remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contract standard is implemented.

The Company has performed a detailed assessment as of reporting date:

1. The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and
2. the total carrying amount of the Company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard. Disclosures related to financial assets required during the deferral period are included in the Company's financial statements.

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(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A. IFRS 9 - Financial Instruments (continued)

Impact assessment

As at 31 December 2020, the Company has total financial assets and insurance related assets amounting to SR 603 million (31 December 2019: SR 615 million) and SR 585 million (31 December 2019: SR 583 million), respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SR 461 million (31 December 2019: SR 522 million). Other financial assets consist of available for sale investments amounting to SR 1.9 million (31 December 2019: SR 1.9 million). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Investment in funds classified under available for sale investments will be at FVSI under IFRS 9. Other financial assets have a fair value of SR 90 million as at 31 December 2020 with a fair value change during the year of SR 2.4 million.

The Company financial assets have low credit risk as at 31 December 2020 and 31 December 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.

B. 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 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 2015, IFRS 17 provides the following different measurement models:

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

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

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

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(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 17 - Insurance Contracts (continued)

Measurement - continued

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

At the end of each subsequent reporting period, the carrying amount of a group of insurance contracts is re-measured 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 recognized in profit or loss.

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

The Variable Fee Approach (VFA) is a mandatory model for measuring contracts with direct participation features (also referred to as 'direct participating contracts'). This assessment of whether the contract meets these criteria is made at inception of the contract and not reassessed subsequently. For these contracts, 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 for the group of contracts or if the coverage period for each contract in the group is one year or less. With the PAA, the liability for remaining coverage corresponds to premiums received at initial recognition less insurance acquisition cash flows. The General Measurement Model remains applicable for the measurement of the liability for incurred claims. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid/received in one year or less from the date the claims are incurred.

Effective date

The IASB issued an Exposure Draft Amendments to IFRS 17 proposing certain amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting. The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4 is currently 1 January 2021. Under the current exposure draft, it is proposed to amend the IFRS 17 effective date to reporting periods beginning on or after 1 January 2022. Further, on 17 March 2020, The (IASB) completed its discussions on the amendments to IFRS 17 and decided that the effective date of the Standard will be deferred to reporting periods beginning on or after 01 January 2023. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intends to apply the Standard on its effective date.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 17 - Insurance Contracts (continued)

Transition

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

Presentation and Disclosures

The Company expects that the new standard will result in a change to the accounting policies for insurance contracts and reinsurance, [and investment contracts with discretionary participating features, if applicable] together with amendments to presentation and disclosures.

Impact

The Company has performed an initial impact assessment of the application and implementation of IFRS 17. As of the date of the publication of these financial statements, the final financial impact of adopting the standard has yet to be fully assessed by the Company. The Company has undertaken an initial operational impact gap analysis and currently undergoing through detailed operational and financial impact assessment. Key gaps and their impact are as follows:

Impact Area	Summary of Impact
Financial Impact	The Company is in process to ascertain the financial impact on reported balances of year 2018. As the Company's most of insurance contracts are short-termed and short tailed entitling for premium allocation approach (PAA) which is largely similar to current account practice, no significant impact is expected.
Data impact	IFRS 17 has additional data requirements (e.g. premium due date for initial recognition, premium receipt data for the LFRC, RI contracts held break down into risk attaching or loss incurring for assessing contract boundaries, lower granularity to meet level of aggregation requirements and data for additional disclosures as per IFRS 17). Further extensive exercise will be carried out to ensure the required data is available.
IT systems impact	Detailed assessment needed of existing systems capabilities for IFRS 17 calculations, storage and reporting and whether new systems/calculation engines should be implemented.
Process impact	The company carried out an operational impact assessment exercise to assess the operational impact of implementing IFRS 17. Since, majority of the company's contracts would be measured under the premium allocation approach, the process impact is expected to be moderate.
Impact on Reinsurance arrangements	Further assessment is needed to confirm measurement approach for reinsurance arrangements where RI gross premium ceded does not automatically qualify for PAA.
Impact on policies and control frameworks	The Company's policies and procedures needs update to accommodate the changes in the Company's processes and systems related to IFRS 17 implementation. Detailed exercise for the purpose shall be carried out after ascertaining financial and operational gaps assessment.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 17 - Insurance Contracts (continued)

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

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

The Company has started its implementation process and has set up a project team, supervised by Company's CEO. Furthermore, to assess financial and operational impact of IFRS-17, the Company has hired Deloitte & Touche Advisory Saudi Limited (Deloitte) as their consultants.

The effective interpretations/improvement/amendments do not have material impact on these interim condensed financial statements of the company.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies used in preparing these financial statements are set out below have been consistently applied unless otherwise mentioned:

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.

Murabaha deposits

Murabaha deposits, with original maturity of more than three months, are initially recognised in the statement of financial position at fair value and are subsequently measured at amortised cost using effective interest method, less any impairment in value, whereas deposits with maturities not exceeding three months are reported under cash and cash equivalents.

Premiums and reinsurers' receivable - net

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in "General and administrative expenses" in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivable balances are disclosed in note 6 fall under the scope of IFRS-4 "Insurance Contract".

Deferred policy acquisition costs

Commissions and other costs directly and indirectly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate as premiums are earned. Amortization is recorded in the statement of income, as policy acquisition costs.

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

An impairment review is performed at each financial reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value, an impairment loss is recognized in the statement of income. Deferred policy acquisition cost is also considered in the liability adequacy test for each financial reporting period.

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy acquisition costs. In performing these tests management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of income by establishing a provision for losses arising from liability adequacy tests accordingly. Where the liability adequacy test requires the adoption of new best estimate's assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Investments and other financial assets

Initial recognition

Financial assets are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Company's financial assets except in case of financial assets at fair value through profit or loss. Company's financial assets include receivables, held-to-maturity and available-for-sale investments.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Classification and subsequent measurement

Financial assets are classified into the following specified categories: loans and receivables, available-for-sale and held to maturity financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

- a. **Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment and are included in current assets, except for maturities greater than 12 months after the end of the reporting period.
- b. **Available-for-sale investments ("AFS")** are non-derivative financial assets that are not classified as loans and receivables, held to maturity investment or financial assets at fair value through profit or loss. Changes in the carrying amount of the AFS financial asset are recognized in other comprehensive income. AFS equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.
- c. **Fair value through profit or loss ("FVTPL")** are non-derivative financial assets that are held for trading. All derivatives (except those designated hedging instruments) and financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking are held for trading.
- d. **Held-to-maturity investments** are investments which have fixed or determinable payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statements of income when the investment is derecognized or impaired.

Impairment and un-collectability of financial assets

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

Evidence of impairment may include:

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

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

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

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

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Impairment and un-collectibility of financial assets (continued)

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

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

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

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 statement of income and statement of comprehensive income.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Company's financial liabilities.

Classification and subsequent measurement

Since the Company does not have financial liabilities classified at Fair value through Profit or loss, all financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Derecognition 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.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the statements of income and comprehensive income unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Fair values

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

For financial assets where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar assets.

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statements of income as they are consumed or expire with the passage of time.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. 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
Leasehold improvements	Shorter of 3 or the relevant lease term
Furniture and fittings	10
Computer and office equipment	3 - 5
Vehicles	3

The assets' residual values, depreciation 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" in the statement of income.

Capital work-in-progress

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

Intangibles assets

Intangible assets are stated at cost less accumulated amortization and impairment, if any. Amortization is provided over the estimated useful lives of the applicable intangible assets using the straight line method. The estimated useful lives of the intangible asset are between 3 to 5 years.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statutory deposit

The statutory deposit, which is equal to 10% of the Company's paid up capital, consisted mainly of murabaha deposit maintained at a local bank in compliance with SAMA requirement.

Accrued and other liabilities

Accrued and other liabilities are recognized for amounts to be paid in the future for goods and services, whether billed by the supplier or not.

Provisions

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

Employees' end-of-service benefits

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

Short term employee benefits

Short-term employee benefits, include leave pay and airfare, are current liabilities included in accrued expenses, measured at the undiscounted amount that the entity expects to pay as a result of the unused entitlement.

Employees' end-of-service benefits

The Company pays retirement contributions for its Saudi Arabian employees to the General Organization for Social Insurance. This represents a state-owned defined contribution plan. The payments made are expensed as incurred.

Zakat and tax

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged to the statement of profit or loss. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. Zakat is computed on the Saudi shareholders' share of equity and/ or net income using the basis defined under the regulations of GAZT. Income tax is computed on the foreign shareholders' share of net income for the year.

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

Statutory reserve

In accordance with the Company's by-laws, the Company shall allocate 20% of its retained earnings 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.

Trade date accounting

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

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 policies (engineering and marine).

Unearned premiums are calculated on a straight line method over the insurance policy coverage except for:

- Marine - Last three months premium at a reporting date is considered as unearned.
- Engineering - as per the guidelines provided by SAMA, pre-defined calculation 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.

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

Investment income

Investment income classified under held-to-maturity investments and murabaha deposits are accounted for on an effective interest basis.

Dividend income

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

Claims

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries.

Gross outstanding claims comprise gross estimated cost of claims incurred but not settled at the reporting date together with related claims handling costs, whether reported or not. Provisions for reported claims not paid as of the financial reporting date are made on the basis of individual case estimates.

In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling IBNR as of financial reporting date. The ultimate liability may be in excess of or less than the amount provided. Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the statement of income for that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

Further, the Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the financial reporting date.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Reinsurance contracts ceded

Reinsurance contracts are contracts entered into by the Company with reinsurers during the normal course of business under which the Company is compensated for losses on insurance contracts issued. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contract.

The benefits to which the Company is entitled under its reinsurance contracts ceded are recognized as reinsurance assets in the insurance operations' assets. These assets consist of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers' share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contract. Amounts recoverable from or due to reinsurers are recognized consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

At each financial reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment is recognized in the statement of income.

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

Expense recognition

Expenses are recognized in statements of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in statements of income on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses in the statement of income are presented using the nature of expense method.

Impairment of non-financial assets

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

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

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental commission rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Company if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividend distribution

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

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 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.

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 products and services and has eight reportable operating segments and one non-operating reportable segment as follows:

- Medical insurance provides health care cover to policyholders.
- Motor Insurance provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Fire and burglary insurance provides coverage against fire, and any other insurance included under this class of insurance.
- Marine Insurance provides cover for Marine Cargo in transit and ships against marine perils.
- Engineering Insurance provides coverage for loss or damage to construction works or erection and installation of plant & machinery.
- Public liability insurance provides cover for legal liability of the insured against third parties arising out of premises, business operations or projects handled.
- General accident insurance provides coverage against accidental death to individual and group of parties under Personal Accident Insurance.
- Others provide coverage for workmen compensation.

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.

Shareholders' Funds is a non-operating segment. Income earned from murabaha deposits is its only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis.

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

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company. As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by operating segments only.

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

4 CASH AND CASH EQUIVALENTS

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

	2020	2019
Cash in banks	49,984,698	44,175,158
Cash on hand	15,029	15,087
	<u>49,999,727</u>	<u>44,190,245</u>

Cash in banks are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology.

5 MURABAHA DEPOSITS

Murabaha deposits represents deposits with focal banks that have investment grade credit ratings and have an original maturity of more than three months from date of acquisition. The deposits earn commission at rate ranging from 1.2% to 3.4% (31 December 2019: 2% to 3.4%) per annum.

6 PREMIUMS AND REINSURERS' RECEIVABLE - NET

Receivables comprise amounts due from the following:

	2020	2019
Policyholders	184,863,153	141,597,978
Brokers and agents	63,219,101	77,068,183
Related parties (note 20)	58,876,953	64,086,622
Receivables from reinsurers	13,622,811	5,800,726
	<u>320,582,018</u>	<u>288,553,509</u>
Less:		
Provision for doubtful receivables - policyholders	(37,503,691)	(34,235,269)
Provision for doubtful receivables - brokers and agents	(14,945,722)	(14,589,280)
Provision for doubtful receivables - related parties	(19,632,503)	(20,053,521)
Provision for doubtful receivables - receivables from reinsurers	(2,627,906)	(1,798,397)
	<u>(74,709,822)</u>	<u>(70,676,467)</u>
	<u>245,872,196</u>	<u>217,877,042</u>

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

	Total	Past due but not impaired			Past due and impaired		
		Less than 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 - 360 days	More than 360 days
Policyholders	184,863,153	38,770,391	50,017,896	26,722,337	11,895,767	17,409,218	40,047,544
Brokers and agents	63,219,101	30,843,089	2,338,036	3,313,300	5,604,435	3,864,287	17,255,954
Related parties	58,876,953	16,060,786	2,189,954	3,535,818	4,840,659	10,561,796	21,687,940
Receivables from reinsurers	13,622,811	1,501,768	1,009,182	3,162,559	2,201,188	2,590,854	3,157,260
2020	<u>320,582,018</u>	<u>87,176,034</u>	<u>55,555,068</u>	<u>36,734,014</u>	<u>24,542,049</u>	<u>34,426,155</u>	<u>82,148,698</u>
Policyholders	141,597,978	28,884,901	17,916,758	27,095,571	18,030,843	21,941,377	27,728,528
Brokers and agents	77,068,183	9,546,558	18,427,502	15,033,772	9,603,813	12,570,920	11,885,618
Related parties	64,086,622	4,110,205	10,968,014	1,913,362	11,818,754	16,353,014	18,923,273
Receivables from reinsurers	5,800,726	1,030,562	81,027	140,829	662,466	1,716,899	2,168,943
2019	<u>288,553,509</u>	<u>43,572,226</u>	<u>47,393,301</u>	<u>44,183,534</u>	<u>40,115,876</u>	<u>52,582,210</u>	<u>60,706,362</u>

The movement in the provision for doubtful receivables is as follows:

	2020	2019
Balance at January 1	70,676,467	50,856,930
Provision made during the year	4,033,355	19,819,537
Balance at December 31	<u>74,709,822</u>	<u>70,676,467</u>

The Company only enters into insurance and reinsurance contracts with recognized, 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.

The five largest customers accounts for 27% of the receivable as at 31 December 2020 (31 December 2019: 23%).

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**7 MOVEMENT IN OUTSTANDING CLAIMS, UNEARNED PREMIUMS, UNEARNED REINSURANCE
COMMISSION AND DEFERRED POLICY ACQUISITION COSTS (continued)**

d) Deferred policy acquisition costs

	2020	2019
Balance at January 1	16,877,051	21,311,787
Incurred during the year	59,818,818	58,815,836
Amortized during the year	(58,236,814)	(63,250,572)
Balance at December 31	<u>18,459,055</u>	<u>16,877,051</u>

8 INVESTMENTS

(a) Available-for-sale investments

	2020	2019
Balance at January 1	1,923,080	7,399,990
Transfer of fair value reserve on disposal of available-for-sale investment	-	(789,654)
Realised gain on disposal of available-for-sale investment	-	1,269,597
Disposal during the year	-	(5,956,853)
Balance at December 31	<u>1,923,080</u>	<u>1,923,080</u>

Available-for-sale investment represents SR 1.9 million in respect of the Company's share in the capital of Najm for Insurance Services Company ("Najm") which represents a 3.85% capital holding in Najm.

(b) Fair value through profit or loss investments

	2020	2019
Balance at January 1	90,671,601	-
Acquired during the year	-	82,311,808
Unrealized (loss)/gain from change in fair value	(643,061)	8,359,793
Balance at December 31	<u>90,028,540</u>	<u>90,671,601</u>

As at 31 December 2020, Fair value through profit or loss investments represents SR 90 million in respect of quoted equity instruments of Saudi Arabian Oil Company.

(c) Held-to-maturity investment

As at 31 December 2020, the Company's investment in Islamic bonds ("Sukuk"), issued by a local bank having a credit rating of "AA", amounted to SR 35 million (31 December 2019: SR 10 million) comprising of 35 Sukuk (31 December 2019: 10 Sukuk) denominated at Saudi Riyals 1 million each and a margin equivalent to 6 month SIBOR plus 195 basis points (31 December 2019: 6 month SIBOR plus 195 basis points), having maturity date of 27 May 2025.

	2020	2019
Balance at January 1	10,192,936	10,214,914
Additions	25,000,000	-
Amortisation, net	338,721	(21,978)
Balance at December 31	<u>35,531,657</u>	<u>10,192,936</u>

9 PREPAYMENTS AND OTHER ASSETS

	2020	2019
Recoverable expenses from reinsurers	31,008,578	29,635,232
Guarantee deposits	3,403,098	3,127,960
Accrued income from manafeth fund	8,237,902	2,333,497
Medical insurance	611,323	1,966,679
Employees' receivables	3,205,585	2,844,863
Accrued interest income from murabaha deposits	4,795,556	3,615,766
Excess of loss premium	1,053,090	3,041,402
Advance for IT operational expenses	2,437,851	1,964,001
Rentals	588,200	311,326
Others	2,968,717	3,789,262
	<u>58,309,900</u>	<u>52,629,988</u>

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10 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	2020					Intangible assets	
	Property and equipment			Total		Capital work in progress	Total Intangible assets
	Leasehold improvements	Furniture and fittings	Computer and office equipment	Vehicles	Capital work in progress	Capital work in progress	Total Intangible assets
<i>Cost</i>							
1 January	7,602,496	2,673,640	14,862,911	675,600	519,471	3,886,094	19,351,551
Additions	-	82,640	1,435,584	-	1,377,524	2,053,416	2,000,189
31 December	<u>7,602,496</u>	<u>2,756,280</u>	<u>16,298,495</u>	<u>675,600</u>	<u>1,896,995</u>	<u>5,939,510</u>	<u>21,351,740</u>
<i>Accumulated depreciation/amortisation</i>							
1 January	7,493,411	2,129,288	12,000,201	675,600	-	-	15,611,047
Charge for the year	59,346	120,818	1,917,935	-	-	-	1,876,845
31 December	<u>7,552,757</u>	<u>2,250,106</u>	<u>13,918,136</u>	<u>675,600</u>	<u>-</u>	<u>-</u>	<u>17,487,892</u>
<i>Net book value</i>							
31 December	<u>49,739</u>	<u>506,174</u>	<u>2,380,359</u>	<u>-</u>	<u>1,896,995</u>	<u>5,939,510</u>	<u>3,863,848</u>

	2019					Intangible assets	
	Property and equipment			Total		Capital work in progress	Total Intangible assets
	Leasehold improvements	Furniture and fittings	Computer and office equipment	Vehicles	Capital work in progress	Capital work in progress	Total Intangible assets
<i>Cost</i>							
1 January	7,567,496	2,605,060	12,828,705	675,600	-	2,787,761	17,497,629
Additions	35,000	68,580	2,034,206	-	519,471	1,098,333	1,853,922
31 December	<u>7,602,496</u>	<u>2,673,640</u>	<u>14,862,911</u>	<u>675,600</u>	<u>519,471</u>	<u>3,886,094</u>	<u>19,351,551</u>
<i>Accumulated depreciation/amortisation</i>							
1 January	7,386,573	1,992,666	9,846,612	662,669	-	-	14,262,347
Charge for the year	106,838	136,622	2,153,589	12,931	-	-	1,348,700
31 December	<u>7,493,411</u>	<u>2,129,288</u>	<u>12,000,201</u>	<u>675,600</u>	<u>-</u>	<u>-</u>	<u>15,611,047</u>
<i>Net book value</i>							
31 December	<u>109,085</u>	<u>544,352</u>	<u>2,862,710</u>	<u>-</u>	<u>519,471</u>	<u>3,886,094</u>	<u>3,740,504</u>

The depreciation/amortisation charge for the year is included in general and administrative expenses in the statement of income (Note 19).

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11 STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid up share capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies implemented in the Kingdom of Saudi Arabia. The statutory deposit cannot be withdrawn without the consent of SAMA. The statutory deposit is placed with a counterparty having investment grade credit rating. Return on statutory deposit is shown as an asset and liability in the statement of financial position.

12 ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>2020</u>	<u>2019</u>
Payable to hospitals	936,954	1,339,678
Commission payable	24,482,391	25,322,844
Amounts due to related parties (note 20)	10,295,082	2,049,672
Value Added Tax payable	11,839,610	1,995,644
Inspection and supervision fees	3,530,735	948,713
Accrued salaries and employees' benefits	45,832	41,884
Surveyors payable	1,186,402	730,505
Payable to workshops	652,140	2,960,390
Accrued professional fees	13,327	84,210
Others	11,934,524	7,670,191
	<u>64,916,997</u>	<u>43,143,731</u>

13 SURPLUS DISTRIBUTION PAYABLE

The movement in Surplus distribution payable during the year is as follows:

	<u>2020</u>	<u>2019</u>
Opening surplus distribution payable as at 1 January	-	7,729,845
Total income attributed to the insurance operations during the year	5,577,137	-
Surplus paid to policy holders	-	(7,729,845)
Closing surplus distribution payable as at 31 December	<u>5,577,137</u>	<u>-</u>

14 EMPLOYEES' END-OF-SERVICE BENEFITS

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

	<u>2020</u>	<u>2019</u>
Present value of defined benefit obligation	<u>18,705,950</u>	<u>15,082,288</u>
Movement of defined benefit obligation	<u>2020</u>	<u>2019</u>
Balance at January 1	15,082,288	14,876,000
Current service cost	3,704,750	3,365,858
Interest cost	553,140	682,267
Actuarial (loss)/gains on remeasurement	1,438,651	(1,491,957)
Payment of benefits during the year	(2,072,879)	(2,349,880)
Balance at December 31	<u>18,705,950</u>	<u>15,082,288</u>
Principal actuarial assumptions	<u>2020</u>	<u>2019</u>
Valuation discount rate	3.2%	4%
Duration of the Liability (in Years)	9	8.5
Expected rate of increase in salary level across different age bands	5%	-

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14 EMPLOYEES' END-OF-SERVICE BENEFITS (continued)

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

	<u>2020</u>	<u>2019</u>
Valuation discount rate		
- Increase by 1%	(1,142,941)	(876,614)
- Decrease by 1%	1,316,605	1,004,758
Expected rate of increase in salary level across different age bands		
- Increase by 1%	1,279,313	999,165
- Decrease by 1%	(1,134,736)	(888,587)
Mortality rate		
- Increase by 20%	(3,225)	(116)
- Decrease by 20%	3,231	115
Employee turnover		
- Increase by 20%	(481,876)	(192,925)
- Decrease by 20%	521,122	161,108

15 PROVISION FOR ZAKAT

a) Charge for the year

The zakat payable by the Company has been calculated in accordance with the zakat regulations in Saudi Arabia.

The zakat provision for the year is based on the following:

	<u>2020</u>	<u>2019</u>
Shareholders' equity and opening provisions	394,483,736	359,563,535
Book value of long term assets and statutory deposit	(40,545,434)	(51,261,084)
	<u>353,938,302</u>	<u>308,302,451</u>
Adjusted income for the year	56,510,338	21,809,456
Zakat base	<u>410,448,640</u>	<u>330,111,907</u>
Zakat due at 2.5%	<u>10,261,216</u>	<u>8,252,798</u>

The difference between the financial and zakatable results is mainly due to provisions which are not allowed in the calculation of zakatable income. The Company is not subject to income tax being fully owned by Saudi and GCC shareholders.

b) Zakat payable

The movement in zakat payable during the year were as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of the year	9,047,924	8,707,630
Charge for the year	10,261,216	8,252,798
Payments during the year	(8,791,559)	(7,912,504)
Balance at end of the year	<u>10,517,581</u>	<u>9,047,924</u>

c) Status of assessments

The Company has filed its zakat return for the financial years up to and including the year 2019 with the General Authority of Zakat and Tax (the "GAZT") and received the final zakat certificate from the GAZT.

The Company has received final assessments for the years 2008 through 2018 and settled with no additional zakat liability.

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16 SHARE CAPITAL

The authorized, issued and paid up capital of the Company was SR 300 million at 31 December 2020 (31 December 2019: SR 300 million) consisting of 30 million shares (31 December 2019: 30 million shares) of SR 10 each. Shareholding structure of the Company is as below:

	2020		2019	
	Authorised, issued and paid up		Authorised, issued and paid up	
	No. of Shares	SR'000	No. of Shares	SR'000
Saudi Arabian Insurance Company B.S.C	9,000,000	90,000,000	9,000,000	90,000,000
Others	21,000,000	210,000,000	21,000,000	210,000,000
	<u>30,000,000</u>	<u>300,000,000</u>	<u>30,000,000</u>	<u>300,000,000</u>

17 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year have been calculated by dividing the total net income for the year by the weighted average number of shares in issue throughout the year.

At 31 December 2020 and 2019, the weighted average number of shares are as follows:

	2020	2019
Basic and diluted income/(loss) per share	<u>1.58</u>	<u>(0.35)</u>
Weighted average number of shares in issue throughout the year (in thousands)	<u>30,000</u>	<u>30,000</u>

There are no diluted potential shares during the year 2020 and 2019.

18 STATUTORY RESERVE

In accordance with the Company's By-Laws 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. Such transfer is only made at year end. The statutory reserve is not available for distribution to shareholders until liquidation of the Company.

19 GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
Salaries and benefits	82,473,472	86,630,253
IT operational expenses	5,166,442	5,275,060
Depreciation (note 10)	2,098,099	2,409,980
Amortisation (note 10)	1,876,845	1,348,700
Rent	2,507,271	2,829,959
Communications	1,875,466	1,415,855
Audit fees	585,167	570,000
Legal and professional fees	2,351,520	2,450,707
Printing and stationery	280,654	463,259
Repairs and maintenance	323,303	429,981
Travel	234,832	650,610
Collectors' fees	75,625	328,273
Withholding tax	879,805	36,471
Subscription fees	343,370	323,938
Others	4,677,322	4,519,324
	<u>105,749,193</u>	<u>109,682,370</u>

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20 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, key management personnel of the Company and entities controlled, jointly controlled or subsequently influenced by such parties. All transactions with such related parties are conducted on normal terms and conditions and are approved by management.

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

Related party	Nature of transactions	Amount of transaction		Balance	
		2020	2019	2020	2019
<i>Amounts due to related parties are as follows (note 12):</i>					
ACE Insurance & Reinsurance Brokers Limited ("Broker") (Affiliate)	Premiums ceded through Broker Commission received	83,782,000 13,694,469	77,532,021 3,747,309	10,111,497	-
Saudi Arabian Insurance Company B.S.C (C) (Shareholder)	Premiums ceded Commission received	890,902 99,704	220,534 43,211	128,083	798,293
ACE Insurance Agents Limited ("Agent") (Affiliate)	Premiums received through Agent Commission expense	2,316,935 294,587	10,500,656 1,176,208	-	1,195,877
ACE Limited (Affiliate)				55,502 10,295,082	55,502 2,049,672
<i>Amounts due from related party are as follows (note 6):</i>					
ACE Insurance & Reinsurance Brokers Limited ("Broker") (Affiliate)	Premiums received through Broker, net Commission expense Provision for doubtful debts	130,118,943 12,249,950 -	135,780,677 13,988,556 -	58,876,953 (19,632,503) 39,244,450	64,086,622 (20,053,521) 44,033,101
		-	-	39,244,450	44,033,101

Compensation of key management personnel

Key management personnel of the Company include all directors (executives and non-executives) and senior management. The summary of compensation of key management personnel for the year ended 31 December is as follows:

	BOD members (Non-Executive)		Top Executives including the CEO and CFO	
	2020	2019	2020	2019
Short-term benefits	778,500	730,500	5,436,312	7,962,300
Bonus	-	-	1,746,000	-
Employees' end-of-service benefits	-	-	441,527	571,246
	778,500	730,500	7,623,840	8,533,546

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21 CLAIMS DEVELOPMENT TABLE

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments.

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

Claims development table gross of reinsurance (with IBNR and other reserves) for 2020:

	2014 & earlier	2015	2016	2017	2018	2019	2020	Total
Accident year								
At end of accident year	5,559,148,605	311,795,029	447,097,603	439,173,129	658,710,089	578,602,042	454,006,120	8,448,532,617
One year later	1,781,913,169	458,933,766	420,582,890	421,672,753	636,685,309	556,870,614		4,276,658,501
Two years later	1,847,755,121	459,957,247	399,910,956	453,304,829	635,368,472			3,796,296,625
Three years later	1,823,902,063	452,947,977	390,690,912	446,621,741				3,114,162,693
Four years later	1,852,925,766	627,757,486	388,658,482					2,869,341,734
Five years later	1,795,898,918	624,013,469						2,419,912,387
Six years later	1,448,412,132							1,448,412,132
Current estimate of cumulative claims	1,448,412,132	624,013,469	388,658,482	446,621,741	635,368,472	556,870,614	454,006,120	4,553,951,030
Cumulative payments to date	(1,580,132,054)	(546,904,726)	(364,666,607)	(422,988,756)	(554,458,346)	(524,598,995)	(256,882,676)	(4,050,632,160)
Gross outstanding claims and reserves recognized in the statement of financial position	68,280,078	77,108,743	23,991,875	23,632,985	80,910,126	32,271,619	197,123,444	503,318,870

Claims development table gross of reinsurance (with IBNR and other reserves) for 2019:

	2013 & earlier	2014	2015	2016	2017	2018	2019	Total
Accident year								
At end of accident year	3,512,524,413	466,242,404	311,795,029	447,097,603	439,173,129	658,710,089	578,602,042	6,414,144,709
One year later	1,580,381,788	280,335,302	458,933,766	420,582,890	421,672,753	636,685,309		3,798,591,808
Two years later	1,501,577,867	308,266,654	459,957,247	399,910,956	453,304,829			3,123,017,553
Three years later	1,539,488,467	306,479,272	452,947,977	390,690,912				2,689,606,628
Four years later	1,517,422,791	306,972,528	627,757,486					2,452,152,805
Five years later	1,545,953,238	423,013,134						1,968,966,372
Six years later	1,372,885,784							1,372,885,784
Current estimate of cumulative claims	1,372,885,784	423,013,134	627,757,486	390,690,912	453,304,829	636,685,309	578,602,042	4,482,939,496
Cumulative payments to date	(1,305,878,383)	(403,261,739)	(544,211,283)	(362,178,888)	(417,083,781)	(500,576,012)	(398,783,633)	(3,931,973,319)
Gross outstanding claims and reserves recognized in the statement of financial position	67,007,401	19,751,395	83,546,203	28,512,424	36,221,048	136,109,297	179,818,409	550,966,177

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21 CLAIMS DEVELOPMENT TABLE (continued)

Claims development table net of reinsurance (with IBNR and other reserves) for 2020:

	2014 & earlier	2015	2016	2017	2018	2019	2020	Total
Accident year	2,901,363,427	453,129,658	345,348,350	366,938,363	477,262,346	504,142,371	352,879,225	5,401,063,740
At end of accident year	1,306,468,077	457,148,755	324,545,373	376,779,178	467,228,061	504,574,163		3,436,743,607
One year later	1,309,857,641	459,390,666	320,793,493	373,144,094	465,390,923			2,928,576,817
Two years later	1,305,776,809	460,095,444	321,547,294	370,448,217				2,457,867,764
Three years later	1,305,569,061	464,345,181	324,551,610					2,094,465,852
Four years later	1,187,883,067	461,527,170						1,649,410,237
Five years later	950,429,586							950,429,586
Six years later	950,429,586	461,527,170	324,551,610	370,448,217	465,390,923	504,574,163	352,879,225	3,429,800,894
Current estimate of cumulative claims	(947,803,838)	(459,984,706)	(322,956,431)	(369,091,296)	(463,154,362)	(497,557,831)	(248,467,545)	(3,309,016,009)
Cumulative payments to date								
Net outstanding claims and reserves recognized in the statement of financial position	2,625,748	1,542,464	1,595,179	1,356,921	2,236,561	7,016,332	104,411,680	120,784,885

Claims development table net of reinsurance (with IBNR and other reserves) for 2019:

	2013 & earlier	2014	2015	2016	2017	2018	2019	Total
Accident year	1,588,915,772	355,970,698	453,129,658	345,348,350	366,938,363	477,262,346	504,142,371	4,091,707,558
At end of accident year	956,476,957	349,086,563	457,148,755	324,545,373	376,779,178	467,228,061		2,931,264,887
One year later	957,381,514	348,576,375	459,390,666	320,793,493	373,144,094			2,459,286,142
Two years later	961,281,266	349,117,235	460,095,444	321,547,294				2,092,041,239
Three years later	956,659,574	349,126,498	464,345,181					1,770,131,253
Four years later	956,442,563	349,188,590						1,305,631,153
Five years later	838,694,477							838,694,477
Six years later	838,694,477	349,188,590	464,345,181	321,547,294	373,144,094	467,228,061	504,142,371	3,318,290,068
Current estimate of cumulative claims	(837,457,833)	(346,670,855)	(459,600,892)	(321,825,239)	(366,652,893)	(457,566,370)	(383,843,278)	(3,173,417,560)
Cumulative payments to date								
Net outstanding claims and reserves recognized in the statement of financial position	1,236,644	2,517,735	4,744,289	(277,945)	6,491,201	9,861,491	120,299,093	144,872,508

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22 SEGMENT INFORMATION

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities as stated below. Segment results do not include income from investments, income from murabaha deposits, other income, general and administrative expenses, and provision for doubtful debts. Accordingly, they are included in unallocated income and expenses.

Segment assets do not include cash and cash equivalents, murabaha deposits, premiums and reinsurers' receivable - net, available for sale investment, held-to-maturity investment, due from related parties, prepayments and other assets, property and equipment, intangible assets, statutory deposit and accrued income from statutory deposit. Accordingly, they are included in unallocated assets.

Segment liabilities do not include accrued and other liabilities, surplus distribution payable, reinsurance balances payable, accounts payable, employees' end-of-service benefits, provision for zakat, accrued commission income payable to SAMIA. Accordingly, they are included in unallocated liabilities. All of the Company's operating assets and principal activities are located in the Kingdom of Saudi Arabia.

Operating segment	2020 (SR '000)					
	Medical	Motor	Property & casualty	Protection & savings	Shareholders' operations	Total
Revenues						
Gross premiums written						
- Individual	513	134,548	797	-	-	135,858
- Micro enterprise	7,510	6,444	10,926	-	-	24,880
- Small enterprises	62,204	12,423	7,156	-	-	81,783
- Medium enterprises	104,724	34,817	34,396	-	-	173,937
- Large enterprise	142,484	31,472	204,624	-	-	378,580
	317,435	219,704	257,899	-	-	795,038
Reinsurance premiums ceded						
- Local	-	-	(54,518)	-	-	(54,518)
- International (includes premium ceded through local broker)	-	(10,051)	(160,185)	-	-	(170,236)
	-	(10,051)	(214,703)	-	-	(224,754)
Excess of loss expenses						
- Local	-	(376)	(26)	-	-	(402)
- International	(35,713)	(1,503)	319	-	-	(36,897)
	(35,713)	(1,879)	293	-	-	(37,299)
Net premiums written	281,722	207,774	43,489	-	-	532,985

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22 SEGMENT INFORMATION (continued)

	2020 (SR '000)					
	Medical	Motor	Property & casualty	Protection & savings	Shareholders' operations	Total
Net premiums written	281,722	207,774	43,489	-	-	532,985
Movement in unearned premiums, net	(10,978)	8,336	(1,945)	-	-	(4,587)
Net premiums earned	270,744	216,110	41,544	-	-	528,398
Reinsurance commissions	-	1,083	29,974	-	-	31,057
Other underwriting income	2,010	2,396	2,463	-	-	6,869
Net revenues	272,754	219,589	73,981	-	-	566,324
Underwriting costs and expenses						
Gross claims paid	215,412	159,838	71,618	-	-	446,868
Reinsurers' share of claims paid	233	(11,461)	(67,662)	-	-	(78,890)
Net claims paid	215,645	148,377	3,956	-	-	367,978
Movement in outstanding claims, IBNR and other reserves, net	(8,726)	(12,725)	(2,637)	-	-	(24,088)
Net claims incurred	206,919	135,652	1,319	-	-	343,890
Policy acquisition costs	17,138	18,582	22,517	-	-	58,237
Inspection and supervision fees	4,762	1,095	1,051	-	-	6,908
Total underwriting costs and expenses	228,819	155,329	24,887	-	-	409,035
Net underwriting income	43,935	64,260	49,094	-	-	157,289
Unallocated income					9,404	15,655
Unallocated expenses					(1,371)	(109,783)
Total income for the year						63,161
Surplus attributed to the insurance operations						(5,277)
Total income for the year attributable to the shareholders before zakat						57,884
Zakat						(10,261)
Total income for the year attributable to the shareholders after zakat						47,623

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22 SEGMENT INFORMATION (Continued)

Operating segment	2019 (SR '000) (Restated)					Total
	Medical	Motor	Property & casualty	Protection & savings	Shareholders' operations	
Revenues						
Gross premiums written						
- Individual	494	186,135	3,135	-	-	189,764
- Micro enterprise	6,858	8,186	14,421	-	-	29,465
- Small enterprises	57,799	11,952	5,647	-	-	75,398
- Medium enterprises	127,704	38,307	27,602	-	-	193,613
- Large enterprise	137,310	27,173	181,618	-	-	346,101
	330,165	271,753	232,423	-	-	834,341
Reinsurance premiums ceded						
- Local	-	(962)	(44,469)	-	-	(45,431)
- International (includes premium ceded through local broker)	-	(9,066)	(150,714)	-	-	(159,780)
	-	(10,028)	(195,183)	-	-	(205,211)
Excess of loss expenses						
- Local	-	(633)	(125)	-	-	(758)
- International	(48,264)	(2,531)	(4,757)	-	-	(55,552)
	(48,264)	(3,164)	(4,882)	-	-	(56,310)
Net premiums written	281,901	258,561	32,358	-	-	572,820
Movement in unearned premiums, net	53,715	2,773	(829)	-	-	55,659
Net premiums earned	335,616	261,334	31,529	-	-	628,479
Reinsurance commissions	-	2,328	24,359	-	-	26,687
Other underwriting income	-	7,572	71	-	-	7,643
Net revenues	335,616	271,234	55,959	-	-	662,809

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22 SEGMENT INFORMATION (Continued)

Operating segment	2019 (SR '000) (Restated)					
	Medical	Motor	Property & casualty	Protection & savings	Shareholders' operations	Total
Underwriting costs and expenses						
Gross claims paid	363,862	208,055	75,008	-	-	646,925
Reinsurers' share of claims paid	(4,512)	(11,299)	(68,989)	-	-	(84,800)
Net claims paid	359,350	196,756	6,019	-	-	562,125
Movement in outstanding claims, IBNR and other reserves, net	(75,893)	13,037	(7,754)	-	-	(70,610)
Net claims incurred	283,457	209,793	(1,735)	-	-	491,515
Policy acquisition costs	20,899	20,526	21,826	-	-	63,251
Inspection and supervision fees	4,965	1,331	920	-	-	7,216
Total underwriting costs and expenses	309,321	231,650	21,011	-	-	561,982
Net underwriting income	26,295	39,584	34,948	-	-	100,827
Unallocated income					16,394	28,293
Unallocated expenses					(3,228)	(131,502)
Total income for the year						(2,382)
Surplus attributed to the insurance operations						(2,382)
Total income for the year attributable to the shareholders before zakat						(8,253)
Zakat						(10,635)
Total income for the year attributable to the shareholders after zakat						

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22 SEGMENT INFORMATION (Continued)

Operating segment	2020 (SR '000)					Total
	Medical	Motor	Property & casualty	Protection & savings	Shareholders' operations	
Assets						
Reinsurers' share of outstanding claims	-	6,873	332,294	-	-	339,167
Reinsurers' share of claims incurred but not reported	-	3,166	40,201	-	-	43,367
Reinsurers' share of unearned premiums	-	6,544	32,877	-	-	39,421
Deferred policy acquisition costs	8,052	6,453	3,954	-	-	18,459
Segment assets	8,052	23,036	409,326	-	-	440,414
Unallocated assets					350,490	871,018
Total assets						1,311,432
Liabilities and equity						
Outstanding claims and reserves	16,531	20,724	348,595	-	-	385,850
Claims incurred but not reported	32,628	40,646	44,195	-	-	117,469
Unearned premiums	125,585	97,741	42,222	-	-	265,548
Unearned reinsurance commission	-	1,019	5,740	-	-	6,759
Segment liabilities	174,744	160,130	440,752	-	-	775,626
Unallocated liabilities and surplus					14,763	179,300
Total equity					356,455	356,505
Total liabilities and equity						1,311,430

Unallocated assets at 31 December 2020 consists mainly of murabaha deposits of SR 342 million, premiums and reinsurers' receivable - net of SR 246 million, cash and cash equivalents of SR 50 million, Available-for-sale investment of SR 1.9 million, FVTPL investment of SR 90 million, Held-to-maturity investment of SR 35 million and other assets of SR 106 million.

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22 SEGMENT INFORMATION (Continued)

Operating segment	2019 (SR '000)					Total
	Medical	Motor	Property & casualty	Protection & savings	Shareholders' operations	
Assets						
Reinsurers' share of outstanding claims	-	15,149	349,475	-	-	364,624
Reinsurers' share of claims incurred but not reported	528	2,889	38,053	-	-	41,470
Reinsurers' share of unearned premiums	-	1,370	32,723	-	-	34,093
Deferred policy acquisition costs	6,655	6,017	4,205	-	-	16,877
Segment assets	7,183	25,425	424,456	-	-	457,064
Unallocated assets					357,310	854,515
Total assets						<u>1,311,579</u>
Liabilities						
Outstanding claims and reserves	19,651	39,014	369,537	-	-	428,202
Claims incurred but not reported	38,762	43,081	40,921	-	-	122,764
Unearned premiums	114,608	100,902	40,123	-	-	255,633
Unearned reinsurance commission	-	173	6,541	-	-	6,714
Segment liabilities	173,021	183,170	457,122	-	-	813,313
Unallocated liabilities and surplus					12,819	187,644
Total equity					309,133	310,621
Total liabilities						<u>1,311,579</u>

Unallocated assets at 31 December 2019 consists mainly of murabaha deposits of SR 393 million, premiums and reinsurers' receivable - net of SR 218 million, cash and cash equivalents of SR 44 million, Available-for-sale investment of SR 1.9 million, FVTPL investment of SR 91 million, Held-to-maturity investment of SR 10 million and other assets of SR 97 million.

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23 RISK MANAGEMENT

The risks faced by the Company and the way these risks are mitigated by management are summarized below:

Risk Governance

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

- a. Risk management structure - a cohesive organizational structure is established within the Company in order to identify, assess, monitor and control risks.
- b. Board of directors - the apex of risk governance is the centralized oversight of the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.
- c. Senior management - the senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

a) Insurance risk

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

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations 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 obligations assumed under such reinsurance arrangements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

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. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

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23 RISK MANAGEMENT (continued)

a) Insurance risk (continued)

Concentration of insurance risk

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

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

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

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23 RISK MANAGEMENT (continued)

a) Insurance risk (continued)

Process used to decide on assumptions (continued)

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

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve 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 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 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 5% change in the claim ratio, net of reinsurance, would impact net underwriting income/(loss) as follows:

	Change in assumptions	Increase/ (decrease) in net liabilities	Increase/ (decrease) in underwriting surplus
Ultimate loss ratio			
2020	+/- 5%	26,419,888	26,419,888
2019	+/- 5%	31,423,971	31,423,971

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. The criteria may be summarized as follows:

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23 RISK MANAGEMENT (continued)

b) Reinsurance risk (continued)

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

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

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

c) Commission rate risk

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

The Company have murabaha deposits and investment in Sukuk, with the exception of restricted deposits which are required to be maintained in accordance with regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk by monitoring changes in commission rates in the currencies in which its deposits are denominated. The Company had no deposits in currencies other than Saudi Riyal.

The following information demonstrates the sensitivity of statement of income to possible changes in commission rates, with all other variables held constant.

	2020	2019
Increase/(decrease) in commission rates by 100 basis points	3,419,163	3,930,052

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 statement of financial position.

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

- a. To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. Accordingly, as a pre-requisite, the parties with whom reinsurance is effected are required to have a minimum acceptable security rating level affirming their financial strength.
- b. The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.
- c. Cash and cash equivalents are maintained with local banks approved by the management. Accordingly, as a pre-requisite, the bank with whom cash and cash equivalents are maintained is required to have a minimum acceptable security rating level affirming its financial strength.

The Company does not have an internal credit ratings assessment process, and accordingly, amounts which are neither past due nor impaired, in respect of client balances, are from individuals and unrated corporate counter parties. Balances due from reinsurers are with counterparties who have investment grade credit ratings issued by external rating agencies.

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23 RISK MANAGEMENT (continued)

d) Credit risk (continued)

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	49,999,727	44,190,245
Murabaha deposits	341,916,296	393,005,161
Premiums and reinsurers' receivable - net	245,872,196	217,877,042
Reinsurers' share of outstanding claims and reserves	339,166,728	364,623,633
Reinsurers' share of claims incurred but not reported	43,367,257	41,470,036
Available-for-sale investments	1,923,080	1,923,080
Held-to-maturity investments	35,531,657	10,192,936
Statutory deposit	30,000,000	30,000,000
Other assets	53,213,489	44,864,741
	<u>1,140,990,430</u>	<u>1,148,146,874</u>

Credit quality

The credit quality of the financial assets is as follows:

<u>Credit quality</u>	<u>* Credit Rating</u>	<u>2020</u>	<u>2019</u>
Cash and cash equivalents			
Very strong	Aaa - A2	45,894,903	38,855,030
Satisfactory	A3 - Baa3	4,089,795	5,320,128
Unrated	Unrated	15,029	15,087
		<u>49,999,727</u>	<u>44,190,245</u>
Murabaha deposits			
Very strong	Aaa - A2	246,474,362	378,005,161
Satisfactory	A3 - Baa3	95,441,934	15,000,000
Unrated	Unrated	-	-
		<u>341,916,296</u>	<u>393,005,161</u>
Investments			
Very strong	Aaa - A2	125,560,197	100,864,537
Satisfactory	A3 - Baa3	-	-
Unrated	Unrated	1,923,080	1,923,080
		<u>127,483,277</u>	<u>102,787,617</u>

* Credit rating source: Moody's

All other financial assets are unrated.

Very strong quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

Satisfactory quality: Require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

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23 RISK MANAGEMENT (continued)

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

Maturity Profiles

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

	2020			2019		
	Less than one year	More than one year	Total	Less than one year	Less than one year	Total
FINANCIAL ASSETS						
Cash and cash equivalents	49,999,727	-	49,999,727	44,190,245	-	44,190,245
Murabaha deposits	341,916,296	-	341,916,296	393,005,161	-	393,005,161
Premiums and reinsurers' receivable - net	245,872,196	-	245,872,196	217,877,042	-	217,877,042
Reinsurers' share of outstanding claims	339,166,728	-	339,166,728	364,623,633	-	364,623,633
Available-for-sale investments	-	1,923,080	1,923,080	-	1,923,080	1,923,080
Fair value through profit or loss investments	-	90,028,540	90,028,540	-	90,671,601	90,671,601
Held-to-maturity investment	-	35,531,657	35,531,657	-	10,192,936	10,192,936
Statutory deposit	-	30,000,000	30,000,000	-	30,000,000	30,000,000
Other assets	53,213,489	-	53,213,489	44,864,741	-	44,864,741
	1,030,168,436	157,483,277	1,187,651,713	1,064,560,822	132,787,617	1,197,348,439
FINANCIAL LIABILITIES						
Policyholders claims payable	21,607,449	-	21,607,449	23,331,651	-	23,331,651
Accrued and other liabilities	67,716,636	-	67,716,636	45,506,755	-	45,506,755
Reinsurance balances payable	53,730,084	-	53,730,084	93,268,021	-	93,268,021
Outstanding claims and reserves	385,850,240	-	385,850,240	428,202,293	-	428,202,293
Accounts payable	1,445,922	-	1,445,922	1,407,836	-	1,407,836
Employees' end-of-service benefits	-	18,705,950	18,705,950	-	15,082,288	15,082,288
Provision for zakat	10,517,581	-	10,517,581	9,047,924	-	9,047,924
	540,867,912	18,705,950	559,573,862	600,764,480	15,082,288	615,846,768

Liquidity profiles

None of the liabilities on the statement of financial position are based on discounted cash flows and are payable on a current basis within 1 year except end-of-service benefits.

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23 RISK MANAGEMENT (continued)

f) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuation, as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyals.

g) Market price risk

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

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

h) Capital management

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

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

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

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

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

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at 31 December 2020 consists of paid-up share capital of SR 300 million, statutory reserves of SR 29.5 million and retained earnings of SR 27 million (31 December 2019: paid-up share capital of SR 300 million, statutory reserves of SR 20 million and accumulated losses of SR 10.9 million) in the statement of financial position.

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

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23 RISK MANAGEMENT (continued)

i) Regulatory framework risk

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

j) 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.

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The management assessed that cash and cash equivalent, accrual and other liabilities and other financial assets and liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

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

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities,

Level 2: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable), and

Level 3: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

During the year ended 31 December 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

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24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

a) Carrying amounts and fair value

The following table summarizes the financial assets recorded at fair value as of 31 December 2020 and 2019 by level of the fair value hierarchy.

As at 31 December 2020	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets:					
Available-for-sale investments	1,923,080	-	-	1,923,080	1,923,080
FVTPL investments	90,028,540	90,028,540	-	-	90,028,540
	<u>91,951,620</u>	<u>90,028,540</u>	<u>-</u>	<u>1,923,080</u>	<u>91,951,620</u>
As at 31 December 2019	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets:					
Available-for-sale investments	1,923,080	-	-	1,923,080	1,923,080
FVTPL investments	90,671,601	90,671,601	-	-	90,671,601
	<u>92,594,681</u>	<u>90,671,601</u>	<u>-</u>	<u>1,923,080</u>	<u>92,594,681</u>

The fair values of other financial assets and liabilities, not included in the table above, are not materially different from the carrying values included in the financial statements.

b) Measurement of Fair values

Available-for-sale investment represents unquoted securities amounted to SR 1.9 million in respect of the Company's share in the capital of Najm. As at 31 December 2020 and 31 December 2019, the investment has not been measured at fair value in the absence of active market or other means of measuring their fair value reliably. However, the management believes that there is no major difference between the carrying value and fair value of the investment.

25 COMMITMENTS AND CONTINGENCIES

CONTINGENCIES

a. Legal proceedings and regulations

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

The Company filed legal cases against various counter-parties claiming SR 18 million (31 December 2019: SR 27 million) and on the other hand, various counter-parties filed legal cases against the Company claiming SR 65 million (31 December 2019: SR 67 million).

b. As at 31 December 2020, performance guarantees amounting to SR 3.4 million (2018: SR 3.13 million) were issued to the customers on behalf of the Company. The Company pledged bank balances equivalent to the amount of performance guarantees to the bank for obtaining such guarantees.

COMMITMENTS

c. During 2020, the Company entered into an agreement for the construction of the commercial building on the land under deed No. 2/214 located at the Salahuddin AL-Ayyubi Road, Riyadh, Kingdom of Saudi Arabia.

The Company is committed to half of the incurred capital expenditure for the acquisition of land and construction of the building, and the transaction will be recognized as the development progresses and upon completion of the transfer of the underlying right and obligations.

The estimated commitment as at balance sheet date but not recognized in the financial statement are as follows:

	2020	2019
Acquisition of the Land	12,663,500	-
Construction of the Building	38,000,000	-
	<u>50,663,500</u>	<u>-</u>

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26 SUPPLEMENTARY INFORMATION

26.1 Statement of financial position

	Insurance Operations		Shareholders' Operations		Total	
	2020	2019	2020	2019	2020	2019
ASSETS						
Cash and cash equivalents	47,691,162	34,551,340	2,308,565	9,638,905	49,999,727	44,190,245
Murabaha deposits	134,474,361	171,005,161	207,441,935	222,000,000	341,916,296	393,005,161
Premiums and reinsurers' receivable - net	245,872,196	217,877,042	-	-	245,872,196	217,877,042
Reinsurers' share of unearned premiums	39,420,956	34,093,154	-	-	39,420,956	34,093,154
Reinsurers' share of outstanding claims and reserves	339,166,728	364,623,633	-	-	339,166,728	364,623,633
Reinsurers' share of claims incurred but not reported	43,367,257	41,470,036	-	-	43,367,257	41,470,036
Deferred policy acquisition costs	18,459,055	16,877,051	-	-	18,459,055	16,877,051
Available for sale investment	1,923,080	1,923,080	-	-	1,923,080	1,923,080
Fair value through profit or loss investments	-	-	90,028,540	90,671,601	90,028,540	90,671,601
Held-to-maturity investment	20,422,907	10,192,936	15,108,750	-	35,531,657	10,192,936
Prepayments and other assets	55,507,591	49,993,679	2,802,309	2,636,309	58,309,900	52,629,988
Property and equipment	4,833,267	4,035,618	-	-	4,833,267	4,035,618
Intangible assets	9,803,358	7,626,598	-	-	9,803,358	7,626,598
Statutory deposit	-	-	30,000,000	30,000,000	30,000,000	30,000,000
Accrued income from statutory deposit	-	-	2,799,638	2,363,024	2,799,638	2,363,024
TOTAL ASSETS	960,941,918	954,269,328	350,489,737	357,309,839	1,311,431,655	1,311,579,167

Above stated assets do not include "Due from insurance operations" amounting to SR 20,778,132 (31 December 2019: 33,870,028) to be consistent with total assets presented in the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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26 SUPPLEMENTARY INFORMATION (continued)

26.1 Statement of financial position (continued)

	Insurance Operations		Shareholders' Operations		Total	
	2020	2019	2020	2019	2020	2019
LIABILITIES						
Policyholders' claims payable	21,607,449	23,331,651	-	-	21,607,449	23,331,651
Accrued and other liabilities	64,916,997	43,143,731	-	-	64,916,997	43,143,731
Surplus distribution payable	5,577,137	-	-	-	5,577,137	-
Reinsurance balances payable	53,730,084	93,268,021	-	-	53,730,084	93,268,021
Unearned premiums	265,548,157	255,633,330	-	-	265,548,157	255,633,330
Unearned reinsurance commission	6,759,142	6,714,158	-	-	6,759,142	6,714,158
Outstanding claims and reserves	385,850,240	428,202,293	-	-	385,850,240	428,202,293
Claims incurred but not reported	117,468,630	122,763,884	-	-	117,468,630	122,763,884
Accounts payable	-	-	1,445,922	1,407,836	1,445,922	1,407,836
Employees' end-of-service benefits	18,705,950	15,082,288	-	-	18,705,950	15,082,288
Provision for zakat	-	-	10,517,581	9,047,924	10,517,581	9,047,924
Accrued commission income payable to SAMMA	-	-	2,799,639	2,363,024	2,799,639	2,363,024
TOTAL LIABILITIES	940,163,786	988,139,356	14,763,142	12,818,784	954,926,928	1,000,958,140
EQUITY						
Share capital	-	-	300,000,000	300,000,000	300,000,000	300,000,000
Statutory reserve	-	-	29,473,371	20,008,901	29,473,371	20,008,901
Accumulated losses	-	-	26,981,720	(10,876,161)	26,981,720	(10,876,161)
Re-measurement reserve of end-of-service benefits	-	-	49,636	1,488,287	49,636	1,488,287
TOTAL EQUITY	-	-	356,504,727	310,621,027	356,504,727	310,621,027
TOTAL LIABILITIES AND EQUITY	940,163,786	988,139,356	371,267,869	323,439,811	1,311,431,655	1,311,579,167

Above stated liabilities do not include "Due to shareholders' operations" amounting to SR 20,778,132 (31 December 2019: 33,870,028) to be consistent with total liabilities presented in the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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26 SUPPLEMENTARY INFORMATION (continued)

26.2 Statement of income

	Insurance Operations		Shareholders' Operations		Total	
	2020	2019	2020	2019	2020	2019
REVENUES						
Gross premiums written	795,037,966	834,341,165	-	-	795,037,966	834,341,165
Reinsurance premiums ceded						
- Local	(54,518,400)	(45,431,258)	-	-	(54,518,400)	(45,431,258)
- International (includes premium ceded through local broker)	(170,236,024)	(159,780,057)	-	-	(170,236,024)	(159,780,057)
	(224,754,424)	(205,211,315)	-	-	(224,754,424)	(205,211,315)
Excess of loss/ stop loss expenses						
- Local	(402,364)	(757,883)	-	-	(402,364)	(757,883)
- International	(36,896,403)	(55,551,929)	-	-	(36,896,403)	(55,551,929)
	(37,298,767)	(56,309,812)	-	-	(37,298,767)	(56,309,812)
Net premiums written	532,984,775	572,820,038	-	-	532,984,775	572,820,038
Movement in unearned premiums, net	(4,587,025)	55,659,379	-	-	(4,587,025)	55,659,379
Net premiums earned	528,397,750	628,479,417	-	-	528,397,750	628,479,417
Reinsurance commissions	31,057,481	26,686,974	-	-	31,057,481	26,686,974
Other underwriting income	6,868,488	7,642,642	-	-	6,868,488	7,642,642
NET REVENUES	566,323,719	662,809,033	-	-	566,323,719	662,809,033
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	446,868,497	646,925,036	-	-	446,868,497	646,925,036
Reinsurers' share of claims paid	(78,890,405)	(84,800,191)	-	-	(78,890,405)	(84,800,191)
	367,978,092	562,124,845	-	-	367,978,092	562,124,845
Net claims paid	(24,087,623)	(70,608,769)	-	-	(24,087,623)	(70,608,769)
Movement in outstanding claims, net	343,890,469	491,516,076	-	-	343,890,469	491,516,076
Net claims incurred	58,236,814	63,250,572	-	-	58,236,814	63,250,572
Policy acquisition costs	6,907,784	7,215,553	-	-	6,907,784	7,215,553
Inspection and supervision fees	409,035,067	561,982,201	-	-	409,035,067	561,982,201
TOTAL UNDERWRITING COSTS AND EXPENSES	157,288,652	100,826,832	-	-	157,288,652	100,826,832
NET UNDERWRITING INCOME	157,288,652	100,826,832	-	-	157,288,652	100,826,832

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26 SUPPLEMENTARY INFORMATION (continued)

26.2 Statement of income (continued)

	Insurance Operations		Shareholders' Operations		Total	
	2020	2019	2020	2019	2020	2019
OTHER INCOME/(EXPENSES)						
Income from investments	476,607	1,717,642	3,013,328	-	3,489,935	1,717,642
Unrealized loss/(gain) from change in fair value of FVTPL investments	-	-	(643,061)	8,359,793	(643,061)	8,359,793
Income from murabaha deposits	3,325,582	6,049,824	6,390,453	8,034,458	9,716,035	14,084,282
Other income	3,091,691	4,131,215	-	-	3,091,691	4,131,215
General and administrative expenses	(104,377,811)	(108,454,476)	(1,371,382)	(1,227,894)	(105,749,193)	(109,682,370)
Investments expenses	-	-	-	(2,000,000)	-	(2,000,000)
Provision for doubtful debts	(4,033,355)	(19,819,537)	-	-	(4,033,355)	(19,819,537)
TOTAL OTHER INCOME/(EXPENSES)	(101,517,286)	(116,375,332)	7,389,338	13,166,357	(94,127,948)	(103,208,975)
Total income/(loss) for the year	55,771,366	(15,548,500)	7,389,338	13,166,357	63,160,704	(2,382,143)
Total loss for the year attributable to the shareholders before zakat	(50,194,229)	15,548,500	50,194,229	(15,548,500)	-	-
Total loss for the year before zakat	5,577,137	-	57,583,567	(2,382,143)	63,160,704	(2,382,143)
Zakat charge for the year	-	-	(10,261,216)	(8,252,798)	(10,261,216)	(8,252,798)
Total loss for the year after zakat	5,577,137	-	47,322,351	(10,634,941)	52,899,488	(10,634,941)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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26 SUPPLEMENTARY INFORMATION (continued)

26.3 Statement of comprehensive income

	Notes	Insurance Operations		Shareholders' Operations		Total	
		2020	2019	2020	2019	2020	2019
Total loss for the year		5,577,137	-	47,322,351	(10,534,941)	52,899,488	(10,534,941)
Other comprehensive income / (loss) :							
Items that will not be reclassified to statement of income in							
- Actuarial gains/(losses) on employees' end-of-service benefits	14	(1,438,651)	1,491,957	-	-	(1,438,651)	1,491,957
Items that may be reclassified to statement of insurance operations' surplus in subsequent period:							
- Change in fair value of available-for-sale investments, net	8	-	(789,654)	-	-	-	(789,654)
Total comprehensive income/(loss) for the year		<u>4,138,486</u>	<u>702,303</u>	<u>47,322,351</u>	<u>(10,534,941)</u>	<u>51,460,837</u>	<u>(9,932,638)</u>

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26 SUPPLEMENTARY INFORMATION (continued)

26.4 Statement of cash flows

	Notes	Insurance Operations		Shareholders' Operations		Total	
		2020	2019	2020	2019	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES							
Total income/(loss) for the year before zakat		55,771,366	(15,548,500)	7,389,338	13,166,357	63,160,704	(2,382,143)
Adjustments for non-cash items:							
Depreciation of property and equipment	10	2,098,099	2,409,980	-	-	2,098,099	2,409,980
Amortization of intangible assets	10	1,876,845	1,348,700	-	-	1,876,845	1,348,700
Provision for doubtful debts	6	4,033,355	19,819,537	-	-	4,033,355	19,819,537
Provision for employees' end-of-service benefits	14	4,257,890	4,048,125	-	-	4,257,890	4,048,125
Gain on disposal of available-for-sale investment	8a	-	(1,269,597)	-	-	-	(1,269,597)
Unrealized loss/(gain) from change in fair value of FVTPL	8b	-	-	643,061	(8,359,793)	643,061	(8,359,793)
Changes in operating assets and liabilities:							
Premiums and reinsurers' receivable		(32,028,508)	20,416,837	-	-	(32,028,508)	20,416,837
Reinsurers' share of unearned premiums		(5,327,802)	12,706,917	-	-	(5,327,802)	12,706,917
Reinsurers' share of outstanding claims and reserves		25,456,905	41,753,503	-	-	25,456,905	41,753,503
Reinsurers' share of claims incurred but not reported		(1,897,221)	(10,820,550)	-	-	(1,897,221)	(10,820,550)
Deferred policy acquisition costs		(1,582,004)	4,434,736	-	-	(1,582,004)	4,434,736
Deferred excess of loss premiums		-	464,904	-	-	-	464,904
Prepayments and other assets		(30,852,633)	(12,361,339)	(166,000)	(883,435)	(31,018,633)	(13,244,774)
Statutory deposit		-	-	-	-	-	-
Policyholders claims payable		(1,724,202)	(7,716,701)	-	-	(1,724,202)	(7,716,701)
Accrued and other liabilities		21,773,266	(24,527,889)	-	-	21,773,266	(24,527,889)
Reinsurance balances payable		(39,537,937)	38,275,552	-	-	(39,537,937)	38,275,552
Unearned premiums		9,914,827	(68,366,296)	-	-	9,914,827	(68,366,296)
Unearned reinsurance commission		44,984	(201,495)	-	-	44,984	(201,495)
Outstanding claims and reserves		(42,352,053)	(117,815,479)	-	-	(42,352,053)	(117,815,479)
Claims incurred but not reported		(5,295,254)	16,273,758	-	-	(5,295,254)	16,273,758
Accounts payable		-	-	38,086	82,333	38,086	82,333
Cash from operating activities		(35,370,077)	(96,675,297)	7,904,485	4,005,462	(27,465,592)	(97,669,835)
Surplus paid to policy holders		-	(7,729,845)	-	-	-	(7,729,845)
Employees' end-of-service benefits paid	14	(2,072,879)	(2,349,880)	-	-	(2,072,879)	(2,349,880)
Zakat paid	15	(37,442,956)	(106,755,022)	(8,791,559)	(7,912,504)	(8,791,559)	(7,912,504)
Net cash from (used in) operating activities		(77,885,912)	(213,829,001)	(8,791,074)	(3,907,042)	(88,330,030)	(110,662,064)

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

26 SUPPLEMENTARY INFORMATION (continued)

26.4 Statement of cash flows (continued)

	Insurance Operations		Shareholders' Operations		Total	
	2020	2019	2020	2019	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES						
Additions of property and equipment	(2,895,748)	(2,657,257)	-	-	(2,895,748)	(2,657,257)
Additions of intangible assets	(4,053,605)	(2,952,255)	-	-	(4,053,605)	(2,952,255)
Proceed from disposal of available-for-sale investments	-	5,956,853	-	-	-	5,956,853
Fair value through profit or loss investment	-	-	-	(82,311,808)	-	(82,311,808)
Additions in murabaha deposits	(507,500,000)	(813,611,999)	(168,948,739)	(1,222,928)	(676,448,739)	(814,834,927)
Proceed on disposal of murabaha deposits	544,030,800	811,411,999	183,506,804	64,311,492	727,537,604	875,723,491
Net cash from/(used in) investing activities	29,581,447	(1,852,659)	14,558,065	(19,223,244)	44,139,512	(21,075,903)
CASH FLOWS FROM FINANCING ACTIVITY						
Due to shareholders' operations, net	21,001,331	(28,067,858)	(21,001,331)	28,067,858	-	-
Net cash used in financing activity	21,001,331	(28,067,858)	(21,001,331)	28,067,858	-	-
Net change in cash and cash equivalents	13,139,822	(136,675,539)	(7,330,340)	4,937,572	5,809,482	(131,737,967)
Cash and cash equivalents at the beginning of the year	34,551,340	171,226,879	9,638,905	4,701,333	44,190,245	175,928,212
Cash and cash equivalents at the end of the year	47,691,162	34,551,340	2,308,565	9,638,905	49,999,727	44,190,245
Supplemental non-cash information:						
Change in fair value of available-for-sale investments	-	(789,654)	-	-	-	(789,654)
Actuarial gains on employees' end-of-service benefits	(1,438,651)	1,491,957	-	-	(1,438,651)	1,491,957

27 APPROVAL OF FINANCIAL STATEMENTS

The financial statements was authorized for issue in accordance with a resolution of the Board of Directors on 27 Rajab 1442H (corresponding to 11 March 2021).