AXA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of AXA Cooperative Insurance Company (the "Company"), which comprise the statement of financial position as at 31 December 2019, the statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 35.

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

Basis for opinion

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

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

Key audit matters

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Valuation of ultimate claim liabilities arising from insurance contracts As at 31 December 2019, outstanding claims, claims incurred but not reported ("IBNR") and other reserves amounted to Saudi Riyals 260.0 million and Saudi Riyals 701.0 million, respectively. The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs. The Company principally uses an external actuary ("management's expert") to provide them with the estimate of such liabilities. A range of methods were used to determine these provisions which were based on a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We considered this as a key audit matter as the valuation of insurance contract liabilities require the use of significant judgement and estimates. Refer to Note 3.20 to the financial statements for the accounting policy relating to insurance contract liabilities, Note 4 for the disclosure of significant accounting estimates and judgements and Notes 15 and 27.5 for the disclosures of matters related to insurance contract liabilities.	We performed the following procedures: • Understood, evaluated and tested key controls around the claims handling and provision setting processes; • Tested the amounts recorded for a sample of claims notified and paid. On a sample basis, we also compared the outstanding claims amounts to the appropriate source documentation to evaluate the valuation of outstanding claims; • Evaluated the competence, capabilities and objectivity of the management's expert based on their professional qualifications and experience and assessed their independence; • Obtained sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, and tested on sample basis, the accuracy of underlying claims data utilised by the management's expert in estimating the IBNR other reserves by comparing it to the accounting and other records; • Involved our internal experts to evaluate the Company's actuarial practices and related provisions established (for both significant and non-significant operating segments) and gain comfort over the actuarial report issued by management's expert. We also performed the following procedures: (i) Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;

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

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
	(ii) Assessed key actuarial assumptions including claims ratios and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and (iii) Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivity analysis performed. • Involved our internal experts to perform independent re-projections on IBNR and other reserves, for significant operating segments to compare them with the amounts recorded by management and sought to understand any significant differences; and • Assessed the adequacy and appropriateness of the related disclosures in Notes 3.20, 4, 15 and 27.5 to the financial statements.

Other information

The Board of Directors of the Company (the "Directors") are responsible for the other information. The other information comprises information included in the Company's 2019 annual report, but does not include the financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report.

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

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

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

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

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

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

We also:

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

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

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

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

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

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

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

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

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

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

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15 March 2020
20 Rajab 1441H

المحاسبون الدوليون
ترخيص 239
C.R:1010423134
License 239
INTERNATIONAL ACCOUNTANTS

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

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	5	234,840	46,064
Short-term deposits	6	613,521	698,828
Premiums and reinsurers' balances receivable - net	7	190,435	196,334
Reinsurers' share of unearned premiums	15, 18	19,261	18,275
Reinsurers' share of outstanding claims	10,15,18	84,450	98,534
Reinsurers' share of claims incurred but not reported and other reserves	15, 18	50,577	46,481
Deferred policy acquisition costs	15, 18	29,665	21,440
Investments	8	806,081	732,215
Prepaid expenses and other assets		17,188	20,105
Long-term deposits	6	235,721	155,000
Right-of-use assets	9	26,004	-
Property and equipment	11	10,980	6,179
Intangible assets	11	12,151	16,570
Due from shareholders'/insurance operations		86,815	53,125
Goodwill	29	50,000	50,000
Statutory deposit	23	45,000	45,000
Accrued income on statutory deposit		4,450	3,641
Total assets		2,517,139	2,207,791
Liabilities			
Claims payable, accrued and other liabilities	12	113,002	113,579
Surplus distribution payable	13	20,091	12,208
Reinsurers' balances payable		27,294	51,134
Advance premiums		31,189	26,846
Unearned premiums	15, 18	459,190	388,193
Unearned reinsurance commission	15, 18	3,511	4,131
Outstanding claims	15, 18	260,004	277,841
Claims incurred but not reported and other reserves	15, 18	700,963	616,039
Lease liabilities	9	24,265	-
Due to a related party		2,616	5,568
Employee benefit obligations	14	30,622	28,286
Zakat and income tax	20	43,315	37,318
Due to shareholders'/insurance operations		86,815	53,125
Accrued income payable to SAMA		4,450	3,641
Total liabilities		1,807,327	1,617,909

(Continued)

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

	Note	31 December 2019	31 December 2018
Equity			
Share capital	26	500,000	450,000
Statutory reserve	24	49,298	31,961
Performance share reserve	25	1,489	1,323
Retained earnings	34	139,083	119,881
Fair value reserve on investments	8	19,942	(13,283)
Total equity		709,812	589,882
Total liabilities and equity		2,517,139	2,207,791
Commitments and contingencies	16		

The accompanying notes 1 to 35 form an integral part of these financial statements.

Paul Adamson
Managing Director

Gary Lewin
Chief Executive Officer

Babar Ali Khan
Chief Financial Officer

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

	Note	31 December 2019	31 December 2018 Restated (Note 2)
Revenues			
Gross premiums written			
- Direct		1,403,912	1,441,028
- Reinsurance		5,865	4,832
		1,409,777	1,445,860
Reinsurance premiums ceded			
- Foreign		(85,459)	(115,398)
- Local		(2,595)	(35,087)
		(88,054)	(150,485)
Net premiums written		1,321,723	1,295,375
Changes in unearned premiums		(70,997)	(43,163)
Changes in reinsurers' share of unearned premiums		986	(3,784)
Net premiums earned		1,251,712	1,248,428
Reinsurance commissions		12,142	25,606
Total revenues		1,263,854	1,274,034
Underwriting costs and expenses			
Gross claims paid		887,351	912,574
Reinsurers' share of claims paid		(23,511)	(86,835)
Net claims and other benefits paid		863,840	825,739
Changes in outstanding claims		(17,837)	13,555
Changes in reinsurers' share of outstanding claims		14,084	21,672
Changes in claims incurred but not reported and other reserves		84,924	119,323
Changes in reinsurers' share of claims incurred but not reported and other reserves		(4,096)	(11,933)
Net claims and other benefits incurred		940,915	968,356
Policy acquisition costs		92,166	102,504
Total underwriting costs and expenses		1,033,081	1,070,860
Net underwriting income		230,773	203,174
Other operating expenses			
General and administrative expenses	22	(166,952)	(165,445)
Other income - net	21	54,369	46,129
Total other operating expenses, net		(112,583)	(119,316)
Total income for the year before surplus attribution, zakat and income tax		118,190	83,858
Surplus attributed to the insurance operations	13	(9,716)	(7,432)
Total income for the year before zakat and income tax		108,474	76,426

(Continued)

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

	Note	31 December 2019	31 December 2018 Restated (Note 2)
Zakat expense (Note 2)	20	(13,223)	(11,287)
Income tax expense (Note 2)	20	(8,564)	(6,146)
Total income for the year attributable to the shareholders		86,687	58,993
Earnings per share (expressed in SAR per share)			
Basic earnings per share	31	1.73	1.18
Diluted earnings per share	31	1.73	1.18

The accompanying notes 1 to 35 form an integral part of these financial statements.

Paul Adamson	Gary Lewin	Babar Ali Khan
Managing Director	Chief Executive Officer	Chief Financial Officer

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

	Note	31 December 2019	31 December 2018 Restated (Note 2)
Total income for the year attributable to the shareholders		86,687	58,993
Other comprehensive income (loss):			
Items that will be reclassified to the statement of income in subsequent years			
Net change in fair value of available-for-sale investments	8	33,225	(12,531)
Total comprehensive income for the year		119,912	46,462

The accompanying notes 1 to 35 form an integral part of these financial statements.

Paul Adamson	Gary Lewin	Babar Ali Khan
Managing Director	Chief Executive Officer	Chief Financial Officer

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

	Note	Share capital	Statutory reserve	Performance share reserve	Retained earnings	Fair value reserve on investments	Total
Balance as at 1 January 2019		450,000	31,961	1,323	119,881	(13,283)	589,882
Total comprehensive income for the year							
Total income for the year attributable to shareholders		-	-	-	86,687	-	86,687
Changes in fair values of available-for-sale investments	8	-	-	-	-	33,225	33,225
Total comprehensive income for the year		-	-	-	86,687	33,225	119,912
Transfer to statutory reserve		-	17,337	-	(17,337)	-	-
Performance share reserve	25	-	-	822	-	-	822
Performance share reserve - settlement		-	-	(804)	-	-	(804)
Transfer from retained earnings		-	-	148	(148)	-	-
Issuance of bonus shares	1	50,000	-	-	(50,000)	-	-
Balance at 31 December 2019		500,000	49,298	1,489	139,083	19,942	709,812

The accompanying notes 1 to 35 form an integral part of these financial statements.

Paul Adamson
Managing Director

Gary Lewin
Chief Executive Officer

Babar Ali Khan
Chief Financial Officer

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

Restated (Note 2)	Note	Share capital	Statutory reserve	Performance share reserve	Retained earnings	Fair value reserve on investments	Total
Balance as at 1 January 2018		450,000	20,162	982	72,865	(752)	543,257
Total comprehensive income for the year							
Total income for the year attributable to shareholders		-	-	-	58,993	-	58,993
Changes in fair values of available-for-sale investments	8	-	-	-	-	(12,531)	(12,531)
Total comprehensive income for the year		-	-	-	58,993	(12,531)	46,462
Transfer to statutory reserve		-	11,799	-	(11,799)	-	-
Performance share reserve	25	-	-	650	-	-	650
Performance share reserve - settlement		-	-	(487)	-	-	(487)
Transfer from retained earnings		-	-	178	(178)	-	-
Balance at 31 December 2018		450,000	31,961	1,323	119,881	(13,283)	589,882

The accompanying notes 1 to 35 form an integral part of these financial statements.

Paul Adamson
Managing Director

Gary Lewin
Chief Executive Officer

Babar Ali Khan
Chief Financial Officer

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

	Note	31 December 2019	31 December 2018 Restated (Note 2)
Cash flows from operating activities			
Total income for the year before surplus attribution, zakat and income tax		118,190	83,858
Adjustments for non-cash items:			
Depreciation of property and equipment	11	3,062	2,696
Depreciation of right of use assets	9	1,082	-
Amortization of intangible assets	11	5,904	4,081
Provision for doubtful debts	7	185	19,416
Accretion of discount on available-for-sale investments	8	(1,362)	(782)
Amortization of premium on available-for-sale investments	8	172	127
Amortization of premium on held-to-maturity investments	8	15	16
Impairment loss on available -for-sale investments	8	1,295	2,007
Performance share reserve	25	822	650
Provision for employee benefit obligations	14	4,566	3,951
Financial costs	9	362	-
		134,293	116,020
Changes in operating assets and liabilities:			
Premiums and reinsurers' balances receivable - net		5,714	(62,352)
Reinsurers' share of unearned premiums		(986)	3,784
Reinsurers' share of outstanding claims		14,084	21,672
Reinsurers' share of claims incurred but not reported and other reserves		(4,096)	(11,933)
Deferred policy acquisition costs		(8,225)	6,718
Prepaid expenses and other assets		2,917	(2,580)
Accrued income on statutory deposit		(809)	(948)
Claims payable, accrued expenses and other liabilities		(577)	(17,983)
Surplus distribution paid	13	(1,833)	(2,646)
Reinsurers' balances payable		(23,840)	(7,959)
Advance premiums		4,343	9,004
Unearned premiums		70,997	43,163
Unearned reinsurance commission		(620)	(153)
Outstanding claims		(17,837)	13,555
Claims incurred but not reported and other reserves		84,924	119,323
Due to related party		(2,952)	1,233
Employee benefit obligations paid	14	(2,230)	(409)
Zakat and income tax paid	20	(15,790)	(7,191)
Accrued income payable to SAMA		809	948
Net cash generated from operating activities		238,286	221,266

(Continued)

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

	Note	31 December 2019	31 December 2018 Restated (Note 2)
Cash flows from investing activities			
Placements in short-term deposits		**(188,356)**	(126,250)
Proceeds from disposals of short-term deposits		**273,663**	4,395
Purchases of investments	8	**(188,898)**	(242,773)
Proceeds from disposals of investments	8	**148,137**	31,284
Placements in long-term deposits		**(80,721)**	(6,620)
Proceeds from disposals of long-term deposits		**-**	60,000
Purchases of property and equipment	11	**(7,863)**	(1,859)
Purchases of intangible assets	11	**(1,485)**	(10,668)
Net cash used in investing activities		**(45,523)**	(292,491)
Cash flows from financing activities			
Principal elements of lease payments		**(3,183)**	-
Performance share reserve - settlement		**(804)**	(487)
Net cash used in financing activities		**(3,987)**	(487)
Net change in cash and cash equivalents		**188,776**	(71,712)
Cash and cash equivalents, beginning of the year		**46,064**	117,776
Cash and cash equivalents, end of the year	5	**234,840**	46,064
Supplemental non-cash information:			
Changes in fair value of available-for-sale investments	8	**33,225**	(12,531)
Acquisition of right-of-use assets	9	**27,086**	-
Issuance of bonus shares	1	**50,000**	-

The accompanying notes 1 to 35 form an integral part of these financial statements.

Paul Adamson
Managing Director

Gary Lewin
Chief Executive Officer

Babar Ali Khan
Chief Financial Officer

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

1 General information

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

The purpose of the Company is to engage in cooperative insurance operations and all related activities including reinsurance activities. Its principal lines of business include health, motor, property insurance.

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

On 16 December 2019 (corresponding to Rabi' II 1441H), the Company increased its share capital from Saudi Riyals 450 million to Saudi Riyals 500 million through the issuance of 5 million bonus shares (one bonus share for every nine shares held).

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

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

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

2 Basis of preparation

2.1 Statement of compliance

The financial statements of the Company has been prepared in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The financial statements of the Company as at and for the year ended 31 December 2018 were prepared in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax (relating to the application IAS 12, 'Income Taxes' and IFRIC 21, 'Levies' so far as these relate to zakat and income tax).

During July 2019, SAMA instructed insurance companies in the Kingdom of Saudi Arabia to account for zakat and income taxes in the statement of income. This aligns with IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 - Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in Note 3.3 and the effects of this change are disclosed in Note 32 to the financial statements).

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations and presents the financial statements accordingly. The physical custody and title of all assets related to the insurance operations and shareholders' operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by management and the Board of Directors of the Company.

In accordance with the requirements of the Implementing Regulations for Co-operative Insurance Companies (the "Regulations") issued by SAMA and as per the by-laws of the Company, surplus arising from the insurance operations is distributed as follows:

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

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

The statements of financial position, income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented on pages 81 to 88 of the financial statements have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations. 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, income, comprehensive income and cash flows prepared for the insurance operations and shareholders' operations, as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

2 Basis of preparation (continued)

2.1 Statement of compliance (continued)

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

2.2 Basis of measurement

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

2.3 Basis of presentation

The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: long-term deposits, deferred policy acquisition costs, investments, right-of-use assets, property and equipment, intangible assets, goodwill, statutory deposit and employee benefit obligations. All other financial statements line items would generally be classified as current.

3 Summary of significant accounting policies

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

3.1 New and amended standards adopted by the Company

IFRS 16, 'Leases'

The Company adopted IFRS 16 from 1 January 2019 using the simplified transition approach. IFRS 16 was issued in January 2016 and it replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC - 15 'Operating Leases - Incentives' and SIC - 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from previous guidance under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

3 Summary of significant accounting policies (continued)

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

IFRS 16, 'Leases' (continued)

The Company elected to apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application. The Company set up a project team that has reviewed various leasing and non-leasing arrangements during 2018 in light of the new lease accounting guidance in IFRS 16. The standard affects primarily the accounting for the Company's operating leases. Based on the impact assessment performed by the Company, the identified impact from the adoption of IFRS 16 was not material and, hence, no adjustments were recognised by management on the date of transition i.e. 1 January 2019.

Annual improvements 2015-2017

These improvements include minor changes to IFRS 3 'Business combination', IFRS 11 'Joint arrangements', IAS 12 'Income taxes' and IAS 23 'Borrowing costs'.

Amendments to IAS 19, 'Employee benefit obligations'

The amendments require an entity to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement, and recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

IFRIC 23, 'Uncertainty over income tax treatments'

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

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

IFRS 9, 'Financial Instruments'

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

a) Classification and measurement:

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

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

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

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

3 Summary of significant accounting policies (continued)

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

IFRS 9, 'Financial Instruments' (continued)

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 FVTPL. Additionally, at initial recognition, an entity can use the option to designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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

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

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

c) Hedge accounting:

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

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

Effective date

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

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

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

3 Summary of significant accounting policies (continued)

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

IFRS 9, 'Financial Instruments' (continued)

b) annual reporting periods beginning on or after 1 January 2021 (the IASB is proposing to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to 1 January 2022). Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominantly connected with insurance and have not applied IFRS 9 previously; or

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

The Company has performed a detailed assessment starting in 2019:

i) the carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and

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

Impact assessment

As at 31 December 2019, the Company has total financial assets and insurance related assets amounting to Saudi Riyals 2.3 billion and Saudi Riyals 274.9 million, respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents, deposits, held-to-maturity investments, premiums and reinsurers' balances receivable - net, reinsurers' share of outstanding claims, certain other assets and accrued income on statutory deposit amounting to Saudi Riyals 1.6 billion (31 December 2018: Saudi Riyals 1.4 billion).

The fair value of unit linked investments held at FVTPL as at 31 December 2019 is Nil (31 December 2018: Nil).

Other financial assets consist of available-for-sale investments measured at fair value of Saudi Riyals 667.3 million (31 December 2018: Saudi Riyals 593.4 million) with net increase in fair value during the year of Saudi Riyals 33.2 million (2018: net decrease of Saudi Riyals 12.5 million). The Company expects to use the FVOCI classification for these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9.

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

Credit risk exposure, concentration of credit risk and credit quality of the above financial assets are mentioned in Note 27.9.

3 Summary of significant accounting policies (continued)

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

IFRS 9, 'Financial Instruments' (continued)

The Company's financial assets have low credit risk as at 31 December 2019 and 2018. The above is based on a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9. However, the impact of the impairment requirements of IFRS 9 are not expected to be significant. At present, it is not possible to provide a reasonable estimate of the effects of application of IFRS 9 as the Company is yet to perform a detailed review.

IFRS 17, 'Insurance Contracts'

Overview

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

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

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

ii) distinct investment components; and

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

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

Measurement

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

The General Measurement Model ("GMM")

GMM is based on the following "building blocks":

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

b) The Contractual Service Margin ("CSM") represents the unearned profit for a group of insurance contracts and will be recognised as the entity provides services in the future. The CSM cannot be negative at inception. Any negative amount of the FCF at inceptions will be recorded in profit or loss immediately.

3 Summary of significant accounting policies (continued)

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

IFRS 17, 'Insurance Contracts' (continued)

At the end of each subsequent reporting period, the carrying amount of a group of insurance contracts is remeasured to be the sum of:

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

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

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

The Variable Fee Approach ("VFA")

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

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

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

Premium Allocation Approach ("PAA")

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

Effective date

The IASB issued an Exposure Draft Amendments to IFRS 17 proposing certain amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting. The effective date of IFRS 17 and the deferral of IFRS 9 temporary exemption in IFRS 4 is currently 1 January 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. This is a deferral of 1 year compared to the previous date of 1 January 2021. Earlier application is permitted if both IFRS 15 and IFRS 9 have also been applied. The Company intends to apply IFRS 17 on its effective date.

3 Summary of significant accounting policies (continued)

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

IFRS 17, 'Insurance Contracts' (continued)

Applicable for the period beginning on or after 1 January 2022, and will supersede IFRS 4 'Insurance Contracts'. Earlier adoption is permitted if IFRS 9 has also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect the statements of financial position, income and comprehensive income. The Company has decided not to early adopt this new standard.

Transition

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

Presentation and disclosures

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

Impact

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

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

3 Summary of significant accounting policies (continued)

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

IFRS 3, 'Business combination'.

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

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

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

Fiscal year

The Company follows a fiscal year ending 31 December.

3.3 Changes in accounting policies

3.3.1 Change in accounting for zakat and income tax

As mentioned in Note 2.1 above, the basis of preparation has been changed for the year ended 31 December 2019 based on the latest instructions from SAMA during July 2019. Previously, zakat and income tax was recognised in the statement of changes in equity as per SAMA circular number 381000074519 dated 11 April 2017. As per SAMA instructions in July 2019, the zakat and income tax shall be recognised in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively (the effects of the above change are disclosed in Note 32 to the financial statements). The change has resulted in a reduction of reported income of the Company for the year ended 31 December 2018 by Saudi Riyals 17.4 million. The change had no impact on the statement of cash flows for the year ended 31 December 2018.

a) Zakat

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

Amounts accrued for zakat expense in one year may have to be adjusted in a subsequent year if the estimate of the annual charge changes.

b) Income tax

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

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

3 Summary of significant accounting policies (continued)

3.3 Changes in accounting policies (continued)

3.3.1 Change in accounting for zakat and income tax (continued)

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

c) Deferred tax

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

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

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

3.3.2 Right-of-use assets and lease liabilities

Until 2018, all leases of the Company were assessed to be operating leases and payments made under such leases were charged to profit or loss on a straight-line basis over the period of the lease.

Starting 1 January 2019, the Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

3 Summary of significant accounting policies (continued)

3.3 Changes in accounting policies (continued)

3.3.2 Right-of-use assets and lease liabilities (continued)

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37, 'Provisions, contingent liabilities and contingent assets'. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 'Impairment of Assets' to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

3 Summary of significant accounting policies (continued)

3.4 Use of estimates in the preparation of financial statements

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

3.5 Segment reporting

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

The basis of segmentation for the segment profit or loss have been revised since 1 January 2019. The previous segment classification was: Motor, Property, Health and Other. As instructed by SAMA, the Company has changed the segment classification to: Motor, Property and casualty, Health and Protection.

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

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

Operating segments do not include shareholders' operations.

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

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

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

Where intersegment transaction 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.

3 Summary of significant accounting policies (continued)

3.6 Functional and presentation currency

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

3.7 Financial assets

3.7.1 Classification

The Company classifies its financial assets in the following categories:

Loans and receivables

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

Available-for-sale investments

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

Held-to-maturity investments

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

3 Summary of significant accounting policies (continued)

3.7 Financial assets (continued)

3.7.2 Recognition, measurement and de-recognition

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

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

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

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

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

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

3.7.3 Determination of fair values

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

3.7.4 Impairment of financial assets

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

3 Summary of significant accounting policies (continued)

3.7 Financial assets (continued)

3.7.4 Impairment of financial assets (continued)

Evidence of impairment may include:

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

- adverse changes in the payment status of issuers or debtors in the Company; or
- national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

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

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

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be 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 for the year. The determination of what is 'significant' or 'prolonged' requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

3 Summary of significant accounting policies (continued)

3.8 Financial liabilities

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

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

3.9 Off-setting

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

3.10 Cash and cash equivalents

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

3.11 Short-term and long-term deposits

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

3.12 Premiums receivable

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

3.13 Unearned reinsurance commission income

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

3.14 Insurance contracts

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

3 Summary of significant accounting policies (continued)

3.15 Deferred policy acquisition costs

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

3.16 Claims

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

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at reporting date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at statement of financial position date. The ultimate liability may be in excess of or less than the amount provided.

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

3.17 Salvage and subrogation reimbursement

Some insurance contracts permit the Company to sell (usually damaged) assets acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of damaged assets.

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

3.18 Reinsurance

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

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

3 Summary of significant accounting policies (continued)

3.18 Reinsurance (continued)

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are determined in a manner consistent with the associated reinsurance contract.

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

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

3.19 Liability adequacy test

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

3.20 Insurance contract liabilities

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

3.21 Property and equipment

Property and equipment are initially recorded at cost and are subsequently stated at cost less accumulated depreciation and any impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or 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. Depreciation is charged to the statement of income on a straight line basis based on the following estimated useful lives:

	Years
Furniture and fixtures	5
Equipment	3 - 4

3 Summary of significant accounting policies (continued)

3.21 Property and equipment (continued)

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

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

3.22 Intangible assets

a) Goodwill

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

b) Other intangible assets

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

3.23 Provisions, claims payable, accrued expenses and other liabilities

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

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

3.24 Payables

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

3 Summary of significant accounting policies (continued)

3.25 Employee benefit obligations

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

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

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

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

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

3.26 Share based payments

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

3.27 Revenue recognition

(a) Recognition of premium and reinsurance commission revenue

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

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

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

3 Summary of significant accounting policies (continued)

3.27 Revenue recognition (continued)

(b) Commission, dividend income and income

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

3.28 Trade date accounting

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

3.29 Seasonality of operations

There are no seasonal changes that affect insurance operations.

4 Critical accounting judgements, estimates and assumptions

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

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

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

a) Liability arise from claims under insurance contracts

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

The provision for claims incurred but not reported ("IBNR") is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. 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. Actuary had also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Refer to Note 27.6 for a sensitivity analysis in relation to significant assumptions.

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

4 Critical accounting judgements, estimates and assumptions (continued)

b) Impairment of premiums and insurance balances receivable and goodwill

An estimate of the uncollectible amount of premium receivable, if any, is made when collection of the full amount of the receivables as per the original terms of the insurance policy is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due and Company's past experience. An increase in the provision rates, keeping all other variables constant, of 5% would decrease the total income before surplus attribution, zakat and income tax by Saudi Riyals 5.5 million (2018: Saudi Riyals 7.4 million). A decrease of 5% would have an equal but opposite effect on the total income before surplus attribution, zakat and income tax.

The recoverable amount of goodwill is estimated based on the present value of the future cash flows expected to be derived from the asset. In case the, recoverable amount is less than carrying value, the difference is charged to statement of income as impairment loss. Refer to Note 29 for a sensitivity analysis in relation to significant assumptions.

5 Cash and cash equivalents

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

	31 December 2019	31 December 2018
Bank balances and cash	**87,437**	38,268
Deposits maturing within 3 month from the placement date	**147,403**	7,796
	234,840	46,064

Cash at banks are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology. As at 31 December 2019, deposits were placed with local banks with original maturities of less than three months from the date of placement and earned financial income at 1.90% to 2.40% (31 December 2018: 1.45% to 2.75%) per annum.

6 Short-term and long-term deposits

Short-term deposits are placed with local banks with an original maturity of more than three months but less than or equal to twelve months from the date of placement. These deposits earn financial income at a rate of 2.10% to 3.65% (2018: 2.00% to 3.90%) per annum.

Long-term deposits represent deposits in various banks carrying commission income at a rate of 2.40% to 4.10% (2018: 2.25% to 4.10%) per annum and will mature by 20 June 2024.

7 Premiums and reinsurers' balances receivable - net

	31 December 2019	31 December 2018
Policyholders	**177,893**	201,311
Brokers and agents	**86**	32
Related parties (Note 19)	**22,739**	21,368
Reinsurers	**35,254**	18,975
	235,972	241,686
Provision for doubtful debts (Note 19)	**(45,537)**	(45,352)
	190,435	196,334

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

7 Premiums and reinsurers' balances receivable - net (continued)

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

	Neither past due nor impaired	Past due but not impaired			Total
		91 to 180 days	181 to 360 days	More than 360 days	
31 December 2019	**103,917**	**54,814**	**20,513**	**11,191**	**190,435**
31 December 2018	90,817	61,199	36,027	8,291	196,334

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

Movement in provision for doubtful debts is as follows:

	2019	**2018**
1 January	**45,352**	25,936
Provision for the year (Note 22)	**185**	19,416
31 December	**45,537**	45,352

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

8 Investments

Investments are comprised of the following:

	31 December 2019	**31 December 2018**
Insurance operations		
Available-for-sale	**477,511**	415,131
Held-to-maturity	**78,805**	78,820
Total	**556,316**	493,951
Shareholders' operations		
Available-for-sale	**189,765**	178,264
Held-to-maturity	**60,000**	60,000
Total	**249,765**	238,264
Total investments	**806,081**	732,215

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

8 Investments (continued)

Investment securities are classified as follows:

i) Available-for-sale investments

	Domestic		International		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Insurance operations						
Government bonds	**309,132**	284,983	**51,808**	50,191	**360,940**	335,174
Other bonds	**36,397**	19,475	**58,769**	40,243	**95,166**	59,718
Mutual funds	**21,405**	20,239	**-**	-	**21,405**	20,239
Total	**366,934**	324,697	**110,577**	90,434	**477,511**	415,131
Shareholders' operations						
Government bonds	**82,510**	86,843	**15,862**	22,760	**98,372**	109,603
Other bonds	**17,000**	17,000	**2,679**	11,228	**19,679**	28,228
Mutual funds	**9,208**	9,644	**-**	-	**9,208**	9,644
Equities	**62,506**	30,789	**-**	-	**62,506**	30,789
Total	**171,224**	144,276	**18,541**	33,988	**189,765**	178,264

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

	Insurance operations	Shareholders' operations	Total
As at 1 January 2018	239,927	155,862	395,789
Purchases	192,686	50,087	242,773
Disposals	(12,028)	(19,256)	(31,284)
Amortisation of premium on available-for-sale investments	(70)	(57)	(127)
Accretion for the discount on available-for-sale investments	609	173	782
Impairment	-	(2,007)	(2,007)
Changes in fair value of investments	(5,993)	(6,538)	(12,531)
As at 31 December 2018	415,131	178,264	593,395
As of 1 January 2019	**415,131**	**178,264**	**593,395**
Purchases	**138,206**	**50,692**	**188,898**
Disposals	**(96,928)**	**(51,209)**	**(148,137)**
Amortisation of premium on available-for-sale investments	**(116)**	**(56)**	**(172)**
Accretion for the discount on available-for-sale investments	**1,177**	**185**	**1,362**
Impairment	**-**	**(1,295)**	**(1,295)**
Changes in fair value of investments	**20,041**	**13,184**	**33,225**
As at 31 December 2019	**477,511**	**189,765**	**667,276**

Available-for-sale investments at 31 December 2019 include 1,923,078 shares (31 December 2018: 1,923,078 shares) in Najm for Insurance Services, and are held by the Company at Nil value.

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

8 Investments (continued)

i) Available-for-sale investments (continued)

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

	Insurance operations	Shareholders' operations	Total
As of 1 January 2018	(488)	(264)	(752)
Unrealised losses, net	(5,993)	(6,538)	(12,531)
As at 31 December 2018	(6,481)	(6,802)	(13,283)
As of 1 January 2019	**(6,481)**	**(6,802)**	**(13,283)**
Unrealised gains, net	**20,041**	**13,184**	**33,225**
As at 31 December 2019	**13,560**	**6,382**	**19,942**

ii) Held-to-maturity investments

Held-to-maturity investments are comprised of domestic fixed-rate securities at 31 December 2019 of Saudi Riyals 138.8 million (31 December 2018: Saudi Riyals 138.8 million).

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

	Insurance operations	Shareholders' operations	Total
As of 1 January 2018	78,836	60,000	138,836
Amortisation of premium on held-to-maturity investments	(16)	-	(16)
As at 31 December 2018	78,820	60,000	138,820
As of 1 January 2019	**78,820**	**60,000**	**138,820**
Amortisation of premium on held-to-maturity investments	**(15)**	**-**	**(15)**
As at 31 December 2019	**78,805**	**60,000**	**138,805**

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

9 Right-of-use assets and lease liabilities

	31 December 2019	31 December 2018
Right-of-use assets - building		
Cost		
1 January	-	-
Additions	27,086	-
31 December	27,086	-
Accumulated depreciation		
1 January	-	-
Charge for the year (Note 22)	(1,082)	-
31 December	(1,082)	-
Net book value	26,004	-

Lease liabilities	31 December 2019	31 December 2018
Within one year	3,183	-
Later than one year but not later than five years	12,732	-
Later than five years	12,732	-
	28,647	-
Future finance charges	(4,382)	-
Total lease liabilities	24,265	-

Interest expense on leases amounted to Saudi Riyals 0.4 million during the year ended 31 December 2019 under "Other income - net" in the statement of income.

Short-term leases that were expensed during the year ended 31 December 2019 amounted to Saudi Riyals 5.6 million (2018: Saudi Riyals 5.2 million).

10 Reinsurers' share of outstanding claims and reserves

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

11 Property and equipment and intangible assets

(a) *Property and equipment*

	Furniture and fixtures	Equipment	Capital work in progress	Total
2019				
Cost				
1 January	9,684	14,894	-	24,578
Additions	4,882	2,981	-	7,863
31 December	14,566	17,875	-	32,441
Accumulated depreciation				
1 January	(7,824)	(10,575)	-	(18,399)
Charge for the year (Note 22)	(1,050)	(2,012)		(3,062)
31 December	(8,874)	(12,587)	-	(21,461)
Net book value				
31 December	5,692	5,288	-	10,980

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

11 Property and equipment and intangible assets (continued)

(a) *Property and equipment* (continued)

	Furniture and fixtures	Equipment	Capital work in progress	Total
2018				
Cost				
1 January	9,226	12,835	705	22,766
Additions	505	2,059	-	2,564
Disposals / Transfer	(47)	-	(705)	(752)
31 December	9,684	14,894	-	24,578
Accumulated depreciation				
1 January	(6,907)	(8,843)	-	(15,750)
Charge for the year (Note 22)	(964)	(1,732)	-	(2,696)
Disposals	47	-	-	47
31 December	(7,824)	(10,575)	-	(18,399)
Net book value				
31 December	1,860	4,319	-	6,179

(b) *Intangible assets*

	31 December 2019			31 December 2018		
	Computer software	Software under development	Total	Computer software	Software under development	Total
Cost						
1 January	**31,742**	**46**	**31,788**	21,074	46	21,120
Additions	**1,485**	**-**	**1,485**	10,668	-	10,668
Transfers	**46**	**(46)**	**-**	-	-	-
31 December	**33,273**	**-**	**33,273**	31,742	46	31,788
Accumulated amortization						
1 January	**(15,218)**	**-**	**(15,218)**	(11,137)	-	(11,137)
Amortization	**(5,904)**	**-**	**(5,904)**	(4,081)	-	(4,081)
31 December	**(21,122)**	**-**	**(21,122)**	(15,218)	-	(15,218)
Net book Value	**12,151**	**-**	**12,151**	16,524	46	16,570

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

12 Claims payable, accrued expenses and other liabilities

	31 December 2019	31 December 2018
Insurance operations:		
Claims payable	**4,518**	12,941
Accrued salaries	**25,194**	21,862
Commission payable	**10,557**	12,631
Regulators' fee	**1,886**	1,351
Unclaimed cheques	**20,206**	26,670
Payable to vendors	**44,108**	31,736
Other	**4,544**	5,139
	111,013	112,330
Shareholders' operations:		
Directors' fees	**1,248**	1,249
Other	**741**	-
	1,989	1,249
Total	**113,002**	113,579

13 Surplus distribution payable

	2019	2018
As at 1 January	**12,208**	7,422
Total income attributed to the insurance operations during the year	**9,716**	7,432
Surplus paid to policyholders	**(1,833)**	(2,646)
As at 31 December	**20,091**	12,208

14 Employee benefit obligations

14.1 General description of the plan

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

	31 December 2019	31 December 2018
1 January	**28,286**	24,744
Current service cost	**3,293**	2,800
Interest expense	**1,273**	1,151
Payments	**(2,230)**	(409)
31 December	**30,622**	28,286

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

14 Employee benefit obligations (continued)

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

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

	31 December 2019	31 December 2018
Current service cost	**3,293**	2,800
Interest expense	**1,273**	1,151
Total amount recognised in profit or loss	**4,566**	3,951

14.3 Key actuarial assumptions

	31 December 2019	31 December 2018
Discount rate	3.50%	4.85%
Average salary growth rate	4.00%	5.00%
Retirement age	60 years	60 years

14.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	1%	(2,724)	3,243
Average salary growth rate	1%	1%	3,192	(2,736)

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

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

15 Technical reserves

a. *Net outstanding claims and reserves*

Net outstanding claims and reserves comprise of the following:

	31 December 2019	31 December 2018
Outstanding claims	**310,627**	310,497
Less: realizable value of salvage and subrogation	**(50,623)**	(32,656)
	260,004	277,841
Claims incurred but not reported and other reserves	**700,963**	616,039
	960,967	893,880
Less:		
- Reinsurers' share of outstanding claims	**(84,450)**	(98,534)
- Reinsurers' share of claims incurred but not reported and other reserves	**(50,577)**	(46,481)
	(135,027)	(145,015)
Net outstanding claims and reserves	**825,940**	748,865

Changes in outstanding claims and reserves for the year ended 31 December 2019 is Saudi Riyals 77.1 million (2018: Saudi Riyals 142.6 million).

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

b. *Movement in net unearned premiums*

Movement in net unearned premiums comprise of the following:

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

	31 December 2018		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	345,030	(22,059)	322,971
Premium written during the year	1,445,860	(150,485)	1,295,375
Premium earned during the year	(1,402,697)	154,269	(1,248,428)
Balance as at the end of the year	388,193	(18,275)	369,918

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

15 Technical reserves (continued)

c. *Movement in deferred policy acquisition costs*

Movement in deferred policy acquisition costs comprise of the following:

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

	31 December 2018		
	Gross	**Reinsurance**	**Net**
Balance as at the beginning of the year	28,158	(4,284)	23,874
Incurred during the year	95,786	(25,453)	70,333
Amortized during the year	(102,504)	25,606	(76,898)
Balance as at the end of the year	21,440	(4,131)	17,309

16 Commitments and contingencies

(i) As at 31 December 2019, the Company has issued various other bank guarantees for an amount of Saudi Riyals 5.8 million (31 December 2018: Saudi Riyals 11.4 million) in the ordinary course of business.

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

17 Determination of fair value and fair value hierarchy

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

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

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

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

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

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

(a) Carrying amounts and fair value

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

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

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

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

(a) Carrying amounts and fair value (continued)

	Carrying value	Fair value Level 1	Level 2	Level 3	Total
31 December 2018					
Financial assets measured at fair value (Insurance operations)					
Available-for-sale investments					
- Government bonds	335,174	335,174	-	-	335,174
- Other bonds	59,718	59,718	-	-	59,718
- Mutual funds	20,239	20,239	-	-	20,239
	415,131	415,131	-	-	415,131
Financial assets measured at fair value (Shareholders' operations)					
Available-for-sale investments					
- Government bonds	109,603	109,603	-	-	109,603
- Other bonds	28,228	28,228	-	-	28,228
- Mutual funds	9,644	9,644	-	-	9,644
- Equities	30,789	30,789	-	-	30,789
	178,264	178,264	-	-	178,264

18 Segmental information

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

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

The basis of segmentation for the segment profit or loss have been revised since during the year 2019 as instructed by SAMA.

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

18 Segmental information (continued)

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

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

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

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

Where intersegment transaction 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.

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

18 Segmental information (continued)

The segment information provided to the Company's Board of Directors for the reportable segments for the Company's total assets and liabilities at 31 December 2019 and 31 December 2018, its total revenues, expenses, and net income for the years then ended, are as follows:

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

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

18 Segmental information (continued)

	Insurance operations						
31 December 2018	**Motor**	**Property and casualty**	**Health**	**Protection**	**Total**	**Shareholders' operations**	**Grand total**
Assets							
Reinsurers' share of unearned premiums	-	16,324	783	1,168	18,275	-	18,275
Reinsurers' share of outstanding claims	3,501	95,200	33	(200)	98,534	-	98,534
Reinsurers' share of claims incurred but not reported and other reserves	32,544	13,937	-	-	46,481	-	46,481
Deferred policy acquisition costs	12,554	4,465	3,805	616	21,440	-	21,440
Segment assets	48,599	129,926	4,621	1,584	184,730	-	184,730
Unallocated assets					1,384,490	638,571	2,023,061
Total assets					1,569,220	638,571	2,207,791
Liabilities and equity							
Unearned premiums	191,039	55,856	136,372	4,926	388,193	-	388,193
Unearned reinsurance commission	-	3,607	178	346	4,131	-	4,131
Outstanding claims	30,826	193,680	51,797	1,538	277,841	-	277,841
Claims incurred but not reported and other reserves	412,613	123,123	64,092	16,211	616,039	-	616,039
Segment liabilities	634,478	376,266	252,439	23,021	1,286,204	-	1,286,204
Unallocated liabilities and equity					283,016	638,571	921,587
Total liabilities and equity					1,569,220	638,571	2,207,791

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

18 Segmental information (continued)

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

(continued)

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

18 Segmental information (continued)

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

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

18 Segmental information (continued)

Restated (Note 2)	**Insurance operations**						
31 December 2018	**Motor**	**Property and casualty**	**Health**	**Protection**	**Total**	**Shareholders' operations**	**Grand total**
Gross premiums written							
- Direct							
- Large corporates	581,464	39,357	123,313	5,075	749,209	-	749,209
- Medium corporates	197,680	119,574	193,655	8,296	519,205	-	519,205
- Small corporates	6,680	3,702	11,349	-	21,731	-	21,731
- Micro enterprises	2,863	1,583	4,919	-	9,365	-	9,365
- Retail	110,543	6,589	24,386	-	141,518	-	141,518
- Reinsurance	-	4,832	-	-	4,832	-	4,832
	899,230	175,637	357,622	13,371	1,445,860	-	1,445,860
Reinsurance premiums ceded							
- Foreign	(38,116)	(70,991)	(3,066)	(3,225)	(115,398)	-	(115,398)
- Local	(32,209)	(2,878)	-	-	(35,087)	-	(35,087)
	(70,325)	(73,869)	(3,066)	(3,225)	(150,485)	-	(150,485)
Net premiums written	828,905	101,768	354,556	10,146	1,295,375	-	1,295,375
Changes in unearned premiums	(12,669)	4,419	(36,776)	1,863	(43,163)	-	(43,163)
Changes in reinsurers' share of unearned premiums	(4)	(3,862)	587	(505)	(3,784)	-	(3,784)
Net premiums earned	816,232	102,325	318,367	11,504	1,248,428	-	1,248,428
Reinsurance commissions	10,601	13,854	444	707	25,606	-	25,606
Total revenues	826,833	116,179	318,811	12,211	1,274,034	-	1,274,034
Underwriting costs and expenses							
Gross claims paid	595,847	59,072	245,864	11,791	912,574	-	912,574
Reinsurers' share of claims paid	(49,959)	(30,803)	(2,272)	(3,801)	(86,835)	-	(86,835)
Net claims and other benefits paid	545,888	28,269	243,592	7,990	825,739	-	825,739

(continued)

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

18 Segmental information (continued)

Restatement (Note 2)

	Insurance operations						
31 December 2018	**Motor**	**Property and casualty**	**Health**	**Protection**	**Total**	**Shareholders' operations**	**Grand total**
Changes in outstanding claims	6,147	(6,373)	14,894	(1,113)	13,555	-	13,555
Changes in reinsureres' share of outstanding Claims	(981)	21,064	256	1,333	21,672	-	21,672
Changes in claims incurred but not reported and other reserves	91,642	24,652	1,657	1,372	119,323	-	119,323
Changes in reinsureres' share of claims incurred but not reported and other reserves	(2,488)	(9,445)	-	-	(11,933)	-	(11,933)
Net claims and other benefits incurred	640,208	58,167	260,399	9,582	968,356	-	968,356
Policy acquisition costs	59,922	18,814	21,766	2,002	102,504	-	102,504
Total underwriting costs and expenses	700,130	76,981	282,165	11,584	1,070,860	-	1,070,860
Net underwriting income	126,703	39,198	36,646	627	203,174	-	203,174
Other operating expenses							
General and administrative expenses	(106,920)	(13,403)	(41,704)	(1,507)	(163,534)	(1,911)	(165,445)
Other income					34,682	11,447	46,129
Total other operating expenses	(106,920)	(13,403)	(41,704)	(1,507)	(128,852)	9,536	(119,316)
Total income before surplus attribution, zakat and income tax							83,858
Surplus attributed to the insurance operations							(7,432)
Total income for the year before zakat and income tax							76,426
Zakat expense (Note 2)							(11,287)
Income tax expense (Note 2)							(6,146)
Total income for the year attributable to the shareholders							58,993

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

19 Related party transactions and balances

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors. The following are the details of the major related party transactions during the year ended 31 December 2019 and 2018, respectively, and the related balances:

	2019	**2018**
Major shareholders		
Gross premiums from major shareholders	**29,203**	22,016
Reinsurance premiums ceded to major shareholders	**(54,847)**	(39,348)
Reinsurance commissions from major shareholders	**3,410**	2,036
Net claims paid to major shareholders	**13,508**	13,511
Reinsurers 'share of gross claims paid to major shareholders	**5,409**	12,015
Expenses charged by major shareholders	**3,943**	3,387
Performance share payment	**804**	487
Entities controlled, jointly controlled or significantly influenced by related parties		
Gross premiums from other related parties	**27,147**	28,903
Net claims paid to other related parties	**25,570**	26,706

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

	31 December 2019	**31 December 2018**
Salaries and benefits	**10,256**	7,775
Employee benefit obligations	**759**	495
	11,015	8,270

Board of Directors fees for the year ended 31 December 2019 was Saudi Riyals 1.6 million (31 December 2018: Saudi Riyals 1.8 million).

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

(a) Premiums and reinsurance balances receivable

	31 December 2019	**31 December 2018**
Receivable from policyholders	**19,756**	14,458
Receivable from reinsurers	**2,983**	6,910
	22,739	21,368
Less: provision for doubtful debts	**(3,040)**	(6,009)
	19,699	15,359

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

19 Related party transactions and balances (continued)

(a) *Premiums and reinsurance balances receivable* (continued)

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

	Neither past due nor impaired	Past due but not impaired			Total
		91 to 180 days	181 to 360 days	More than 360 days	
31 December 2019	**2,273**	**16,353**	**60**	**1,013**	**19,699**
31 December 2018	4,872	8,930	21	1,536	15,359

Movement in provision for doubtful debts is as follows:

	31 December 2019	31 December 2018
1 January	**6,009**	7,015
Reversals	**(2,969)**	(1,006)
31 December	**3,040**	6,009

(b) *Due to a related party*

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

(c) *Reinsurance balances payable*

Reinsurance balances payable include Saudi Riyals 17.6 million (2018: Saudi Riyals 29.2 million payable to related parties)

20 Zakat and income tax

20.1 Components of zakat base

	31 December 2019	31 December 2018
Equity at beginning of year, as adjusted	**623,107**	530,726
Provisions at beginning of year	**73,638**	56,580
Lease liabilities	**24,265**	-
Adjusted net income	**125,934**	90,376
Investments	**(806,081)**	(732,215)
Right-of-use assets	**(26,004)**	-
Property and equipment	**(10,980)**	(6,179)
Intangible assets	**(12,151)**	(16,570)
Goodwill	**(50,000)**	(50,000)
Statutory deposit	**(45,000)**	(45,000)
Approximate zakat base	**(103,272)**	(172,282)

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

20 Zakat and income tax (continued)

20.2 Movement in provision for zakat and income tax for the years ended 31 December 2019 and 2018 is as follows:

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

2018	**Zakat**	**Income tax**	**Total**
1 January	24,967	2,109	27,076
Provision for the year	11,287	6,146	17,433
Payments	(1,196)	(5,995)	(7,191)
31 December	35,058	2,260	37,318

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

	2019	**2018**
Total income for the year before surplus attribution, zakat and income taxes	**118,190**	83,858
Income tax rate applicable to the Company	**20%**	20%
Effective shareholding subject to income tax	**34%**	34%
Income tax on effective shareholding	**8,037**	5,702
Add:		
Impact of temporary and permanent differences	**527**	444
Income tax expense	**8,564**	6,146

Deferred income taxes arising out of the temporary differences were not significant and, accordingly, were not recognised as of 31 December 2019 and 2018.

20.4 Status of zakat and income tax assessment

During 2019 and 2018, the GAZT issued assessments for the years 2013 through 2015 with additional liability amounting to Saudi Riyals 14.8 million. The Company filed an appeal with the General Secretariat of Tax Committees against the GAZT's assessments and has obtained limited certificates for these years. The review of the Committee for Resolution of Tax Disputes and Violation is awaited.

Management is of the view that the level of existing provisions for zakat and income tax is presently sufficient. Zakat and income tax assessments for the years 2016 through 2018 are currently under review by the GAZT.

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

21 Other income - net

	2019	2018
Insurance operations:		
Commission income on deposits	11,890	19,694
Commission income on investments	18,521	14,465
Realized gains on disposal of investments (Note 8)	567	-
Interest on leases	(362)	-
Other income - net	1,047	523
	31,663	34,682
Shareholders' operations:		
Commission income on deposits	13,595	4,720
Commission income on investments	7,265	7,652
Realized gains on disposal of investments (Note 8)	2,699	-
Impairment loss on available-for-sale investments (Note 8)	(1,295)	(2,007)
Other income - net	442	1,082
	22,706	11,447

22 General and administrative expenses

	2019	2018
Insurance operations:		
Salaries and benefits	88,916	82,447
Employee benefit obligations	3,684	3,951
Legal and professional fees	7,244	5,888
Information technology	21,812	17,007
Business travel	2,347	2,098
Printing and stationary	573	617
Provision for doubtful debts (Note 7)	185	19,416
Regulators' fees	10,929	11,099
Depreciation of property and equipment (Note 11)	3,062	2,696
Depreciation of right-of-use assets (Note 9)	1,082	-
Amortization of intangible assets (Note 11)	5,904	4,081
Other	19,540	14,234
	165,278	163,534
Shareholders' operations:		
Directors' fees	1,586	1,767
Other	88	144
	1,674	1,911

23 Statutory deposit

In accordance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company is required to maintain a statutory deposit of not less than 10% of its paid-up capital. The statutory deposit is maintained with a Saudi Arabian bank and can be withdrawn only with the consent of SAMA. The Company is in process of increasing its statutory deposit by Saudi Riyals 5.0 million in line with the increase of share capital as at 31 December 2019.

24 Statutory reserve

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

25 Performance share reserve

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

As at 31 December 2019, the Company recognised changes in the performance share reserve of Saudi Riyals 0.17 million (31 December 2018: Saudi Riyals 0.34 million). During the year ended 31 December 2019, the Company has recognised an expense amounting to Saudi Riyals 0.82 million (31 December 2018: Saudi Riyals 0.65 million) in the statement of income with respect to performance shares.

26 Share capital

The authorized, issued and paid up capital of the Company is Saudi Riyals 500 million at 31 December 2019 (31 December 2018: Saudi Riyals 450 million) consisting of 50 million shares (31 December 2018: 45 million shares) of Saudi Riyals 10 each. Also see Note 1 for the increase in share capital during 2019.

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

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

	31 December 2018	
	Authorized and issued	**Paid up**
	No. of Shares (thousands)	**Saudi Riyals (thousands)**
AXA Insurance Gulf B.S.C (c.)	14,400	144,000
AXA Mediterranean Holding SA	8,100	81,000
General public	22,500	225,000
	45,000	450,000

27 Risk management

Risk governance

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

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

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

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

Senior management:
Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

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

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

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

27.1 Insurance risk management and reinsurance risk

The risk under an insurance contract is the possibility that the insured event may occur and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk the Company faces under insurance contracts is that the actual claim payments or the timing thereof, differs from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, structured claims management, quarterly review of reserves as well as the use of reinsurance arrangements.

27 Risk management (continued)

27.1 Insurance risk management and reinsurance risk (continued)

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

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

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

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

(b) Property

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

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

(c) Marine

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

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

(d) Engineering

Engineering covers two principal types as summarized below:

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

ii) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery.

27 Risk management (continued)

27.1 Insurance risk management and reinsurance risk (continued)

(d) Engineering (continued)

The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

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

(e) Health and protection

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

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

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

27.2 Reinsurance risk

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

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

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

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

27.3 Frequency and severity of claims

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

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

27 Risk management (continued)

27.3 Frequency and severity of claims (continued)

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

	2019				2018			
	Gross Outstanding claims	Net Outstanding claims	Gross Unearned premiums	Net Unearned premiums	Gross Outstanding claims	Net Outstanding claims	Gross Unearned premiums	Net Unearned premiums
Motor	11%	13%	49%	50%	11%	15%	49%	52%
Property and casualty	68%	57%	14%	11%	70%	55%	15%	10%
Health	20%	29%	36%	38%	19%	29%	35%	37%
Protection	1%	1%	1%	1%	0%	1%	1%	1%
	100%	100%	100%	100%	100%	100%	100%	100%

The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

27.4 Sources of uncertainty in estimation of future claim payments

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of IBNR at the statement of financial position date. The details of estimation of outstanding claims (including IBNR) are given under Notes 4 and 15.

27.5 Process used to determine assumptions

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

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

27 Risk management (continued)

27.5 Process used to determine assumptions (continued)

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

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

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly 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 would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of the statement of financial position date. The expected future liability is determined using estimates and assumptions based on the experience during the expired year of the contracts and expectations of future events that are believed to be reasonable.

27.6 Sensitivity analysis

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

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

	2019	**2018**
Motor	**40,921**	36,665
Property and casualty	**21,358**	18,690
Health	**10,424**	10,427
Protection	**1,631**	1,615
	74,334	67,397

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

27 Risk management (continued)

27.6 Sensitivity analysis (continued)

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

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

Segment	Change in current year ultimate loss ratio	Impact on gross IBNR 2019	2018
Motor	Increase by 1%	**7,739**	8,866
Motor	Decrease by 1%	**(7,739)**	(8,866)
Health	Increase by 1%	**3,585**	3,208
Health	Decrease by 1%	**(3,585)**	(3,208)

27.7 Claims development

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

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

Claims development gross of reinsurance:

2019

Accident year	2015	2016	2017	2018	2019	Total
At end of reporting year	636,017	693,068	1,120,800	784,155	752,253	**3,986,293**
One year later	783,867	1,119,169	1,004,258	909,062	-	**3,816,356**
Two years later	1,111,943	798,330	1,005,706	-	-	**2,915,979**
Three years later	798,892	792,759	-	-	-	**1,591,651**
Four years later	795,576	-	-	-	-	**795,576**
Current estimate of cumulative outstanding claims	795,576	792,759	1,005,706	909,062	752,253	**4,255,356**
Cumulative payment to date	(760,157)	(769,358)	(977,175)	(865,520)	(643,599)	**(4,015,809)**
Liability recognised till date	35,419	23,401	28,531	43,542	108,654	**239,547**
Claim incurred but not reported and other reserves	58,401	85,434	133,074	128,851	234,467	**640,227**
Outstanding claims with respect to 2014 and prior years						**20,457**
Claim incurred but not reported and other reserves with respect to 2014 and prior years						**60,736**
Total reserve						**960,967**

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

27 Risk management (continued)

27.7 Claims development (continued)

2018

Accident year	2014	2015	2016	2017	2018	Total
At end of reporting year	668,693	636,017	693,068	1,120,800	784,155	3,902,733
One year later	817,225	783,867	1,119,169	1,004,258	-	3,724,519
Two years later	845,821	1,111,943	798,330	-	-	2,756,094
Three years later	1,170,070	798,892	-	-	-	1,968,962
Four years later	816,728	-	-	-	-	816,728
Current estimate of cumulative claims	816,728	798,892	798,330	1,004,258	784,155	4,202,363
Cumulative payment to date	(803,268)	(757,712)	(767,275)	(954,779)	(647,189)	(3,930,223)
Liability recognised till date	13,460	41,180	31,055	49,479	136,966	272,140
Claim incurred but not reported and other reserves	50,042	58,451	93,953	128,867	273,920	605,233
Outstanding claims with respect to 2013 and prior years						5,701
Claim incurred but not reported and other reserves with respect to 2013 and prior years						10,806
Total reserve						893,880

Claims development net of reinsurance:

2019

Accident year	2015	2016	2017	2018	2019	Total
At end of reporting year	603,115	663,597	1,085,530	754,186	745,951	**3,852,379**
One year later	744,084	1,086,039	957,060	879,967	-	**3,667,150**
Two years later	1,072,970	764,613	964,209	-	-	**2,801,792**
Three years later	760,087	761,359	-	-	-	**1,521,446**
Four years later	758,154	-	-	-	-	**758,154**
Current estimate of cumulative outstanding claims	758,154	761,359	964,209	879,967	745,951	**4,109,640**
Cumulative payment to date	(738,980)	(751,292)	(949,032)	(853,279)	(641,989)	**(3,934,572)**
Liability recognised till date	19,174	10,067	15,177	26,688	103,962	**175,068**
Claim incurred but not reported and other reserves	54,062	87,381	107,243	116,965	225,214	**590,865**
Outstanding claims with respect to 2014 and prior years						**486**
Claim incurred but not reported and other reserves with respect to 2014 and prior years						**59,521**
Total reserve						**825,940**

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

27 Risk management (continued)

27.7 Claims development (continued)

2018

Accident year	2014	2015	2016	2017	2018	Total
At end of reporting year	554,361	603,115	663,597	1,085,530	754,186	3,660,789
One year later	699,262	744,084	1,086,039	957,060	-	3,486,445
Two years later	725,606	1,072,970	764,613	-	-	2,563,189
Three years later	1,049,816	760,087	-	-	-	1,809,903
Four years later	723,854	-	-	-	-	723,854
Current estimate of cumulative claims	723,854	760,087	764,613	957,060	754,186	3,959,800
Cumulative payment to date	(723,774)	(737,662)	(749,381)	(929,459)	(640,987)	(3,781,263)
Liability recognised till date	80	22,425	15,232	27,601	113,199	178,537
Claim incurred but not reported and other reserves	48,995	54,112	95,900	103,036	256,877	558,920
Outstanding claims with respect to 2013 and prior years						770
Claim incurred but not reported and other reserves with respect to 2013 and prior years						10,638
Total reserve						748,865

27.8 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 operations of the Company are subject to regulatory requirements in Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In management's opinion, the Company has substantially complied with such regulatory requirements.

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.

27 Risk management (continued)

27.8 Operational risk

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.

27.9 Financial risk

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

The Company's principal financial liabilities are claims payable, accrued expenses and other liabilities, surplus distribution payable, reinsurers' balances payable, due to a related part and outstanding claims.

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

(i) Commission rate risk

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the Company to cash flow commission risk, whereas fixed commission rate instruments expose the Company to fair value commission risk.

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

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

27 Risk management (continued)

27.9 Financial risk (continued)

(i) Commission rate risk (continued)

Effective commission rates of the Company's investments and their maturities as at 31 December 2019 and 2018 are as follows:

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

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

27 Risk management (continued)

27.9 Financial risk (continued)

(i) Commission rate risk (continued)

	Commission bearing					
	Less than 1 year	1 to 5 years	More than 5 years	Effective rate of commission (%)	Non-commission bearing	Total
2018						
Insurance operations						
Loans and receivables						
Cash and cash equivalents	7,796	-	-	2.10	38,268	46,064
Short-term deposits	496,467	-	-	3.24	-	496,467
Long-term deposits	-	110,000	-	3.78	-	110,000
	504,263	110,000	-		38,268	652,531
Available-for-sale investments	415,131	-	-	3.49	-	415,131
Held-to-maturity investments	-	78,820	-	3.27	-	78,820
31 December 2018	919,394	188,820	-		38,268	1,146,482
Shareholders' operations						
Loans and receivables						
Short-term deposits	202,361	-	-	3.19	-	202,361
Long-term deposits	-	45,000	-	2.48	-	45,000
Statutory deposit	45,000	-	-	2.61	-	45,000
	247,361	45,000	-		-	292,361
Available-for-sale investments	178,264	-	-	3.47	-	178,264
Held-to-maturity investments	-	60,000	-	3.21	-	60,000
31 December 2018	425,625	105,000	-		-	530,625

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

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

Currency	Change in variable	Impact on net income 2019	2018
Saudi Riyals	basis points +50	3,801	4,211
Saudi Riyals	basis points -50	(3,801)	(4,211)

(ii) Currency risk

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

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

27 Risk management (continued)

27.9 Financial risk (continued)

(iii) Price risk

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

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

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

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

	Fair value	Price change	Estimated fair value	Effect on equity
31 December 2019	**667,276**	**Increase 10%**	**734,004**	**66,728**
		Decrease 10%	**600,548**	**(66,728)**
31 December 2018	593,395	Increase 10%	652,735	59,340
		Decrease 10%	534,056	(59,340)

(iv) Credit risk

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

The Company only enters into insurance and reinsurance contracts with recognised and credit worthy parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an on-going basis in order to reduce the Company's exposure to bad debts. The Company limits its credit risk with regard to time deposits by dealing with reputed banks only.

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables. There are no significant concentrations of credit risk within the Company.

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

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

27 Risk management (continued)

27.9 Financial risk (continued)

(iv) Credit risk (continued)

Maximum exposure to credit risk

The Company's maximum exposure to credit risk on its financial assets at 31 December 2019 is Saudi Riyals 2.28 billion (31 December 2018: Saudi Riyals 2.03 billion).

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

Insurance operations' financial assets as at 31 December 2019:

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

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

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

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

27 Risk management (continued)

27.9 Financial risk (continued)

(iv) Credit risk (continued)

Insurance operations' financial assets as at 31 December 2018:

		Non-investment grade		
	Investment grade	Satisfaction	Past due but not impaired	Total
Cash and cash equivalents, investments and deposits				
Fixed-rate securities	1,032,100	21,787	-	1,053,887
Floating-rate securities	62,761	9,595	-	72,356
Equities and mutual funds	14,343	5,896	-	20,239
Other financial assets				
Premiums and insurance balances receivable - net	-	152,016	44,318	196,334
Other assets	-	13,514	-	13,514
Reinsurers' share of outstanding claims	-	98,534	-	98,534
Reinsurers' share of claims incurred but not reported and other reserves	-	46,481	-	46,481
	1,109,204	347,823	44,318	1,501,345

Shareholders' operations' financial assets as at 31 December 2018:

		Non-investment grade		
	Investment grade	Satisfaction	Past due but not impaired	Total
Cash and cash equivalents, investments and deposits				
Fixed-rate securities	408,322	56,871	-	465,193
Floating-rate securities	15,000	10,000	-	25,000
Equities and mutual funds	5,698	34,734	-	40,432
Other financial assets				
Other assets	-	1,171	-	1,171
Accrued income on statutory deposit	3,641	-	-	3,641
	432,661	102,776	-	535,437

Credit quality of investments as at 31 December 2019:

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

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

27 Risk management (continued)

27.9 Financial risk (continued)

(iv) Credit risk (continued)

Credit quality of investments as at 31 December 2018:

	Insurance operations	Shareholders' operations
A and above	621,287	368,366
B	502,982	116,382
Not rated but considered satisfactory	22,213	45,877
	1,146,482	530,625

Concentration of credit risk

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

(v) Liquidity risk

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

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

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

27 Risk management (continued)

27.9 Financial risk (continued)

(v) Liquidity risk (continued)

The table below summarizes the maturities of the Company's undiscounted contractual obligations at 31 December 2019 and 2018. As the Company does not have any commission bearing liabilities, contractual cash flow of financial liabilities approximates their carrying value.

	Less than 12 months		More than 12 months		Total	Total
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Insurance operations' financial liabilities						
Claims payable, accrued expenses and other liabilities	**111,013**	112,330	-	-	**111,013**	112,330
Reinsurers' balances payable	**27,294**	51,134	-	-	**27,294**	51,134
Surplus distribution payable	**20,091**	12,208	-	-	**20,091**	12,208
Outstanding claims	**260,004**	277,841	-	-	**260,004**	277,841
Claims incurred but not reported and other reserves	**364,501**	320,340	**336,462**	295,699	**700,963**	616,039
Lease liabilities	**3,183**	-	**25,464**	-	**28,647**	-
Due to a related party	**2,616**	5,568	-	-	**2,616**	5,568
	788,702	779,421	**361,926**	295,699	**1,150,628**	1,075,120
Shareholders' financial liabilities						
Accrued expenses and other liabilities	**1,989**	1,249	-	-	**1,989**	1,249
Accrued income payable to SAMA	**4,450**	3,641	-	-	**4,450**	3,641
	6,439	4,890	-	-	**6,439**	4,890

Maturity profiles

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

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

27 Risk management (continued)

27.9 Financial risk (continued)

(v) Liquidity risk (continued)

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

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

27 Risk management (continued)

27.9 Financial risk (continued)

(v) Liquidity risk (continued)

	31 December 2018					
	Insurance operation			Shareholder's operation		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Financial assets						
Cash and cash equivalents	46,064	-	46,064	-	-	-
Short-term deposits	496,467	-	496,467	202,361	-	202,361
Premiums and insurance balances receivable - net	196,334	-	196,334	-	-	-
Reinsurers' share of outstanding claims	98,534	-	98,534	-	-	-
Reinsurers' share of claims incurred but not reported and other reserves	24,170	22,311	46,481	-	-	-
Available-for-sale investments	415,131	-	415,131	178,264	-	178,264
Other assets	18,925	-	18,925	8,471	-	8,471
Long-term deposits	-	110,000	110,000	-	45,000	45,000
Held-to-maturity investments	-	78,820	78,820	-	60,000	60,000
Statutory deposit	-	-	-	-	45,000	45,000
Accrued income on statutory deposit	-	-	-	3,641	-	3,641
	1,295,625	211,131	1,506,756	392,737	150,000	542,737

28 Capital management

The Company's objectives when managing capital are:

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

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

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

As at 31 December 2019 and 2018, the Company had adequate solvency margin in accordance with Article 66 of the Regulations.

29 Goodwill on acquisition of insurance portfolio

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

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

- Weighted average cost of capital of 7.6%; and
- Long-term growth rate of 2%.

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

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

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

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

30 Supplementary information

STATEMENT OF FINANCIAL POSITION

	31 December 2019			31 December 2018		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
ASSETS						
Cash and cash equivalents	**209,030**	**25,810**	**234,840**	46,064	-	46,064
Short-term deposits	**374,355**	**239,166**	**613,521**	496,467	202,361	698,828
Premiums and reinsurers' balances receivable - net	**190,435**	-	**190,435**	196,334	-	196,334
Reinsurers' share of unearned premiums	**19,261**	-	**19,261**	18,275	-	18,275
Reinsurers' share of outstanding claims	**84,450**	-	**84,450**	98,534	-	98,534
Reinsurers' share of claims incurred but not reported and other reserves	**50,577**	-	**50,577**	46,481	-	46,481
Deferred policy acquisition costs	**29,665**	-	**29,665**	21,440	-	21,440
Investments	**556,316**	**249,765**	**806,081**	493,951	238,264	732,215
Prepaid expenses and other assets	**17,188**	-	**17,188**	18,925	1,180	20,105
Long-term deposits	**190,721**	**45,000**	**235,721**	110,000	45,000	155,000
Right-of-use assets	**26,004**	-	**26,004**	-	-	-
Property and equipment	**10,980**	-	**10,980**	6,179	-	6,179
Intangible assets	**12,151**	-	**12,151**	16,570	-	16,570
Due from shareholders'/ insurance operations	-	**86,815**	**86,815**	-	53,125	53,125
Goodwill	-	**50,000**	**50,000**	-	50,000	50,000
Statutory deposit	-	**45,000**	**45,000**	-	45,000	45,000
Accrued income on statutory deposit	-	**4,450**	**4,450**	-	3,641	3,641
TOTAL ASSETS	**1,771,133**	**746,006**	**2,517,139**	1,569,220	638,571	2,207,791

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

30 Supplementary information (continued)

STATEMENT OF FINANCIAL POSITION (continued)

	31 December 2019			31 December 2018		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
LIABILITIES						
Claims payable, accrued expenses and other liabilities	111,013	1,989	113,002	112,330	1,249	113,579
Surplus distribution payable	20,091	-	20,091	12,208	-	12,208
Reinsurers' balances payable	27,294	-	27,294	51,134	-	51,134
Advance premiums	31,189	-	31,189	26,846	-	26,846
Unearned premiums	459,190	-	459,190	388,193	-	388,193
Unearned reinsurance commission	3,511	-	3,511	4,131	-	4,131
Outstanding claims	260,004	-	260,004	277,841	-	277,841
Claims incurred but not reported and other reserves	700,963	-	700,963	616,039	-	616,039
Leases liabilities	24,265	-	24,265	-	-	-
Due to related party	2,616	-	2,616	5,568	-	5,568
Employee benefit obligations	30,622	-	30,622	28,286	-	28,286
Zakat and income tax	-	43,315	43,315		37,318	37,318
Due to shareholders'/ insurance operations	86,815	-	86,815	53,125	-	53,125
Accrued income payable to SAMA	-	4,450	4,450	-	3,641	3,641
TOTAL LIABILITIES	1,757,573	49,754	1,807,327	1,575,701	42,208	1,617,909
EQUITY						
Share capital	-	500,000	500,000	-	450,000	450,000
Statutory reserve	-	49,298	49,298	-	31,961	31,961
Performance share reserve	-	1,489	1,489	-	1,323	1,323
Retained earnings	-	139,083	139,083	-	119,881	119,881
Fair value reserve on investments	13,560	6,382	19,942	(6,481)	(6,802)	(13,283)
TOTAL EQUITY	13,560	696,252	709,812	(6,481)	596,363	589,882
TOTAL LIABILITIES AND EQUITY	1,771,133	746,006	2,517,139	1,569,220	638,571	2,207,791

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

30 Supplementary information (continued)

STATEMENT OF INCOME

	2019			2018 Restated (Note 2)		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
Revenues						
Gross premiums written						
- Direct	**1,403,912**	-	**1,403,912**	1,441,028	-	1,441,028
- Reinsurance	**5,865**	-	**5,865**	4,832	-	4,832
	1,409,777	-	**1,409,777**	1,445,860	-	1,445,860
Reinsurance premiums ceded						
- Foreign	**(85,459)**	-	**(85,459)**	(115,398)	-	(115,398)
- Local	**(2,595)**	-	**(2,595)**	(35,087)	-	(35,087)
	(88,054)	-	**(88,054)**	(150,485)	-	(150,485)
Net premiums written	**1,321,723**	-	**1,321,723**	1,295,375	-	1,295,375
Changes in unearned premiums	**(70,997)**	-	**(70,997)**	(43,163)	-	(43,163)
Changes in reinsurers' share of unearned premiums	**986**	-	**986**	(3,784)	-	(3,784)
Net premiums earned	**1,251,712**	-	**1,251,712**	1,248,428	-	1,248,428
Reinsurance commissions	**12,142**	-	**12,142**	25,606	-	25,606
Total revenues	**1,263,854**	-	**1,263,854**	1,274,034	-	1,274,034
Underwriting costs and expenses						
Gross claims paid	**887,351**	-	**887,351**	912,574	-	912,574
Reinsurers' share of claims paid	**(23,511)**	-	**(23,511)**	(86,835)	-	(86,835)
Net claims and other benefits paid	**863,840**	-	**863,840**	825,739	-	825,739
Changes in outstanding claims	**(17,837)**	-	**(17,837)**	13,555	-	13,555
Changes in reinsurance share of outstanding claims	**14,084**	-	**14,084**	21,672	-	21,672
Changes in claims incurred but not reported and other reserves	**84,924**	-	**84,924**	119,323	-	119,323
Changes in reinsurance share of claims incurred but not reported and other reserves	**(4,096)**	-	**(4,096)**	(11,933)	-	(11,933)

(Continued)

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

30 Supplementary information (continued)

STATEMENT OF INCOME (continued)

	2019			2018 Restated (Note 2)		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
Net claims and other benefits incurred	**940,915**	**-**	**940,915**	968,356	-	968,356
Policy acquisition costs	**92,166**	**-**	**92,166**	102,504	-	102,504
Total underwriting costs and expenses	**1,033,081**	**-**	**1,033,081**	1,070,860	-	1,070,860
Net underwriting income	**230,773**	**-**	**230,773**	203,174	-	203,174
Other operating expenses						
General and administrative expenses	**(165,278)**	**(1,674)**	**(166,952)**	(163,534)	(1,911)	(165,445)
Other income - net	**31,663**	**22,706**	**54,369**	34,682	11,447	46,129
Total other operating expenses, net	**(133,615)**	**21,032**	**(112,583)**	(128,852)	9,536	(119,316)
Total income before surplus attribution, zakat and income tax	**97,158**	**21,032**	**118,190**	74,322	9,536	83,858
Zakat expense	**-**	**(13,223)**	**(13,223)**	-	(11,287)	(11,287)
Income tax expense	**-**	**(8,564)**	**(8,564)**	-	(6,146)	(6,146)
Total income (loss) for the year	**97,158**	**(755)**	**96,403**	74,322	(7,897)	66,425
Surplus transferred to shareholders' operations	**(87,442)**	**87,442**	**-**	(66,890)	66,890	-
Total income for the year after transfer of insurance operations surplus	**9,716**	**86,687**	**96,403**	7,432	58,993	66,425
Earnings per share (expressed in SAR per share)						
Basic earnings per share	**-**	**-**	**1.73**	-	-	1.18
Diluted earnings per share	**-**	**-**	**1.73**	-	-	1.18

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

30 Supplementary information (continued)

STATEMENT OF COMPREHENSIVE INCOME

	2019			2018 Restated (Note 2)		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
Total income for the year after transfer of insurance operations surplus	9,716	86,687	96,403	7,432	58,993	66,425
Other comprehensive income (loss):						
Items that will be reclassified to the statement of income in subsequent years						
Net change in fair value of available-for-sale investments	20,041	13,184	33,225	(5,993)	(6,538)	(12,531)
Total comprehensive income for the year	29,757	99,871	129,628	1,439	52,455	53,894

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

30 Supplementary information (continued)

STATEMENT OF CASH FLOWS

	2019			2018 Restated (Note 2)		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
Cash flows from operating activities						
Total income before surplus attribution, zakat and income tax	**97,158**	**21,032**	**118,190**	74,322	9,536	83,858
Adjustments for non-cash items:						
Depreciation of property and equipment	**3,062**	-	**3,062**	2,696	-	2,696
Depreciation of right-of-use assets	**1,082**	-	**1,082**	-	-	-
Amortization of intangible assets	**5,904**	-	**5,904**	4,081	-	4,081
Interest on leases	**362**	-	**362**	-	-	-
Provision for doubtful debts	**185**	-	**185**	19,416	-	19,416
Accretion of discount on available-for-sale investments	**(1,177)**	**(185)**	**(1,362)**	(609)	(173)	(782)
Amortization of premium on available-for-sale investments	**116**	**56**	**172**	70	57	127
Amortization of premium on held-to-maturity investments	**15**	-	**15**	16	-	16
Impairment loss on available-for-sale investments	-	**1,295**	**1,295**	-	2,007	2,007
Performance share reserve	-	**822**	**822**	-	650	650
Provision for employee benefit obligations	**4,566**	-	**4,566**	3,951	-	3,951
Changes in operating assets and liabilities:						
Premiums and reinsurers' balances receivable - net	**5,714**	-	**5,714**	(62,352)	-	(62,352)
Reinsurers' share of unearned premiums	**(986)**	-	**(986)**	3,784	-	3,784
Reinsurers' share of outstanding claims	**14,084**	-	**14,084**	21,672	-	21,672
Reinsurers' share of claims incurred but not reported and other reserves	**(4,096)**	-	**(4,096)**	(11,933)	-	(11,933)
Deferred policy acquisition costs	**(8,225)**	-	**(8,225)**	6,718	-	6,718

(Continued)

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

30 Supplementary information (continued)

STATEMENT OF CASH FLOWS (continued)

	2019			2018 Restated (Note 2)		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
Prepaid expenses and other assets	1,737	1,180	2,917	(2,812)	232	(2,580)
Accrued income on statutory deposit	-	(809)	(809)	-	(948)	(948)
Claims payable, accrued expenses and other liabilities	(1,317)	740	(577)	(18,211)	228	(17,983)
Surplus contribution paid	(1,833)	-	(1,833)	(2,646)	-	(2,646)
Reinsurance balances payable	(23,840)	-	(23,840)	(7,959)	-	(7,959)
Advance premiums	4,343	-	4,343	9,004	-	9,004
Unearned premiums	70,997	-	70,997	43,163	-	43,163
Unearned reinsurance commission	(620)	-	(620)	(153)	-	(153)
Outstanding claims	(17,837)	-	(17,837)	13,555	-	13,555
Claims incurred but not reported and other reserves	84,924	-	84,924	119,323	-	119,323
Due to related party	(2,952)	-	(2,952)	1,233	-	1,233
Employee benefit obligations paid	(2,230)	-	(2,230)	(409)	-	(409)
Zakat and income tax paid	-	(15,790)	(15,790)	-	(7,191)	(7,191)
Accrued income payable to SAMA	-	809	809	-	948	948
Due from shareholders' operations	(53,752)	53,752	-	(92,222)	92,222	-
Net cash generated from operating activities	175,384	62,902	238,286	123,698	97,568	221,266

(Continued)

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

30 Supplementary information (continued)

STATEMENT OF CASH FLOWS (continued)

	2019			2018 Restated (Note 2)		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
Cash flows from investing activities						
Placement in short-term deposits	**122,112**	**(310,468)**	**(188,356)**	-	(126,250)	(126,250)
Proceeds from disposals of short-term deposits	-	**273,663**	**273,663**	4,395	-	4,395
Purchases of investments	**(138,206)**	**(50,692)**	**(188,898)**	(192,686)	(50,087)	(242,773)
Proceeds from disposals of investments	**96,928**	**51,209**	**148,137**	12,028	19,256	31,284
Placement in long-term deposits	**(80,721)**	-	**(80,721)**	(6,620)	-	(6,620)
Proceeds from disposals of long-term deposits	-	-	-	-	60,000	60,000
Purchases of property and equipment	**(7,863)**	-	**(7,863)**	(1,859)	-	(1,859)
Purchases of intangible assets	**(1,485)**	-	**(1,485)**	(10,668)	-	(10,668)
Net cash used in investing activities	**(9,235)**	**(36,288)**	**(45,523)**	(195,410)	(97,081)	(292,491)
Cash flows from financing activities						
Principal elements of lease payments	**(3,183)**	-	**(3,183)**	-	-	-
Performance share reserve - settlement	-	**(804)**	**(804)**	-	(487)	(487)
Net cash used in financing activities	**(3,183)**	**(804)**	**(3,987)**	-	(487)	(487)
Net change in cash and cash equivalents	**162,966**	**25,810**	**188,776**	(71,712)	-	(71,712)
Cash and cash equivalents, beginning of the year	**46,064**	-	**46,064**	117,776	-	117,776
Cash and cash equivalents, end of the year	**209,030**	**25,810**	**234,840**	46,064	-	46,064
Supplemental non-cash information:						
Changes in fair value of available-for-sale investments	**20,041**	**13,184**	**33,225**	(5,993)	(6,538)	(12,531)
Acquisition of right-of-use assets	**27,086**	-	**27,086**	-	-	-
Issuance of bonus shares	-	**50,000**	**50,000**	-	-	-

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

31 Earnings per share

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

32 Comparative figures

As discussed in Note 2.1 these financial statements were presented previously in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax.

The change in accounting treatment for zakat and income tax (as explained in Note 3.3) has the following impact on the line items of the statements of income and changes in equity:

As at and for the year ended 31 December 2018:

Financial statement impacted	Account	Before the restatement for the year ended 31 December 2018	Effect of the restatement	As restated as at and for the year ended 31 December 2018
Statement of changes in equity	Total income for the year attributable to the shareholders	76,426	(17,433)	58,993
Statement of changes in equity	Provision for zakat	(11,287)	11,287	-
Statement of changes in equity	Provision for income tax	(6,146)	6,146	-
Statement of income	Zakat expense	-	(11,287)	(11,287)
Statement of income	Income tax expense	-	(6,146)	(6,146)
Statement of income	Basic and diluted earnings per share	1.53	(0.35)	1.18

33 Subsequent events

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses, economic activity and increase in insurance claims mainly relating to the medical line of business in those jurisdictions. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, the Company does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The impact of this outbreak, if any, on the reserving of IBNR will be considered into the Company's estimates of future ultimate claim liability in 2020.

34 Dividends

On 9 March 2020, the Company's Board of Directors recommended to the General Assembly to distribute cash dividends of Saudi Riyals 0.70 per share (totalling Saudi Riyals 35.0 million).

35 Approval of the financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 12 March 2020.