

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

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REVIEW REPORT**

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2020

MALATH COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

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

INTRODUCTION

We have reviewed the accompanying interim condensed statement of financial position of Malath Cooperative Insurance Company (the "Company") as at 30th June 2020 and the related interim condensed statement of income and other comprehensive income for the three-month and six-month periods then ended, and the interim condensed statement of changes in equity and interim condensed statement cash of flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.


SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", that is endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.


CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements is not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

For Al-Bassam & Co.
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25 August 2020
6 Muharram 1442H




MALATH COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Note	30 June 2020 (Unaudited) SR (000)	31 December 2019 (Audited)
ASSETS			
Cash and cash equivalents	4	125,520	170,270
Murabaha deposits	5	716,106	640,000
Premiums and reinsurers' receivable - net	6	243,335	183,834
Reinsurers' share of unearned premiums	7b	31,169	17,538
Reinsurers' share of outstanding claims	7a	120,580	122,227
Reinsurers' share of claims incurred but not reported	7a	24,020	25,476
Deferred policy acquisition costs	7d	23,381	27,331
Deferred excess of loss premiums		-	496
Available-for-sale investments	8	75,311	36,187
Prepayments and other assets		47,169	41,748
Property and equipment		2,618	3,338
Statutory deposit		75,000	75,000
Accrued commission income from statutory deposit		8,922	8,124
TOTAL ASSETS		1,493,131	1,351,569



CHIEF EXECUTIVE OFFICER



DIRECTOR

CHIEF FINANCIAL OFFICER

The accompanying notes 1 to 21 form an integral part of these interim condensed financial statements.

MALATH COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Note	30 June 2020 (Unaudited) SR (000)	31 December 2019 (Audited)
LIABILITIES			
Policyholders claims payable		39,069	41,046
Accrued and other liabilities		84,475	87,100
Reinsurance balances payable		38,964	11,248
Unearned premiums	7b	412,807	348,546
Unearned reinsurance commission	7c	7,587	4,801
Outstanding claims	7a	144,425	140,569
Claims incurred but not reported	7a	175,366	177,894
Additional premium reserve	7a	55,217	17,314
Other technical reserves	7a	3,838	3,605
Due to related parties	16	2	2
Employees' end-of-service benefits		16,886	14,850
Accumulated surplus		8,155	8,821
Provision for zakat	9	38,820	32,220
Accrued commission income payable to SAMA		8,922	8,124
TOTAL LIABILITIES		1,034,533	896,140
EQUITY			
Share capital	10	500,000	500,000
Statutory reserve	12	2,131	2,131
Accumulated losses		(40,179)	(42,296)
Fair value reserve for available-for-sale investments		1,686	634
Re-measurement reserve of end-of-service benefits		(5,040)	(5,040)
TOTAL EQUITY		458,598	455,429
TOTAL LIABILITIES AND EQUITY		1,493,131	1,351,569
COMMITMENTS AND CONTINGENCIES	15		



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MALATH COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF INCOME
For the three-month and six-month periods ended 30 June 2020

	Note	Three-months period ended 30 June		Six-months period ended 30 June	
		2020	2019	2020	2019
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		SR (000)	SR (000)	SR (000)	SR (000)
REVENUES					
Gross premiums written	7b	209,612	101,832	463,410	482,127
Reinsurance premiums ceded					
- Local		(1,670)	(888)	(4,145)	(3,443)
- International (includes premium ceded through local broker)		(11,300)	(11,649)	(46,338)	(49,570)
		(12,970)	(12,537)	(50,483)	(53,013)
Excess of loss expenses		(6,733)	(5,303)	(9,711)	(10,614)
Net premiums written		189,909	83,992	403,216	418,500
Movement in unearned premiums, net		(21,476)	74,824	(50,630)	(96,840)
Net premiums earned	7b	168,433	158,816	352,586	321,660
Reinsurance commissions	7c	5,471	4,362	9,025	7,562
Other underwriting income		3,320	50	3,507	1,760
NET REVENUES		177,224	163,228	365,118	330,982
UNDERWRITING COSTS AND EXPENSES					
Gross claims paid		(82,118)	(123,835)	(242,775)	(272,230)
Reinsurers' share of claims paid		8,185	7,754	12,657	14,389
Net claims paid		(73,933)	(116,081)	(230,118)	(257,841)
Movement in outstanding claims, net		(14,195)	(13,551)	(5,503)	(21,353)
Movement in claims incurred but not reported, net		6,845	21,026	1,072	44,391
Movement in additional premium reserve		(41,929)	-	(37,903)	-
Movement in other technical reserves		37	1,719	(233)	1,719
Net claims incurred		(123,175)	(106,887)	(272,685)	(233,084)
Policy acquisition costs	7d	(17,555)	(17,933)	(36,606)	(32,682)
TOTAL UNDERWRITING COSTS AND EXPENSES		(140,730)	(124,820)	(309,291)	(265,766)
NET UNDERWRITING INCOME		36,494	38,408	55,827	65,216



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MALATH COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF INCOME
For the three-month and six-month periods ended 30 June 2020

	Note	Three-months period ended 30 June		Six-months period ended 30 June	
		2020	2019	2020	2019
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		SR (000)		SR (000)	
Net underwriting income carried forward		36,494	38,408	55,827	65,216
OTHER INCOME/(EXPENSES)					
Provision for doubtful debts	6	(8,485)	(25,685)	(3,428)	(23,574)
Salaries and staff related costs		(16,898)	(16,598)	(34,930)	(33,181)
Other general and administrative expenses		(11,725)	(13,465)	(21,069)	(25,045)
Investment income		5,195	6,179	11,651	12,422
Other income		632	-	1,265	-
TOTAL OTHER INCOME/(EXPENSES)		(31,281)	(49,569)	(46,511)	(69,378)
Net income for the period		5,213	(11,161)	9,316	(4,162)
Surplus attributed to insurance operations		(489)	-	(599)	-
Net income/(loss) attributable to shareholders before zakat		4,724	(11,161)	8,717	(4,162)
Zakat charge for the period	9	(3,300)	(3,300)	(6,600)	(6,600)
Net income/(loss) attributable to shareholders' operations		1,424	(14,461)	2,117	(10,762)
Earnings / (loss) per share	11				
Basic and diluted earnings per share (Saudi Riyals)		0.03	(0.29)	0.04	(0.22)
Weighted average number of shares in issue throughout the period (thousands)		50,000	50,000	50,000	50,000



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MALATH COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the three-month and six-month periods ended 30 June 2020

	Three-months period ended 30 June		Six-months period ended 30 June	
Note	2020 (Unaudited) SR (000)	2019 (Unaudited)	2020 (Unaudited) SR (000)	2019 (Unaudited)
Net income / (loss) for the period attributable to shareholders	1,424	(14,461)	2,117	(10,762)
Other comprehensive income: <i>Items that may be reclassified to statements of income in subsequent periods</i>				
-Change in fair value of available-for-sale investments, net	8 664	-	1,052	316
Total comprehensive income / (loss) for the period attributable to shareholders	2,088	(14,461)	3,169	(10,446)
Net income attributable to insurance	489	-	599	-
Other comprehensive income attributable to insurance operations	-	-	-	-
Total comprehensive income attributable to insurance operations	489	-	599	-
Total comprehensive income / (loss) for the period	2,577	(14,461)	3,768	(10,446)


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MALATH COOPERATIVE INSURANCE COMPANY

(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six-months period ended 30 June 2020

	Share capital	Statutory reserve	Accumulated losses	Fair value reserve for available- for-sale investments	Re- measurement reserve of employees' end-of- service benefits	Total equity
	(SR 000)					
Balance at 01 January 2020 (Audited)	500,000	2,131	(42,296)	634	(5,040)	455,429
Net income for the period	-	-	2,117	-	-	2,117
Unrealized gain on available-for-sale investments, net	-	-	-	1,052	-	1,052
Total comprehensive income	-	-	2,117	1,052	-	3,169
Balance at 30 June 2020 (Unaudited)	500,000	2,131	(40,179)	1,686	(5,040)	458,598
Balance at 01 January 2019 (Audited)	500,000	2,131	(47,478)	(231)	(4,331)	450,091
Net loss for the period	-	-	(10,762)	-	-	(10,762)
Unrealized gain on available-for-sale investments, net	-	-	-	316	-	316
Total comprehensive income	-	-	(10,762)	316	-	(10,446)
Balance at 30 June 2019 (Unaudited)	500,000	2,131	(58,240)	85	(4,331)	439,645



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MALATH COOPERATIVE INSURANCE COMPANY
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INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the six-months period ended 30 June 2020

	Note	Six-months period ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
		SR (000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Total income/(loss) for the period before zakat		9,316	(4,162)
Adjustments for non-cash items:			
Depreciation of property and equipment		875	934
Reversal of impairment on available for sale investments	8	-	(693)
Provision for employees' end-of-service benefits		2,146	1,655
Provision for doubtful debts	6	3,428	23,574
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		(62,929)	(180,616)
Reinsurers' share of unearned premiums		(13,631)	(17,589)
Reinsurers' share of outstanding claims		1,647	3,917
Reinsurers' share of claims incurred but not reported		1,456	-
Deferred policy acquisition costs		3,950	(14,098)
Deferred excess of loss premiums		496	839
Prepayments and other assets		(5,421)	(791)
Policyholders claims payable		(1,977)	46,632
Accrued and other liabilities		(2,625)	11,155
Reinsurance balances payable		27,716	30,625
Unearned premiums		64,261	114,430
Unearned reinsurance commission		2,786	4,479
Outstanding claims		3,856	17,436
Claims incurred but not reported		(2,528)	(44,391)
Additional premium reserve		37,903	-
Other technical reserves		233	(1,719)
Accumulated surplus		(1,265)	-
Due to related parties		-	(164)
Cash generated from/(used in) operations		69,693	(8,547)
Zakat paid	9	-	(10,829)
Employees' end-of-service benefits paid		(110)	(1,065)
Net cash from (used in) operating activities		69,583	(20,441)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in Murabaha deposits	5	(76,106)	349
Additions of property and equipment		(155)	(906)
Additions to available-for-sale investments	8	(38,072)	-
Net cash used in investing activities		(114,333)	(557)
Net change in cash and cash equivalents		(44,750)	(20,998)
Cash and cash equivalents at the beginning of the period	4	170,270	114,143
Cash and cash equivalents at the end of the period	4	125,520	93,145
Supplemental non-cash information:			
Change in fair value of available-for-sale investments		1,052	316
Commission income on statutory deposit		798	683


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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and six-month periods ended 30 June 2020

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Malath Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/60 and incorporated on 21 Rabi Al-Awal 1428H corresponding to 9 April 2007 under Commercial Registration No. 1010231787. The Company's head office is situated at Mohammad Bin Abdelaziz Street, P.O. Box 99763, Riyadh 11625, and Kingdom of Saudi Arabia. The objectives of the Company are to engage in providing insurance and related services in accordance with its by-laws and the applicable regulations in the Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

(a) Basis of presentation and measurement

These interim condensed financial information (interim condensed financial statements) of the Company as at and for the period ended 30 June 2020 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"), as endorsed in the Kingdom of Saudi Arabia by Saudi Organization for Certified Public Accountants (SOCPA).

These interim condensed financial statements are prepared under the going concern concept and the historical cost convention, except for the measurement at fair value of available-for-sale investments and employees' end of service benefits measured at present value of future obligations using projected unit credit method. The Company's interim condensed statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: Available-for-sale investments, Property and equipment, Statutory deposit, Accrued income on statutory deposit, Employees' end-of-service benefits and Accrued commission income payable to SAMA. All other financial statement line items balances would generally be classified as current. The Company presents its interim condensed statement of financial position in order of liquidity. As required by the Law on Supervision of Co-operative Insurance Companies, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the interim condensed financial statements accordingly (Note 18). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The interim condensed statement of financial position, interim condensed statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented in Note 18 of the interim condensed financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs as endorsed in KSA. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the interim condensed statements of financial position, interim condensed statements of income, interim condensed statement of comprehensive income and interim condensed statement of cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company-level interim condensed financial statements in compliance with IFRSs as endorsed in KSA, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances and transactions are eliminated in full during amalgamation. The accounting policies adopted for the insurance operations and shareholders operations are uniform for like transactions and events in similar circumstances.

The interim condensed financial statements does not include all of the information required for full annual financial statements and should be read in conjunction with the audited annual financial statements as at and for the year ended 31 December 2019.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and six-month periods ended 30 June 2020

2 BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

These interim condensed financial statements have been presented in Saudi Riyals (SR), which is also the functional currency of the Company. All financial information has been rounded off to the nearest thousand, unless otherwise stated.

(c) Critical accounting judgments, estimates and assumptions

The preparation of the interim condensed 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 interim condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

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

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates are made at the end of the reporting period both for the expected ultimate cost of claim reported and for the expected ultimate costs of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company. At the end of each reporting period, prior year claim 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 interim condensed statement of financial position, for which the insured event has occurred prior to the date of interim condensed statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. The actuary has also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

ii) Impairment of available-for-sale investments

The Company determines that investments are impaired when there has been a significant or prolonged decline in the fair values of the financial assets below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

**MALATH COOPERATIVE INSURANCE COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and six-month periods ended 30 June 2020

2 BASIS OF PREPARATION (continued)

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

iii) Impairment of receivables

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

iv) Fair value of financial instruments

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

v) Deferred policy acquisition costs

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

vi) Premium deficiency reserve

Estimation of the premium deficiency reserve is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the claims and premiums relationship which is expected to be realized in the future.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Company has not early adopted any standard (interpretation) or amendments that has been issued but which

a) Amendment to standards and interpretations

There are no new standards issued, however, certain amendments to standards and interpretations which are effective from 1 January 2020 and were listed in the Company's annual financial statements of 31 December 2019, but they do not have any impact on the interim condensed financial statements of the Company.

b) Standards issued but not yet effective

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

STANDARD/	DESCRIPTION	EFFECTIVE FROM
IFRS 9	Financial Instruments (refer below)	1-Jan-19
IFRS 17	Insurance Contracts (refer below)	1-Jan-23

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and six-month periods ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. IFRS 9 - Financial Instruments

The implementation of IFRS 9 is expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in OCI, are expected to increase due to the introduction of the expected credit loss methodology. The Company using the exemptions available to insurers to defer the implementation of IFRS 9 until implementation of IFRS 17. The impact of the adoption of IFRS 9 on the Company's interim condensed financial statements will, to a large extent, have to take into account the interaction with the IFRS 17 "Insurance contracts". At present the Company has not fully assessed the effects of adoption of IFRS 9.

b. IFRS 17 - Insurance Contracts

Overview

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

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

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

Effective date

The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4 is currently for reporting periods beginning on or after January 1, 2023. This is a deferral of 2 year compared to the previous date of January 1, 2021. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intends to apply the Standard on its effective date.

Transition

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

Impact

The Company carried out assessment for ascertaining the impact of the application and implementation of IFRS 17 on results of the financial year 2018. The Company has also undertaken an initial operational impact gap analysis and currently undergoing through detailed operational and financial impact assessment enabling the Company to establish required system and processes under IFRS 17. Key gaps and their impact noted as yet are as follows:

MALATH COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and six-month periods ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b. IFRS 17 - Insurance Contracts (continued)

Impact area	Summary of impact
Financial impact	The assessment to ascertain the financial impact on reported balances of year 2018 resulted in significant increase in insurance related liabilities hence reducing the operating profits for initial years.
Data impact	IFRS 17 has additional data requirements (e.g. premium due date for initial recognition, premium receipt data for the LFRC, RI contracts held break down into risk attaching or loss incurring for assessing contract boundaries, lower granularity to meet level of aggregation requirements and data for additional disclosures as per IFRS 17).
IT systems impact	Detailed assessment needed of existing systems capabilities for IFRS 17 calculations, storage and reporting and whether new systems/calculation engines should be implemented.
Process impact	The company carried out an operational impact assessment exercise to assess the operational impact of implementing IFRS 17. Since, majority of the company's contracts would be measured under the premium allocation approach, the process impact is expected to be moderate.
Impact on Reinsurance arrangements	Further assessment is needed to confirm measurement approach for reinsurance arrangements where RI gross premium ceded does not automatically qualify for PAA.
Impact on policies and control frameworks	The Company's policies and procedures needs updation to accommodate the changes in the Company's processes and systems related to IFRS 17 implementation.

4 CASH AND CASH EQUIVALENTS

	30 June 2020 (Unaudited) SR (000)	31 December 2019 (Audited)
Insurance operations		
Cash in banks	75,681	48,960
Cash on hand	14	10
Short term Murabaha deposits	10,000	50,000
	<u>85,695</u>	<u>98,970</u>
Shareholders' operations		
Cash in banks	39,825	71,300
Total cash and cash equivalents	<u>125,520</u>	<u>170,270</u>

Short term Murabaha deposits have original maturity of less than three months from the date of acquisition and are subject to an average commission rate of 3.17% per annum as at 30 June 2020 (31 December 2019: 1.73% per annum).

The carrying amounts disclosed above are not materially different from their fair values at the date of the interim condensed statement of financial position.

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5 MURABAHA DEPOSITS

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	SR (000)	
Insurance operations		
Short term Murabaha deposits	415,000	360,000
Shareholders' operations		
Short term Murabaha deposits	301,106	280,000
Total Murabaha deposits	716,106	640,000

Murabaha deposits have an original maturity of more than three months from the date of acquisition and are subject to an average commission rate of 2.9% per annum as at 30 June 2020 (31 December 2019: 3.24% per annum).

The carrying amounts disclosed above are not materially different from their fair values at the date of the interim condensed statement of financial position.

6 PREMIUMS AND REINSURERS' RECEIVABLE - NET

Receivables comprise amounts due from the following:

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	SR (000)	
Policyholders	247,970	205,100
Reinsurers	7,609	349
Insurance companies	17,061	4,729
Agents and brokers	7,497	7,030
	280,137	217,208
Less:		
Provision for doubtful receivables - insurance	(36,569)	(33,151)
Provision for doubtful receivables - reinsurers	(233)	(223)
	(36,802)	(33,374)
	243,335	183,834

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

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	SR (000)	
Beginning balance	33,374	34,449
Provision / (reversals) made during the period/year, net	3,428	(1,075)
Ending balance	36,802	33,374

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7 TECHNICAL RESERVES

a) Outstanding claims and reserves

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	SR (000)	
Outstanding claims	144,425	140,569
Claims incurred but not reported at end of the period/year	175,366	177,894
Additional premium reserves	55,217	17,314
Other technical reserves	3,838	3,605
	<u>378,846</u>	<u>339,382</u>
Reinsurers' share of outstanding claims	(120,580)	(122,227)
Reinsurers' share of claims incurred but not reported	(24,020)	(25,476)
	<u>(144,600)</u>	<u>(147,703)</u>
Net outstanding claims and reserves	<u>234,246</u>	<u>191,679</u>

b) Unearned premiums

	30 June 2020 (Unaudited)		
	Gross	Reinsurers' share	Net
	SR (000)		
Unearned premiums at beginning of the period	348,546	(17,538)	331,008
Premiums written during the period	463,410	(60,194)	403,216
Premiums earned during the period	(399,149)	46,563	(352,586)
Unearned premiums at end of the period	<u>412,807</u>	<u>(31,169)</u>	<u>381,638</u>
	31 December 2019 (Audited)		
	Gross	Reinsurers' share	Net
	SR (000)		
Unearned premiums at beginning of the year	267,020	(19,190)	247,830
Premiums written during the year	835,236	(87,698)	747,538
Premiums earned during the year	(753,710)	89,350	(664,360)
Unearned premiums at end of the year	<u>348,546</u>	<u>(17,538)</u>	<u>331,008</u>

c) Unearned reinsurance commission

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	SR (000)	
Balance at beginning of the period/year	4,801	4,469
Commission received during the period/year	11,811	18,118
Commission earned during the period/year	(9,025)	(17,786)
Balance at end of the period/year	<u>7,587</u>	<u>4,801</u>

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7 TECHNICAL RESERVES (continued)

d) Deferred policy acquisition costs

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	SR (000)	
Balance at beginning of the period/year	27,331	21,058
Incurred during the period/year	32,656	77,875
Amortized during the period/year	(36,606)	(71,602)
Balance at end of the period/year	<u>23,381</u>	<u>27,331</u>

8 AVAILABLE-FOR-SALE INVESTMENTS

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	SR (000)	
Insurance operations		
Unquoted		
Funds	<u>3,372</u>	<u>3,372</u>
Shareholders' operations		
Quoted		
Equity shares	18,792	9,380
Unquoted		
Funds	51,224	21,512
Equity shares	<u>1,923</u>	<u>1,923</u>
	<u>71,939</u>	<u>32,815</u>
Total available for sale investments (note 14)	<u><u>75,311</u></u>	<u><u>36,187</u></u>

The fair values of the unquoted mutual funds computed above are based on the latest reported net assets as at the reporting date. Unquoted equity shares in shareholders' operations include investment in Najm Company for Insurance Services which is carried at cost due to absence of active market or other means of reliably measuring its fair value. An impairment review is performed at each reporting date.

Movement in the investments balance is as follows:

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	SR (000)	
Insurance operations		
Balance at beginning of the period/year	3,372	3,322
Reversal of impairment of investments during the period/year	-	50
Balance at end of the period/year	<u>3,372</u>	<u>3,372</u>
Shareholders' operations		
Balance at beginning of the period/year	32,815	32,299
Addition during the period/year	38,072	8,516
Disposals during the period/year	-	(10,000)
Reversal of impairment during the period/year	-	1,135
Re-measurement gain during the period/year	<u>1,052</u>	<u>865</u>
Balance at end of the period/year	<u>71,939</u>	<u>32,815</u>

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9 PROVISION FOR ZAKAT

a) Zakat payable

The movement in zakat payable during the period/year was as follows:

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	SR (000)	
Balance at beginning of the period/year	32,220	29,866
Charge for the period/year	6,600	13,183
Payments during the period/year	-	(10,829)
Balance at end of the period/year	<u>38,820</u>	<u>32,220</u>

b) Status of assessments

The Company had filed the Zakat return for the years 2016 to 2018 and received a temporary Zakat certificate. No assessments have been received from GAZT to date in respect of these years. For the year 2019, the Company has filed the Zakat return before extended deadline of July 31, 2020.

c) Status of appeals

Zakat years 2007 to 2010: The Company had filed an appeal against the final assessment of GAZT and submitted a letter of guarantee to GAZT for zakat and withholding income tax amounting to SR 31.81 million (Note 15). During the year 2017, the primary appeal committee issued a report in which certain arguments of the Company were rejected. The Company appealed against this report in Higher Appeal Committee dated 18/10/1438 H, where the decision is pending.

Zakat years 2011 to 2015: The Company has also filed an appeal to the primary appeal committee against the final assessment of Zakat issued by GAZT for the amount of SR 8 million and the decision is pending.

10 SHARE CAPITAL

As at 30 June 2020 and 31 December 2019, the issued and paid up share capital of the Company amounts to SR 500 million, divided into 50 million ordinary shares of SR 10 each.

11 BASIC AND DILUTED EARNINGS PER SHARE

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

The basic and diluted earning per share are as follows:

	Six-months period ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Basic and diluted earnings per share (Saudi Riyals)	<u>0.04</u>	<u>(0.22)</u>
Weighted average number of shares throughout the period (thousands)	<u>50,000</u>	<u>50,000</u>

12 STATUTORY RESERVE

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

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13 CAPITAL MANAGEMENT

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

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

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulators' capital requirements of the markets in which the Company operates. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital and reserves.

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

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

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

14 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The fair values of all other financial assets and liabilities which are carried at cost, are not significantly different from the carrying values included in these financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and on account of the short duration of the assets and liabilities.

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14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table summarizes the financial assets recorded at fair value as of 30 June 2020 and 31 December 2019 by level of the fair value hierarchy. Also refer to note 8.

As at 30 June 2020 (Unaudited)

	Carrying value	Level 1	Level 2	Level 3	Total
	SR (000)				
Financial assets:					
Available-for-sale investments					
Insurance operations					
Mutual Funds	3,372	-	3,372	-	3,372
Shareholders' operations					
Equity securities	20,715	18,792	-	1,923	20,715
Mutual Funds	51,224	-	51,224	-	51,224
	<u>75,311</u>	<u>18,792</u>	<u>54,596</u>	<u>1,923</u>	<u>75,311</u>

As at 31 December 2019 (Audited)

	Carrying value	Level 1	Level 2	Level 3	Total
	SR (000)				
Financial assets:					
Available-for-sale investments					
Insurance operations					
Mutual Funds	3,372	-	3,372	-	3,372
Shareholders' operations					
Equity securities	11,303	9,380	-	1,923	11,303
Mutual Funds	21,512	-	21,512	-	21,512
	<u>36,187</u>	<u>9,380</u>	<u>24,884</u>	<u>1,923</u>	<u>36,187</u>

15 COMMITMENTS AND CONTINGENCIES

a. Legal proceedings and regulations

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

b. Contingent liabilities

The Company's contingent liabilities are as follows:

	30 June 2020 (Unaudited) SR (000)	31 December 2019 (Audited)
Letters of guarantee	41,141	48,027

Above letters of guarantee include SR 31.81 million for zakat and withholding income tax submitted to GAZT (note 9)

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16 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 mutually agreed and are approved by the Company's management.

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

	Six-months period ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	SR (000)	
Remuneration paid to Board of Directors	3,210	1,750
Board of Directors' and committees meeting fees	165	114

Balances due from / (to) related parties comprise the following:

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	SR (000)	
Claims payable to companies owned by BOD members	(2)	(2)

17 SEGMENT INFORMATION

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

Segment results do not include commission on short-term Murabaha deposits. Segment assets do not include insurance operations' cash and cash equivalents, Murabaha deposits, available for sale investments, premium and reinsurers' receivable net, prepayments and other assets and property and equipment. Accordingly, they are included in unallocated assets. Segment liabilities do not include reinsurance balances payable, policyholders claims payable, accrued and other liabilities, accumulated surplus and due to related parties. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premiums and reinsurers' receivable and depreciation on the property and equipment) are not reported to Chief Executive Officer under related segments and are monitored on a centralized basis.

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17 SEGMENT INFORMATION (continued)

Operating segment	Three-months period ended 30 June 2020 (Unaudited)				
	Medical	Motor	Property & casualty	Protection & savings	Total
	SR (000)				
Revenues					
Gross premiums written					
-Individuals	18	98,503	74	-	98,595
-Very small enterprises	422	96	3	-	521
-Small enterprises	4,262	2,437	364	-	7,063
-Medium enterprises	11,934	3,152	1,302	-	16,388
-Corporates	45,920	26,458	14,667	-	87,045
	62,556	130,646	16,410	-	209,612
Reinsurance premiums ceded					
- Local	-	-	(1,670)	-	(1,670)
- International	-	-	(11,300)	-	(11,300)
	-	-	(12,970)	-	(12,970)
Excess of loss expenses					
- Local	(306)	(202)	(75)	-	(583)
- International	(3,865)	(1,816)	(469)	-	(6,150)
	(4,171)	(2,018)	(544)	-	(6,733)
Net premiums written	58,385	128,628	2,896	-	189,909
Movement in unearned premiums, net	4,276	(26,957)	1,205	-	(21,476)
Net premiums earned	62,661	101,671	4,101	-	168,433
Reinsurance commissions	-	-	5,471	-	5,471
Other underwriting income	1,514	(198)	2,004	-	3,320
Net revenues	64,175	101,473	11,576	-	177,224
Underwriting costs and expenses					
Gross claims paid	(32,873)	(45,191)	(4,054)	-	(82,118)
Reinsurers' share of claims paid	594	4,701	2,890	-	8,185
Net claims paid	(32,279)	(40,490)	(1,164)	-	(73,933)
Movement in outstanding claims, net	(3,282)	(9,985)	(928)	-	(14,195)
Movement in IBNR, net	1,983	4,895	(33)	-	6,845
Movement in additional premium reserve	2,110	(44,033)	(6)	-	(41,929)
Movement in other technical reserve	(34)	85	(14)	-	37
Net claims incurred	(31,502)	(89,528)	(2,145)	-	(123,175)
Policy acquisition costs	(4,243)	(10,467)	(2,845)	-	(17,555)
Total underwriting costs and expenses	(35,745)	(99,995)	(4,990)	-	(140,730)
Net underwriting income	28,430	1,478	6,586	-	36,494
Unallocated revenue					2,104
Unallocated expenses					(33,710)
Total income for the period					4,888

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17 SEGMENT INFORMATION (Continued)

Operating segment	Three-months period ended 30 June 2019 (Unaudited)				
	Medical	Motor	Property & casualty	Protection & savings	Total
	SR (000)				
Revenues					
Gross premiums written					
-Individuals	-	18,160	128	-	18,288
-Very small enterprises	353	500	53	-	906
-Small enterprises	3,655	1,034	190	-	4,879
-Medium enterprises	9,082	1,862	6,283	-	17,227
-Corporates	35,073	16,589	8,870	-	60,532
	<u>48,163</u>	<u>38,145</u>	<u>15,524</u>	<u>-</u>	<u>101,832</u>
Reinsurance premiums ceded					
- Local	-	-	(888)	-	(888)
- International	-	-	(11,649)	-	(11,649)
	<u>-</u>	<u>-</u>	<u>(12,537)</u>	<u>-</u>	<u>(12,537)</u>
Excess of loss expenses					
- Local	(56)	(175)	(46)	-	(277)
- International	(694)	(3,812)	(520)	-	(5,026)
	<u>(750)</u>	<u>(3,987)</u>	<u>(566)</u>	<u>-</u>	<u>(5,303)</u>
Net premiums written	47,413	34,158	2,421	-	83,992
Movement in unearned premiums, net	15,661	58,607	556	-	74,824
Net premiums earned	63,074	92,765	2,977	-	158,816
Reinsurance commissions	-	-	4,362	-	4,362
Other underwriting income	30	5	15	-	50
Net revenues	<u>63,104</u>	<u>92,770</u>	<u>7,354</u>	<u>-</u>	<u>163,228</u>
Underwriting costs and expenses					
Gross claims paid	(46,407)	(70,253)	(7,175)	-	(123,835)
Reinsurers' share of claims paid	908	556	6,290	-	7,754
Net claims paid	(45,499)	(69,697)	(885)	-	(116,081)
Movement in outstanding claims, net	(9,027)	(4,840)	316	-	(13,551)
Movement in IBNR, net	3,040	17,986	-	-	21,026
Movement in additional premium reserve	-	-	-	-	-
Movement in other technical reserve	394	1,325	-	-	1,719
Net claims incurred	(51,092)	(55,226)	(569)	-	(106,887)
Policy acquisition costs	(3,967)	(11,141)	(2,825)	-	(17,933)
Total underwriting costs and expenses	<u>(55,059)</u>	<u>(66,367)</u>	<u>(3,394)</u>	<u>-</u>	<u>(124,820)</u>
Net underwriting income	<u>8,045</u>	<u>26,403</u>	<u>3,960</u>	<u>-</u>	<u>38,408</u>
Unallocated revenue					6,179
Unallocated expenses					(55,748)
Total income for the period					<u>(11,161)</u>

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17 SEGMENT INFORMATION (continued)

Operating segment	Six-months period ended 30 June 2020 (Unaudited)				
	Medical	Motor	Property & casualty	Protection & savings	Total
	SR (000)				
Revenues					
Gross premiums written					
-Individuals	18	149,100	187	-	149,305
-Very small enterprises	1,391	416	37	-	1,844
-Small enterprises	11,035	4,129	1,061	-	16,225
-Medium enterprises	27,599	5,849	7,069	-	40,517
-Corporates	134,647	68,987	51,885	-	255,519
	174,690	228,481	60,239	-	463,410
Reinsurance premiums ceded					
- Local	-	-	(4,145)	-	(4,145)
- International	-	-	(46,338)	-	(46,338)
	-	-	(50,483)	-	(50,483)
Excess of loss expenses					
- Local	(327)	(404)	(109)	-	(840)
- International	(4,261)	(3,632)	(978)	-	(8,871)
	(4,588)	(4,036)	(1,087)	-	(9,711)
Net premiums written	170,102	224,445	8,669	-	403,216
Movement in unearned premiums, net	(39,316)	(9,463)	(1,851)	-	(50,630)
Net premiums earned	130,786	214,982	6,818	-	352,586
Reinsurance commissions	-	-	9,025	-	9,025
Other underwriting income	1,562	(66)	2,011	-	3,507
Net revenues	132,348	214,916	17,854	-	365,118
Underwriting costs and expenses					
Gross claims paid	(75,252)	(161,234)	(6,289)	-	(242,775)
Reinsurers' share of claims paid	1,939	6,278	4,440	-	12,657
Net claims paid	(73,313)	(154,956)	(1,849)	-	(230,118)
Movement in outstanding claims, net	(11,468)	7,949	(1,984)	-	(5,503)
Movement in IBNR, net	5,187	(3,965)	(150)	-	1,072
Movement in additional premium reserve	1,792	(39,592)	(103)	-	(37,903)
Movement in other technical reserve	(92)	(70)	(71)	-	(233)
Net claims incurred	(77,894)	(190,634)	(4,157)	-	(272,685)
Policy acquisition costs	(8,605)	(22,973)	(5,028)	-	(36,606)
Total underwriting costs and expenses	(86,499)	(213,607)	(9,185)	-	(309,291)
Net underwriting income	45,849	1,309	8,669	-	55,827
Unallocated revenue					12,916
Unallocated expenses					(59,427)
Total income for the period					9,316

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17 SEGMENT INFORMATION (Continued)

Operating segment	Six-months period ended 30 June 2019 (Unaudited)				
	Medical	Motor	Property & casualty	Protection & savings	Total
	SR (000)				
Revenues					
Gross premiums written					
- Individuals	-	29,715	128	-	29,843
- Very small enterprises	736	1,529	143	-	2,408
- Small enterprises	11,020	2,497	728	-	14,245
- Medium enterprises	24,831	4,218	13,837	-	42,886
- Corporates	116,497	229,489	46,759	-	392,745
	<u>153,084</u>	<u>267,448</u>	<u>61,595</u>	<u>-</u>	<u>482,127</u>
Reinsurance premiums ceded					
- Local	-	-	(3,443)	-	(3,443)
- International	-	-	(49,570)	-	(49,570)
	<u>-</u>	<u>-</u>	<u>(53,013)</u>	<u>-</u>	<u>(53,013)</u>
Excess of loss expenses					
- Local	(250)	(391)	(103)	-	(744)
- International	(3,083)	(5,757)	(1,030)	-	(9,870)
	<u>(3,333)</u>	<u>(6,148)</u>	<u>(1,133)</u>	<u>-</u>	<u>(10,614)</u>
Net premiums written	149,751	261,300	7,449	-	418,500
Movement in unearned premiums, net	(29,341)	(65,417)	(2,082)	-	(96,840)
Net premiums earned	120,410	195,883	5,367	-	321,660
Reinsurance commissions	-	-	7,562	-	7,562
Other underwriting income	68	1,670	22	-	1,760
Net revenues	<u>120,478</u>	<u>197,553</u>	<u>12,951</u>	<u>-</u>	<u>330,982</u>
Underwriting costs and expenses					
Gross claims paid	(92,251)	(171,009)	(8,970)	-	(272,230)
Reinsurers' share of claims paid	3,042	3,642	7,705	-	14,389
Net claims paid	(89,209)	(167,367)	(1,265)	-	(257,841)
Movement in outstanding claims, net	(14,232)	(7,385)	264	-	(21,353)
Movement in IBNR, net	3,040	41,351	-	-	44,391
Movement in additional premium reserve	-	-	-	-	-
Movement in other technical reserve	394	1,325	-	-	1,719
Net claims incurred	(100,007)	(132,076)	(1,001)	-	(233,084)
Policy acquisition costs	(7,420)	(20,343)	(4,919)	-	(32,682)
Total underwriting costs and expenses	<u>(107,427)</u>	<u>(152,419)</u>	<u>(5,920)</u>	<u>-</u>	<u>(265,766)</u>
Net underwriting income	<u>13,051</u>	<u>45,134</u>	<u>7,031</u>	<u>-</u>	<u>65,216</u>
Unallocated revenue					12,422
Unallocated expenses					(81,800)
Total income for the period					<u>(4,162)</u>

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For the three-month and six-month periods ended 30 June 2020

17 SEGMENT INFORMATION (continued)

Operating segment	As at 30 June 2020 (Unaudited)				
	Medical	Motor	Property & casualty	Protection & savings	Total
	SR (000)				
Assets					
Reinsurers' share of unearned premiums	-	-	31,169	-	31,169
Reinsurers' share of outstanding claims	1,979	23,969	94,632	-	120,580
Reinsurers' share of IBNR	-	-	24,020	-	24,020
Deferred policy acquisition costs	8,226	11,381	3,774	-	23,381
Segment assets	10,205	35,350	153,595	-	199,150
Unallocated assets					1,293,981
Total assets					1,493,131
Liabilities					
Unearned premiums	136,799	239,036	36,972	-	412,807
Unearned reinsurance commission	-	-	7,587	-	7,587
Outstanding claims	56,862	(16,224)	103,787	-	144,425
Claims incurred but not reported	15,371	134,319	25,676	-	175,366
Additional premium reserve	-	54,961	256	-	55,217
Other technical reserves	1,264	2,351	223	-	3,838
Segment liabilities	210,296	414,443	174,501	-	799,240
Unallocated liabilities					235,293
Total equity					458,598
Total liabilities and equity					1,493,131

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17 SEGMENT INFORMATION (continued)

Operating segment	As at 31 December 2019 (Audited)				Total
	Medical	Motor	Property & casualty	Protection & savings	
	SR (000)				
Assets					
Reinsurers' share of unearned premiums	-	-	17,538	-	17,538
Reinsurers' share of outstanding claims	2,991	22,526	96,710	-	122,227
Reinsurers' share of IBNR	-	-	25,476	-	25,476
Deferred policy acquisition costs	6,000	18,900	2,431	-	27,331
Segment assets	8,991	41,426	142,155	-	192,572
Unallocated assets					1,158,997
Total assets					1,351,569
Liabilities					
Unearned premiums	97,483	229,573	21,490	-	348,546
Unearned reinsurance commission	-	-	4,801	-	4,801
Outstanding claims	46,407	(9,719)	103,881	-	140,569
Claims incurred but not reported	20,558	130,354	26,982	-	177,894
Additional premium reserve	1,792	15,369	153	-	17,314
Other technical reserves	1,172	2,281	152	-	3,605
Segment liabilities	167,412	367,858	157,459	-	692,729
Unallocated liabilities and surplus					203,411
Total equity					455,429
Total liabilities and equity					1,351,569

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For the three-month and six-month periods ended 30 June 2020

18 SUPPLEMENTARY INFORMATION

18.1 Interim condensed statement of financial position

	Insurance Operations		Shareholders' Operations		Total	
	30 June	31 December	30 June	31 December	30 June	31 December
	2020	2019	2020	2019	2020	2019
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	SR (000)					
ASSETS						
Cash and cash equivalents	85,695	98,970	39,825	71,300	125,520	170,270
Murabaha deposits	415,000	360,000	301,106	280,000	716,106	640,000
Premiums and reinsurers' receivable - net	243,335	183,834	-	-	243,335	183,834
Reinsurers' share of unearned premiums	31,169	17,538	-	-	31,169	17,538
Reinsurers' share of outstanding claims	120,580	122,227	-	-	120,580	122,227
Reinsurers' share of claims incurred but not reported	24,020	25,476	-	-	24,020	25,476
Deferred policy acquisition costs	23,381	27,331	-	-	23,381	27,331
Deferred excess of loss premiums	-	496	-	-	-	496
Available-for-sale investments	3,372	3,372	71,939	32,815	75,311	36,187
Prepayments and other assets	37,635	36,275	9,534	5,473	47,169	41,748
Property and equipment	2,618	3,338	-	-	2,618	3,338
Statutory deposit	-	-	75,000	75,000	75,000	75,000
Accrued commission income from statutory deposit	-	-	8,922	8,124	8,922	8,124
	986,805	878,857	506,326	472,712	1,493,131	1,351,569
Due from insurance operations	-	-	5,590	28,637	5,590	28,637
TOTAL ASSETS	986,805	878,857	511,916	501,349	1,498,721	1,380,206

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18 SUPPLEMENTARY INFORMATION (continued)

18.1 Interim condensed statement of financial position (continued)

	Insurance Operations		Shareholders' Operations		Total	
	30 June	31 December	30 June	31 December	30 June	31 December
	2020	2019	2020	2019	2020	2019
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	SR (000)					
LIABILITIES						
Policyholders claims payable	39,069	41,046	-	-	39,069	41,046
Accrued and other liabilities	83,939	86,564	536	536	84,475	87,100
Reinsurance balances payable	38,964	11,248	-	-	38,964	11,248
Unearned premiums	412,807	348,546	-	-	412,807	348,546
Unearned reinsurance commission	7,587	4,801	-	-	7,587	4,801
Outstanding claims	144,425	140,569	-	-	144,425	140,569
Claims incurred but not reported	175,366	177,894	-	-	175,366	177,894
Additional premium reserve	55,217	17,314	-	-	55,217	17,314
Other technical reserves	3,838	3,605	-	-	3,838	3,605
Due to related parties	2	2	-	-	2	2
Employees' end-of-service benefits	16,886	14,850	-	-	16,886	14,850
Accumulated surplus	8,155	8,821	-	-	8,155	8,821
Provision for zakat	-	-	38,820	32,220	38,820	32,220
Accrued commission income payable to SAMA	-	-	8,922	8,124	8,922	8,124
	986,255	855,260	48,278	40,880	1,034,533	896,140
Due to shareholders' operations	5,590	28,637	-	-	5,590	28,637
TOTAL LIABILITIES	991,845	883,897	48,278	40,880	1,040,123	924,777
EQUITY						
Share capital	-	-	500,000	500,000	500,000	500,000
Statutory reserve	-	-	2,131	2,131	2,131	2,131
Accumulated losses	-	-	(40,179)	(42,296)	(40,179)	(42,296)
Fair value reserve for available-for-sale investments	-	-	1,686	634	1,686	634
Re-measurement reserve of end-of-service benefits	(5,040)	(5,040)	-	-	(5,040)	(5,040)
	(5,040)	(5,040)	463,638	460,469	458,598	455,429
TOTAL EQUITY	986,805	878,857	511,916	501,349	1,498,721	1,380,206
TOTAL LIABILITIES AND EQUITY						

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For the three-month and six-month periods ended 30 June 2020

18 SUPPLEMENTARY INFORMATION (continued)

18.2 Interim condensed statement of income (continued)

	Three-months period ended 30 June (Unaudited)				
	Insurance Operations		Shareholders' Operations		Total
	2020	2019	2020	2019	2020
			SR (000)		2019
REVENUES					
Gross premiums written	209,612	101,832	-	-	209,612
Reinsurance premiums ceded					101,832
- Local	(1,670)	(888)	-	-	(1,670)
- International (includes premium ceded through local broker)	(11,300)	(11,649)	-	-	(11,300)
	(12,970)	(12,537)	-	-	(12,970)
	(6,733)	(5,303)	-	-	(6,733)
Excess of loss expenses	189,909	83,992	-	-	189,909
Net premiums written	(21,476)	74,824	-	-	(21,476)
Movement in unearned premiums, net	168,433	158,816	-	-	168,433
Net premiums earned	5,471	4,362	-	-	5,471
Reinsurance commissions	3,320	50	-	-	3,320
Other underwriting income	177,224	163,228	-	-	177,224
NET REVENUES	(82,118)	(123,835)	-	-	(82,118)
UNDERWRITING COSTS AND EXPENSES	8,185	7,754	-	-	8,185
Gross claims paid	(73,933)	(116,081)	-	-	(73,933)
Reinsurers' share of claims paid	(14,195)	(13,551)	-	-	(14,195)
Net claims paid	6,845	21,026	-	-	6,845
Movement in outstanding claims, net	(41,929)	-	-	-	(41,929)
Movement in claims incurred but not reported, net	37	1,719	-	-	37
Movement in additional premium reserve	(123,175)	(106,887)	-	-	(123,175)
Movement in other technical reserves	(17,555)	(17,933)	-	-	(17,555)
Net claims incurred	(140,730)	(124,820)	-	-	(140,730)
Policy acquisition costs	36,494	38,408	-	-	36,494
TOTAL UNDERWRITING COSTS AND EXPENSES					38,408
NET UNDERWRITING INCOME					38,408

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18 SUPPLEMENTARY INFORMATION (continued)

18.2 Interim condensed statement of income (continued)

	Three-months period ended 30 June (Unaudited)				
	Insurance Operations		Shareholders' Operations		Total
	2020	2019	2020	2019	2019
			SR (000)		
Net underwriting income carried forward	36,494	38,408	-	-	38,408
OTHER INCOME/(EXPENSES), NET					
Provision for doubtful debts	(8,485)	(25,685)	-	-	(8,485)
Salaries and staff related costs	(16,898)	(16,598)	-	-	(16,598)
Other general and administrative expenses	(8,327)	(11,440)	(3,398)	(2,025)	(13,465)
Investment income	1,472	3,456	3,723	2,723	6,179
Other income	632	-	-	-	-
TOTAL OTHER INCOME/(EXPENSES), NET	(31,606)	(50,267)	325	698	(49,569)
Total income for the period	4,888	(11,859)	325	698	(11,161)
Surplus attributed to insurance operations	(489)	-	-	-	-
Net income/(loss) attributable to shareholders before zakat	4,399	(11,859)	325	698	(11,161)
Zakat charge for the period	-	-	(3,300)	(3,300)	(3,300)
Net income/(loss) attributable to shareholders' operations	4,399	(11,859)	(2,975)	(2,602)	(14,461)

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18 SUPPLEMENTARY INFORMATION (continued)

18.3 Interim condensed statement of comprehensive income

	Three-months period ended 30 June (Unaudited)				
	Insurance Operations		Shareholders' Operations		Total
	2020	2019	2020	2019	2020
			SR (000)		2019
Total income/(loss) for the period	489	-	1,424	(14,461)	1,913
					(14,461)
Other comprehensive income / (loss) :					
Items that may be reclassified to statement of insurance operations' surplus in subsequent periods:					
- Change in fair value of available-for-sale investments, net	-	-	664	-	664
					-
Total comprehensive income/(loss) for the period	489	-	2,088	(14,461)	2,577
					(14,461)
Total comprehensive income attributable to insurance operations	(489)	-	-	-	(489)
					-
Total comprehensive income/(loss) attributable to shareholders	-	-	2,088	(14,461)	2,088
					(14,461)

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For the three-month and six-month periods ended 30 June 2020

18 SUPPLEMENTARY INFORMATION (continued)

18.2 Interim condensed statement of income (continued)

	Six-months period ended 30 June (Unaudited)				
	Insurance Operations		Shareholders' Operations		Total
	2020	2019	2020	2019	2019
	SR (000)				
REVENUES					
Gross premiums written	463,410	482,127	-	-	482,127
Reinsurance premiums ceded					
- Local	(4,145)	(3,443)	-	-	(3,443)
- International (includes premium ceded through local broker)	(46,338)	(49,570)	-	-	(49,570)
	(50,483)	(53,013)	-	-	(53,013)
	(9,711)	(10,614)	-	-	(10,614)
	403,216	418,500	-	-	418,500
Net premiums written	(50,630)	(96,840)	-	-	(96,840)
Movement in unearned premiums, net	352,586	321,660	-	-	321,660
Net premiums earned	9,025	7,562	-	-	7,562
Reinsurance commissions	3,507	1,760	-	-	1,760
Other underwriting income	365,118	330,982	-	-	330,982
NET REVENUES					
UNDERWRITING COSTS AND EXPENSES					
Gross claims paid	(242,775)	(272,230)	-	-	(272,230)
Reinsurers' share of claims paid	12,657	14,389	-	-	14,389
	(230,118)	(257,841)	-	-	(257,841)
Net claims paid	(5,503)	(21,353)	-	-	(21,353)
Movement in outstanding claims, net	1,072	44,391	-	-	44,391
Movement in claims incurred but not reported, net	(37,903)	-	-	-	-
Movement in additional premium reserve	(233)	1,719	-	-	1,719
Movement in other technical reserves	(272,685)	(233,084)	-	-	(233,084)
Net claims incurred	(36,606)	(32,682)	-	-	(32,682)
Policy acquisition costs	(309,291)	(265,766)	-	-	(265,766)
TOTAL UNDERWRITING COSTS AND EXPENSES					
NET UNDERWRITING INCOME	55,827	65,216	-	-	65,216

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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18 SUPPLEMENTARY INFORMATION (continued)

18.2 Interim condensed statement of income (continued)

	Six-months period ended 30 June (Unaudited)				
	Insurance Operations		Shareholders' Operations		Total
	2020	2019	2020	2019	2019
			SR (000)		
Net underwriting income carried forward	55,827	65,216	-	-	55,827
OTHER INCOME/(EXPENSES), NET					65,216
Provision for doubtful debts	(3,428)	(23,574)	-	-	(3,428)
Salaries and staff related costs	(34,930)	(33,181)	-	-	(34,930)
Other general and administrative expenses	(17,448)	(22,832)	(3,621)	(2,213)	(21,069)
Investment income	4,703	6,711	6,948	5,711	11,651
Other income	1,265	-	-	-	1,265
TOTAL OTHER INCOME/(EXPENSES), NET	(49,838)	(72,876)	3,327	3,498	(46,511)
Total income/(loss) for the period	5,989	(7,660)	3,327	3,498	9,316
Surplus attributed to insurance operations	(599)	-	-	-	(599)
Net income/(loss) attributable to shareholders before zakat	5,390	(7,660)	3,327	3,498	8,717
Zakat charge for the period	-	-	(6,600)	(6,600)	(6,600)
Net income/(loss) attributable to shareholders' operations	5,390	(7,660)	(3,273)	(3,102)	(10,762)

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18 SUPPLEMENTARY INFORMATION (continued)

18.3 Interim condensed statement of comprehensive income

	Six-months period ended 30 June (Unaudited)				
	Insurance Operations	Shareholders' Operations			Total
	2020	2019	2020	2019	2019
			SR (000)		
Total income for the period	599	-	2,117	(10,762)	2,716
					(10,762)
Other comprehensive income / (loss) :					
Items that may be reclassified to statement of insurance operations' surplus in subsequent periods:					
- Change in fair value of available-for-sale investments, net	-	-	1,052	316	316
Total comprehensive income for the period	599	-	3,169	(10,446)	(10,446)
Total comprehensive income attributable to insurance operations	(599)	-	-	-	-
Total comprehensive income attributable to shareholders	-	-	3,169	(10,446)	(10,446)

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18 SUPPLEMENTARY INFORMATION (continued)

18.4 Interim condensed statement of cash flows (continued)

	Six-months period ended 30 June (Unaudited)				
	Insurance Operations		Shareholders' Operations		Total
	2020	2019	2020	2019	2020
	SR (000)				
CASH FLOWS FROM OPERATING ACTIVITIES					
Total income/(loss) for the period before zakat	599	-	8,717	(4,162)	9,316
Adjustments for non-cash items:					
Depreciation of property and equipment	875	934	-	-	875
(Reversal of impairment)/impairment on available for sale investments	-	115	-	(808)	-
Gain on disposal of available-for-sale investment			-	-	-
Provision for employees' end-of-service benefits	2,146	1,655	-	-	2,146
Provision for doubtful debts	3,428	23,574	-	-	3,428
Changes in operating assets and liabilities:					
Premiums and reinsurers' receivable	(62,929)	(180,616)	-	-	(62,929)
Reinsurers' share of unearned premiums	(13,631)	(17,589)	-	-	(13,631)
Reinsurers' share of outstanding claims	1,647	3,917	-	-	1,647
Reinsurers' share of claims incurred but not reported	1,456	-	-	-	1,456
Deferred policy acquisition costs	3,950	(14,098)	-	-	3,950
Deferred excess of loss premiums	496	839	-	-	496
Prepayments and other assets	(1,360)	(802)	(4,061)	11	(5,421)
Policyholders claims payable	(1,977)	46,632	-	-	(1,977)
Accrued and other liabilities	(2,625)	11,153	-	2	(2,625)
Reinsurance balances payable	27,716	30,625	-	-	27,716
Unearned premiums	64,261	114,430	-	-	64,261
Unearned reinsurance commission	2,786	4,479	-	-	2,786
Outstanding claims	3,856	17,436	-	-	3,856
Claims incurred but not reported	(2,528)	(44,391)	-	-	(2,528)
Additional premium reserve	37,903	-	-	-	37,903
Other technical reserves	233	(1,719)	-	-	233
Accumulated surplus	(1,265)	-	-	-	(1,265)
Due to related parties	-	(164)	-	-	-
Cash generated from/(used in) operations	65,037	(3,590)	4,656	(4,957)	69,693
					(8,547)

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For the three-month and six-month periods ended 30 June 2020

18 SUPPLEMENTARY INFORMATION (continued)

18.4 Interim condensed statement of cash flows (continued)

	Note	Six-months period ended 30 June (Unaudited)				
		Insurance Operations		Shareholders' Operations		Total
		2020	2019	2020	2019	2020
				SR (000)		2019
Due from insurance operations		-	-	23,047	5,409	23,047
Due to shareholders' operations		(23,047)	(5,409)	-	-	(23,047)
Zakat paid		-	-	-	(10,829)	-
Employees' end-of-service benefits paid		(110)	(1,065)	-	-	(110)
Net cash from (used in) operating activities		41,880	(10,064)	27,703	(10,377)	69,583
						(20,441)
CASH FLOWS FROM INVESTING ACTIVITIES						
Decrease/(increase) in Murabaha deposits		(55,000)	349	(21,106)	-	(76,106)
Additions of property and equipment		(155)	(906)	-	-	(155)
Additions to available-for-sale investments	8	-	-	(38,072)	-	(38,072)
Net cash used in investing activities		(55,155)	(557)	(59,178)	-	(114,333)
						(557)
Net change in cash and cash equivalents		(13,275)	(10,621)	(31,475)	(10,377)	(44,750)
Cash and cash equivalents at the beginning of the period	4	98,970	66,352	71,300	47,791	170,270
Cash and cash equivalents at the end of the period	4	85,695	55,731	39,825	37,414	125,520
						93,145
Supplemental non-cash information:						
Change in fair value of available-for-sale investments		-	-	1,052	316	1,052
Commission income on statutory deposit		-	-	798	683	798
						683

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19 IMPACT OF COVID-19 OUTBREAK

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

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

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

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

Motor technical reserves

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

The Management, in conjunction with its appointed actuary, deliberated on a variety of internal factors and concluded, that the Company considers the extension of two months in exiting motor policies as new policy and record a premium deficiency reserve based on the expected claims for the extended 2 months period.

For new policies written as per above circular, the premium is earned over the period of coverage i.e. 14 month as per the Company accounting policy. There is no significant impact of two month extension in earned premium as of June 30, 2020 as no material amounts of premium have been written during the one month period.

The Company has performed a liability adequacy test using current estimates of future cash flows under its insurance contracts at segmented level for motor line of business and recorded an additional premium deficiency reserve amounting to SR 42.1 million as at 30 June, 2020.

Financial assets

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

Based on these assessments, the Company's management believes that the Covid-19 pandemic has had no material effects on Company's reported results for the three and six-month periods ended 30 June 2020. The Company's management continues to monitor the situation closely.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and six-month periods ended 30 June 2020

20 SUBSEQUENT EVENT

On July 02, 2020, the Company announced on Tadawul that it has signed an agreement on July 02, 2020 with participating insurance companies for Inherent Defects Insurance ("IDI") product, based on the Saudi Arabian Monetary Agency's approval authorizing Malath as the leading company, to manage the IDI program on behalf of the participating insurance companies, selling the product and providing its insurance coverage by creating a joint insurance portfolios. Malath Cooperative Insurance Company will exclusively manage the portfolio during the period of validity of the IDI agreement. The Company expects that the annual contract value for IDI product will exceed 5% of the total gross written premiums of the company for the year 2020, and it is also expected that this will have a positive financial impact on the Company's financial results, and this will be gradually reflected, starting from the third quarter of 2020.

21 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on Dhul Hijjah 26, 1441 H (corresponding to August 16, 2020).