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**SALAMA COOPERATIVE INSURANCE COMPANY**  
(A Saudi Joint Stock Company)

**Financial Statements**  
**And Independent Auditors' Report**  
**For the year ended 31 December 2020**

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# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **Financial Statements and Independent Auditors' Report For the year ended 31 December 2020**

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

**Qualified Opinion**

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

In our opinion, except for the effects of the matter described in the paragraph of Basis for Qualified Opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA").

**Basis for Qualified Opinion**

As stated in Note 10 to the financial statements, the Company has other receivables balance of SAR 15.1 million as of December 31, 2020, which represents accounting system processing differences related to the insurance operations due to the difficulties in the implementation of the new IT system, which has been escalated to the upper management of the IT system developer. We were unable to obtain sufficient appropriate evidence in respect of the other receivables balance. In light of the above, we were unable to determine whether any adjustments to other receivables were required and we were unable to determine the possible impact on the financial statements for the year ended December 31, 2020.

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics, that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our 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 qualified 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. For each matter below, a description of how our audit addressed the matter is provided in that context:

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

**Key Audit Matters (continued)**

Key Audit Matter	How our audit addressed the key audit matters
<p><b>Valuation of ultimate claim liabilities arising from insurance contracts</b></p> <p>As at 31 December 2020, outstanding claims including claims Incurred but Not Reported (IBNR) amounted to Saudi Riyals 149,460 thousands as disclosed in Note 8 and 14 to the financial statements.</p> <p>The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs.</p> <p>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.</p> <p>Due to the estimation uncertainty and subjectivity involved including uncertainties due to Covid 19 pandemic in the assessment of valuation of ultimate claim liabilities arising from insurance contracts, we have considered this as a key audit matter.</p> <p>Refer to notes 2 and 3 to the financial statements which explain the valuation methodology used by the Company and critical judgements and estimates.</p>	<p>We understood, evaluated and tested key controls around the claims handling and provision setting processes.</p> <p>We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their relationship with the entity.</p> <p>We performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves.</p> <p>In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR by comparing it to the accounting records.</p> <p>In order to challenge management's methodologies and assumptions, we were assisted by our actuarial expert to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuarial expert performed the following:</p> <ul style="list-style-type: none"> <li>- Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practice and with prior periods. We sought sufficient justification for any significant differences.</li> </ul>



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

**Key Audit Matters (continued)**

Key Audit Matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> <li>- 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.</li> <li>- Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.</li> </ul> <p>We assessed the adequacy and appropriateness of the related disclosures in the financial statements.</p>

**Other Information Included in the Company's 2020 Annual Report**

Management is responsible for the other information. Other information comprises the information included in the Company's 2020 annual report but does not include financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

As described in the *Basis for Qualified Opinion* section above, the Company has other receivables balance which represents accounting system processing differences related to the insurance operations due to the difficulties in the implementation of new IT system. This results in the other information being materially misstated with respect to this matter.

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

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

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

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

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

**Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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

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

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

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

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

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

**For Al Azem, Al Sudairy, Al Shaikh & Partners**  
Certified Public Accountants



Abdullah M. AlAzem  
Certified Public Accountant  
License No. 335

**For Dr. Mohamed Al-Amri & Co.**  
Certified Public Accountants



Jamal M. Al-Amri  
Certified Public Accountant  
License No. 331



26 Sha'aban 1442H  
corresponding to 8 April 2021



**SALAMA COOPERATIVE INSURANCE COMPANY**  
(A Saudi Joint Stock Company)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2020**

		31 December 2020	31 December 2019 (Restated, note 34)	1 January 2019 (Restated, note 34)
	Notes	SR'000		
<b>ASSETS</b>				
Cash and cash equivalents	4	159,246	29,761	88,219
Term deposits	5 & 34	148,318	358,483	345,557
Premiums and reinsurers' receivable – net	6	40,896	86,207	155,444
Reinsurers' share of unearned premiums	14.2	23,270	21,858	13,139
Reinsurers' share of outstanding claims	8 & 14.1	20,910	8,745	13,316
Reinsurers' share of claims incurred but not reported	8 & 14.1	11,782	12,273	10,467
Deferred policy acquisition costs	7	21,020	9,033	14,135
Investments	9 & 34	168,874	118,390	173,420
Prepaid expenses and other assets	10	42,232	18,766	24,377
Right of use assets- net	13.1	21,927	26,936	-
Property and equipment- net	11	7,150	12,044	14,459
Intangible assets- net	12	4,539	6,304	7,157
Statutory deposit	15	37,500	37,500	25,000
Accrued commission on statutory deposit	15	3,668	3,328	2,686
<b>TOTAL ASSETS</b>		<b>711,332</b>	<b>749,628</b>	<b>887,376</b>
<b>LIABILITIES</b>				
Policyholders claims payable		13,522	13,943	7,583
Accrued expenses and other liabilities	17	30,365	31,034	52,179
Lease liabilities	13.2	19,922	23,703	-
Reinsurers' balances payable		7,037	7,811	6,547
Unearned premiums	14.2	218,302	229,678	287,093
Unearned reinsurance commission	18	3,733	3,401	2,543
Outstanding claims	8 & 14.1	27,754	38,953	58,370
Claims incurred but not reported	8 & 14.1	121,706	130,586	151,890
Premium deficiency reserve	14.1	-	9,782	5,083
Other technical reserves	14.1 & 19	3,096	6,259	6,375
Employee benefit obligations	20	9,701	9,688	8,941
Surplus distribution payable	25	15,149	14,535	14,535
Provision for zakat	24	31,131	25,131	19,761
Accrued commission income payable to SAMA	15	3,668	3,328	2,686
<b>TOTAL LIABILITIES</b>		<b>505,086</b>	<b>547,832</b>	<b>623,586</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	26	250,000	250,000	250,000
Statutory reserve		5,003	5,003	5,003
Accumulated losses		(48,705)	(52,407)	7,708
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>206,298</b>	<b>202,596</b>	<b>262,711</b>
Re-measurement reserve of defined benefit obligations – related to insurance operations		(52)	(800)	1,079
<b>TOTAL EQUITY</b>		<b>206,246</b>	<b>201,796</b>	<b>263,790</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>711,332</b>	<b>749,628</b>	<b>887,376</b>
COMMITMENTS AND CONTINGENCIES	16	10,200	10,200	10,200

Chief Executive Officer

for Chief Financial Officer

Chairman


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




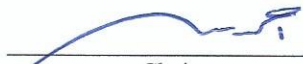
**SALAMA COOPERATIVE INSURANCE COMPANY**  
(A Saudi Joint Stock Company)

**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

		31 December 2020	31 December 2019
	Notes	SR'000	
<b><u>REVENUES</u></b>			
Gross premiums written	14.2	427,623	503,504
Reinsurance premiums ceded			
- Local		(1,087)	(691)
- Foreign		(44,565)	(48,614)
	14.2	(45,652)	(49,305)
Excess of loss expenses			
- Local		(1,353)	(464)
- Foreign		(20,654)	(15,871)
	14.2	(22,007)	(16,335)
<b>Net premiums written</b>	14.2	<b>359,964</b>	<b>437,864</b>
Changes in unearned premiums, net		12,788	66,134
<b>Net premiums earned</b>	14.2	<b>372,752</b>	<b>503,998</b>
Reinsurance commissions	18	6,967	5,953
Other underwriting income		5,680	2,216
<b><u>TOTAL REVENUES</u></b>		<b><u>385,399</u></b>	<b><u>512,167</u></b>
<b><u>UNDERWRITING COSTS AND EXPENSES</u></b>			
Gross claims paid	8	347,288	501,320
Reinsurers' share of claims paid	8	(35,133)	(31,848)
<b>Net claims paid</b>		<b>312,155</b>	<b>469,472</b>
Changes in outstanding claims, net		(23,364)	(14,846)
Changes in claims incurred but not reported, net		(8,389)	(23,110)
<b>Net claims incurred</b>	8	<b>280,402</b>	<b>431,516</b>
Changes in premium deficiency reserve		(9,782)	4,699
Changes in other technical reserves		(3,163)	(116)
Policy acquisition costs	7	17,312	28,031
Other underwriting expenses		26,444	21,345
<b><u>TOTAL UNDERWRITING COSTS AND EXPENSES</u></b>		<b><u>311,213</u></b>	<b><u>485,475</u></b>
<b>NET UNDERWRITING INCOME</b>		<b>74,186</b>	<b>26,692</b>

  
Chief Executive Officer

  
Chief Financial Officer

  
Chairman


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

**SALAMA COOPERATIVE INSURANCE COMPANY**  
(A Saudi Joint Stock Company)

**STATEMENT OF INCOME - Continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

		<b>31 December 2020</b>	<b>31 December 2019</b>
	Notes	<b>SR'000</b>	
<b><u>OTHER OPERATING (EXPENSES) / INCOME</u></b>			
Allowance for doubtful debts/ (Reversal of provision for doubtful debts)	6	(238)	4,604
General and administrative expenses	28	(82,734)	(100,331)
Investment income/(loss)		2,077	(208)
Commission from held to maturity investments	9	2,098	163
Commission income from term deposit		8,087	8,413
Unrealized gain on investments	9	3,620	4,951
Other income		3,220	1,601
<b><u>TOTAL OTHER OPERATING EXPENSES</u></b>		<b>(63,870)</b>	<b>(80,807)</b>
Net income / (loss) before surplus and zakat		10,316	(54,115)
Income attributed to the insurance operations		(614)	-
<b>Income / (loss) for the year attributable to the shareholders before zakat</b>		<b>9,702</b>	<b>(54,115)</b>
Zakat	24	(6,000)	(6,000)
<b>NET INCOME / (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS</b>		<b>3,702</b>	<b>(60,115)</b>
Weighted average number of ordinary shares outstanding (thousands shares )		25,000	25,000
Basic and diluted earnings / (loss) per share	29	0.15	(2.40)

  
Chief Executive Officer

  
Chief Financial Officer

  
Chairman

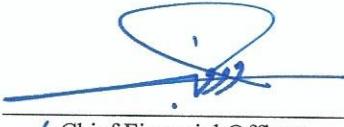
The accompanying notes from 1 to 35 form an integral part of these financial statements.


**SALAMA COOPERATIVE INSURANCE COMPANY**  
(A Saudi Joint Stock Company)

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	31 December 2020 SR'000	31 December 2019
NET INCOME / (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		3,702	(60,115)
<b><u>OTHER COMPREHENSIVE INCOME / (LOSS)</u></b>			
<b>Items that will not be reclassified to statements of income in subsequent years</b>			
Actuarial gains / (losses) on defined benefit obligation – related to Insurance operations	20	748	(1,879)
<b>Total comprehensive income / (loss) for the year</b>		<b>4,450</b>	<b>(61,994)</b>

  
\_\_\_\_\_  
Chief Executive Officer

  
\_\_\_\_\_  
for Chief Financial Officer

  
\_\_\_\_\_  
Chairman

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




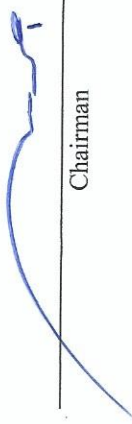
**SALAMA COOPERATIVE INSURANCE COMPANY**  
(A Saudi Joint Stock Company)

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020**

<u>2020</u>	Share capital SR'000	Statutory reserve SR'000	Accumulated losses SR'000	Re-measurement reserve of defined benefit obligations – related to insurance operations SR'000	Total Equity SR'000
Balance as at 1 January 2020	250,000	5,003	(52,407)	(800)	201,796
<b>Total comprehensive income for the year:</b>					
Net income for the year – Attributable to shareholders	-	-	3,702	-	3,702
Other comprehensive income	-	-	-	748	748
<b>Total comprehensive income</b>	-	-	3,702	748	4,450
<b>Balance as at 31 December 2020</b>	<b>250,000</b>	<b>5,003</b>	<b>(48,705)</b>	<b>(52)</b>	<b>206,246</b>
<u>2019</u>					
Balance as at 1 January 2019	250,000	5,003	7,708	1,079	263,790
<b>Total comprehensive loss for the year:</b>					
Net loss for the year – Attributable to shareholders	-	-	(60,115)	-	(60,115)
Other comprehensive loss	-	-	-	(1,879)	(1,879)
<b>Total comprehensive loss</b>	-	-	(60,115)	(1,879)	(61,994)
<b>Balance as at 31 December 2019</b>	<b>250,000</b>	<b>5,003</b>	<b>(52,407)</b>	<b>(800)</b>	<b>201,796</b>

  
Chief Executive Officer

  
Chief Financial Officer

  
Chairman

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

**SALAMA COOPERATIVE INSURANCE COMPANY**  
(A Saudi Joint Stock Company)

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020	2019
	SR'000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income / (loss) attributed to shareholders before zakat	9,702	(54,115)
<b>Adjustments for non-cash items:</b>		
Net income attributed to insurance operations	614	-
Depreciation of property and equipment	5,031	5,042
Amortization of intangible assets	1,765	1,688
Depreciation of right of use assets	4,454	5,095
Finance cost on lease liabilities	1,293	1,521
Amortization of held to maturity investments	-	59
Allowance for doubtful debts / (Reversal of provision for doubtful debts)	238	(4,604)
Unrealized gain on investments at fair value through statement of income	(3,620)	(4,951)
Employee benefit obligations	2,106	2,220
	21,583	(48,045)
<b>Changes in operating assets and liabilities:</b>		
Premiums and reinsurers' receivable	45,073	73,841
Reinsurers' share of unearned premiums	(1,412)	(8,719)
Reinsurers' share of outstanding claims	(12,165)	4,571
Reinsurers' share of claims Incurred but not reported	491	(1,806)
Deferred policy acquisition costs	(11,987)	5,102
Prepaid expenses and other assets	(23,466)	5,611
Accrued commission from statutory deposit	(340)	(642)
Policyholders and claims payable	(421)	6,360
Accrued expense and other liabilities	(669)	(21,145)
Reinsurers' balances payable	(774)	1,264
Unearned premiums	(11,376)	(57,415)
Unearned reinsurance commission	332	858
Outstanding claims	(11,199)	(19,417)
Claims incurred but not reported	(8,880)	(21,304)
Premium deficiency reserves	(9,782)	4,699
Other technical reserves	(3,163)	(116)
Accrued commission income payable to SAMA	340	642
	(27,815)	(75,661)
Zakat paid	-	(630)
Employee benefits paid	(1,345)	(3,352)
<b>Net cash flows used in operating activities</b>	<b>(29,160)</b>	<b>(79,643)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(81,931)	(77,821)
Proceeds from sale of investments	13,071	127,645
Statutory deposit	-	(12,500)
Placement of term deposits	(247,000)	(405,000)
Proceeds from term deposits	457,165	392,075
Proceeds from held to maturity investments	21,996	10,097
Purchase of property and equipment	(137)	(2,627)
Purchase of intangible assets	-	(835)
<b>Net cash flows from investing activities</b>	<b>163,164</b>	<b>31,034</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of lease liabilities	(4,519)	(9,849)
<b>Net cash flows used in financing activities</b>	<b>(4,519)</b>	<b>(9,849)</b>
Net change in cash and cash equivalents	129,485	(58,458)
Cash and cash equivalents, at the beginning of the year	29,761	88,219
<b>Cash and cash equivalents, at the end of the year</b>	<b>159,246</b>	<b>29,761</b>

Chief Executive Officer

Chief Financial Officer

Chairman

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **1. GENERAL**

Salama Cooperative Insurance Company (“the Company”) is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry’s Resolution number 1121K dated 29 Rabi Al-Thani 1428H (corresponding to 16 May 2007). The Company is registered in Jeddah under Commercial Registration No. 4030169661 dated 6 Jamad Al-Awwal 1428H (corresponding to 23 May 2007).

The registered office address of the Company is:

Salama Tower;  
Al Madinah Road  
P.O. Box 4020;  
Jeddah 21491;  
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Stock Exchange on 23 May 2007. The Company started its operations on 1 January 2008. The Company is fully owned by the general public and Saudi shareholders.

### **2. BASIS OF PREPARATION**

#### **a. Basis of presentation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as endorsed in the Kingdom of Saudi Arabia (“KSA”), and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (“SOCPA”). The financial statements of the Company as at and for the year ended 31 December 2020 were prepared in compliance with IFRS as endorsed in KSA.

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement of investments (excluding held-to-maturity) at their fair value and re-measurement of employee benefit obligations. The Company’s statement of financial position is presented in order of liquidity. Except for property and equipment, right of use assets, intangible assets, statutory deposit, employee benefits, outstanding claims, claims incurred but not reported, all other assets and liabilities are of short-term nature, unless, stated otherwise.

As required by the Saudi Arabian Insurance Regulations (the Implementation Regulations), the Company maintains separate books of accounts for “Insurance Operations” and “Shareholders’ Operations”. Accordingly, assets, liabilities, revenues and expenses clearly attributable to either operation, are recorded in the respective accounts.

Similarly, the Company’s annual financial statements presented separately the statements of financial position, income, comprehensive income and cash flows for the insurance operations and shareholders operations. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.



# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **2. BASIS OF PREPARATION – (continued)**

#### **a. Basis of presentation – (continued)**

The statement of financial position, statements of income and statement of comprehensive income and cash flows of the insurance operations and shareholders' operations which are presented on pages 53 to 59 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, statements of 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.

The inclusion of separate information of the insurance operations with the financial information of the Company in the statements of financial position, statement of income, statement of comprehensive income, statement of cash flows as well as certain relevant notes to the financial statements represents additional supplementary information required as required by the implementing regulations.

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

#### **b. Functional and presentation currency**

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

#### **c. Fiscal year**

The Company follows a fiscal year ending December 31.

#### **d. Critical accounting judgments, 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.

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **2. BASIS OF PREPARATION – (continued)**

#### **d. Critical accounting judgments, estimates and assumptions – (continued)**

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

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

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

##### **ii) Impairment of financial assets**

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. A period of 12 months or longer is considered to be prolonged and a decline of 25% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

##### **iii) Impairment of receivables**

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

##### **iv) Fair value of financial instruments**

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

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **2. BASIS OF PREPARATION – (continued)**

#### **d. Critical accounting judgments, estimates and assumptions – (continued)**

##### **v) Useful lives of property and equipment**

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

##### **vi) Going concern**

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

#### **e. Seasonality of operations**

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies, estimates and assumptions used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019, except as explained below:

#### **a) New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company**

The following new standards, interpretations, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) have been effective from 1 January 2020, as applicable:

<b>Standard/ Amendments</b>	<b>Description</b>
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform

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

#### **Amendments to IAS 1 and IAS 8 on the definition of material**

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

#### **Amendments to IFRS 3 – definition of a business**

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

#### **Amendments to References to the Conceptual Framework in IFRS Standards**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Company.



# SALAMA COOPERATIVE INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a) New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company (continued)

##### Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform

These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally, cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the Statement of Profit or Loss. These will be considered while implementing of IFRS 17 effective from 1 January 2023.

#### b) Standards issued but not yet effective

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

Standard/ Interpretation	Description	Annual periods beginning on or after
IFRS 17	Insurance Contracts	See below
IFRS 9	Financial Instruments	See below
IAS 1	Classification of Liabilities as Current or Non-current	1 January 2021
IFRS 16	Leases for COVID-19 rent related concessions	1 January 2021
IFRS 3	Reference to Conceptual Framework	1 January 2021
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2021
IAS 37	Onerous contracts: Cost of Fulfilling a contract	1 January 2021
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021

### IFRS 17 – Insurance Contracts

#### Overview

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

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

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

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

#### Measurement

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

The General model is based on the following “building blocks”:

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **b) Standards issued but not yet effective (continued)**

##### **IFRS 17 – Insurance Contracts (continued)**

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

The CSM is adjusted subsequently for changes in cash flows related to future services but the CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss. Interest is also accreted on the CSM at rates locked in at initial recognition of a contract (i.e. discount rate used at inception to determine the present value of the estimated cash flows). Moreover, the CSM will be released into profit or loss based on coverage units, reflecting the quantity of the benefits provided and the expected coverage duration of the remaining contracts in the group.

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

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

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

#### **Effective date**

Issued in May 2017, IFRS 17 sets out the requirements for a company reporting information about insurance contracts it issues and reinsurance contracts it holds. In June 2020, the International Accounting Standards Board (Board) issued latest amendments to IFRS 17 Insurance Contracts. The amendments are aimed at helping companies implement the Standard and making it easier for them to explain their financial performance.

IFRS 17 incorporating the amendments is effective from annual reporting periods beginning on or after 1 January 2023. The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4, is currently January 1, 2023. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intends to apply the standard on its effective date.

#### **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 together with amendments to presentation and disclosures.

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **b) Standards issued but not yet effective (continued)**

##### **IFRS 17 – Insurance Contracts (continued)**

###### **Impact**

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

Impact Area	Summary of impact
Financial Impact	During the financial impact exercised carried out as part of phase 2 of IFRS 17 Implementation, the Company has assessed the financial impact of the application and implementation of IFRS 17 and concluded that impact on adoption of IFRS 17 is immaterial as all of the portfolio are eligible for PAA measurement model.
Data Impact	IFRS 17 has additional data requirements. During the phase 2, company has carried out a detailed benchmarking exercise and identified the data required for IFRS 17 and come up with a data dictionary required under phase 3.
IT Systems	The Company is already in the process of implementing a new upgraded IT system which will facilitate the implementation of IFRS 17 and as part of the system exercise, company is in the process of onboarding a solution vendor for IFRS 17.
Impact on RI Arrangements	Detailed assessment has also been performed on the Company's reinsurance arrangements and concluded that all RI arrangements are eligible for PAA, company has opted to apply PAA for eligible products.
Impact on Policies & Control Frameworks	<p>The company is in the process of updating Accounting and Finance Policies and Procedures to cover the following new and additional requirements:</p> <ul style="list-style-type: none"><li>• Unbundling</li><li>• Level of aggregation</li><li>• Measurement models</li><li>• Risk Adjustment Methodologies</li><li>• New presentation and disclosure requirements</li></ul> <p>The revised manual to be followed by Finance function to ensure that financial statements are in conformity with International Financial Reporting Standards 17 (IFRS 17) on effective date.</p>
Human resources	The Company will also recruit suitably qualified personnel who have a comprehensive understanding of IFRS 17 and also provide trainings to the existing employees.



# **SALAMA COOPERATIVE INSURANCE COMPANY**

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## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **b) Standards issued but not yet effective (continued)**

##### **IFRS 17 – Insurance Contracts (continued)**

Impact

Following are the main areas under design phase and status of the progress made so far by the Company:

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

##### **IFRS 9 – Financial Instruments**

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

Classification and measurement

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

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

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

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

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## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **b) Standards issued but not yet effective (continued)**

##### **IFRS 9 – Financial Instruments (continued)**

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

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

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

##### **Impairment**

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

##### **Hedge accounting**

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

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

##### **Effective date**

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

1. apply a temporary exemption from implementing IFRS 9 until the earlier of
  - a. the effective date of a new insurance contract standard; or
2. annual reporting periods beginning on or after 01 January 2023. On 17 March 2020, the International Accounting Standards Board (IASB) decided to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 from January 1, 2021 to January 1, 2023. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominantly connected with insurance and have not applied IFRS 9 previously; or,

# **SALAMA COOPERATIVE INSURANCE COMPANY**

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## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **b) Standards issued but not yet effective (continued)**

##### **IFRS 9 – Financial Instruments (continued)**

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

The Company has performed a detailed assessment beginning of 1 January 2020 which included below:

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

#### **Impact assessment**

As at 31 December, 2020, the Company has total financial assets and insurance related assets amounting to SR 551,077 thousand (2019: 613,859 thousand ) and SR 155,328 thousand (2019: 128,647 thousand ), respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SR 494,539 thousand (2019: SR 428,104 thousand ). Other financial assets consist of available for sale investments amounting to SR 1,923 thousand (2019: 1,923 thousand). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Other financial assets have a fair value of SR 153,319 thousand (2019: SR 183,832 thousand) with a fair value change during the year SR 4,532 thousand (2019: SR 9,027). Credit risk exposure, concentration of credit risk and credit quality of these assets are mentioned in note 31.

The Company financial assets have low credit risk as at 31 December 2020 and 2019. The above is based on high- level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9: However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

#### **Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities**

These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.



# **SALAMA COOPERATIVE INSURANCE COMPANY**

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## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **b) Standards issued but not yet effective (continued)**

##### **Amendments to IFRS 16 - Leases for COVID-19 rent related concessions**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments remove the potential for confusion regarding lease incentives by amending an Illustrative example 13 accompanying IFRS 16.

##### **Amendments to IFRS 3, IAS 16, IAS 37**

- IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

#### **c) The significant accounting policies used in preparing these financial statements are set out below:**

##### **Insurance contracts**

Insurance contracts are those 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 assessing whether an insured event could cause the Company to pay significant additional benefits. Insurance contracts can also transfer financial risk.

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

Insurance contracts are principally divided into medical, marine, property, motor, engineering and accident and liability and are principally short-term insurance contracts.

Medical insurance is designed to compensate policy holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers with a large population to be covered under the policy.

Marine insurance is designed to compensate policyholders for damage and liability arising through loss or damage to marine craft/hull and accidents at sea resulting in the total or partial loss of cargoes. For marine insurance, the main risks are loss or damage to marine craft/hull and cargoes.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties. Customers could also receive compensation for the loss of earnings through loss of profit and business interruption. For property insurance contracts the main risks are fire, natural perils, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles.

# **SALAMA COOPERATIVE INSURANCE COMPANY**

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## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **c) The significant accounting policies used in preparing these financial statements are set out below (continued):**

The Company also issues comprehensive motor policies. Various extensions cover natural perils, personal accident benefits and agency repairs.

General accident insurance includes money, fidelity guarantee, personal accident, jeweler block, jewelry all risks and travel insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability, medical malpractice and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types:

- (a) "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, roads, buildings, bridges, sewage works and reservoirs.
- (b) "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. The Engineering line of business also includes machinery breakdown insurance and Business Interruption following machinery breakdown and includes electronic equipment, boiler and deterioration of stocks insurance.

#### **Surplus distribution payable**

In accordance with the Implementing Regulations issued by SAMA, the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policy holders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

#### **Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 2 to 11 years for offices. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the finance rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental financing rate. Generally, the Company uses its incremental financing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is measured at amortized cost using the incremental financing cost. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

c) **The significant accounting policies used in preparing these financial statements are set out below (continued):**

#### **Revenue Recognition**

##### **Recognition of premium**

Premiums and commission are recorded in the statement of income based on straight line method over the insurance policy coverage period except for long term policies (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.

##### **Reinsurance assumed**

The Company also assumes reinsurance risk in the normal course of business for Medical insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or 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 insurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the EIR method when accrued.

#### **Investment income**

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

#### **Dividend income**

Dividend income on equity instruments classified under fair value through statement of income (FVSI) investments is recognized when the right to receive payment is established.

#### **Claims**

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries. Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

c) **The significant accounting policies used in preparing these financial statements are set out below (continued):**

#### **Salvage and subrogation**

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

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

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

#### **Reinsurance contracts held**

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

#### **Deferred policy acquisition costs**

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognized as an expense when incurred. Amortization is recorded in the “Policy acquisition costs” in the statement of income. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test at each reporting date.

#### **Liability adequacy test**

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



# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

c) The significant accounting policies used in preparing these financial statements are set out below (continued):

#### **Receivables**

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

#### **Investments**

##### **a) Available-for-sale investments**

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

Dividend, commission income and foreign currency gain/loss on available-for-sale investments are recognized in the related statements of income or statement of comprehensive income - shareholders’ operations, as part of the net investment income / loss.

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the related statement of comprehensive income, as impairment charges. 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. For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

#### **Reclassification:**

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to HTM is permitted only when the entity has the ability and intention to hold the financial asset until maturity. For a financial asset reclassified out of the available-for-sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the Effective Interest Rate “EIR”. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

c) The significant accounting policies used in preparing these financial statements are set out below (continued):

**b) Held as FVSI**

Investments in this category are classified if they are held for trading or designated by management as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term and are recorded in the statement of financial position at fair value. Changes in fair value are recognized in net trading income/loss.

An investment may be designated at FVSI by the management, at initial recognition, if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVSI are recorded in the statement of financial position at fair value. Changes in the fair value are recognised in the statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments. Special commission income and dividend income on financial assets held as FVSI are reflected as either trading income or income from FVSI financial instruments in the statement of income.

**Reclassification:**

Investments at FVSI are not reclassified subsequent to their initial recognition, except that non-derivative FVSI instrument, other than those designated as FVSI upon initial recognition, may be reclassified out of the FVSI fair value through the statement of income (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, and then it may be reclassified out of the trading category only in 'rare circumstances'.

**c) Held to maturity**

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

**Reclassification:**

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Company's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

However, sales and reclassifications in any of the following circumstances would not impact the Company's ability to use this classification

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value
- Sales or reclassifications after the Company has collected substantially all the assets' original principal
- Sales or reclassifications attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

c) **The significant accounting policies used in preparing these financial statements are set out below (continued):**

#### **De-recognition of financial instruments**

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

#### **Offsetting**

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

#### **Trade date accounting**

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

#### **Impairment of financial assets**

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

Evidence of impairment may include:

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

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

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

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

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **c) The significant accounting policies used in preparing these financial statements are set out below (continued)**

##### **Impairment of financial assets – (continued)**

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

The determination of what is ‘significant’ or ‘prolonged’ requires judgement. A period of 18 months or longer is considered to be prolonged and a decline of 25% from original cost is considered significant as per Company policy. In making this judgment, 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 recognized in the statement of income and statement of comprehensive income.

##### **Intangible assets**

Separately acquired intangible assets (mention category) are shown at historical cost. They have a finite useful life and are subsequent carried at cost less accumulated amortization and impairment losses. The Company amortizes intangible assets with a limited useful life using straight-line method over the following periods:

Software	5 years
Licenses	4 years

##### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset’s carrying amount or recognized 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.

Land is not depreciated. The cost of other items of property and equipment is depreciated on the straight line method to allocate the cost over estimated useful lives, as follows:

Motor vehicle	5 years
Furniture and fixtures	5 years
Computers and office equipment	3 years

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

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



# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES – (continued)**

c) The significant accounting policies used in preparing these financial statements are set out below (continued)

#### **Impairment of non-financial assets**

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

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

#### **Employees benefit obligations**

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

#### **Zakat and income tax**

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

#### **Dividend distribution**

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

#### **Cash and cash equivalents**

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

#### **Term deposits**

Term deposits including murabaha deposits are classified within loans and receivables category as per IAS 39. They are initially recognised at fair value including direct transaction costs and subsequently measured at amortised cost, less provision for impairment in value and are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

#### **Cash flow statement**

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

#### **Foreign currencies**

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **3. SIGNIFICANT ACCOUNTING POLICIES – (continued)**

c) **The significant accounting policies used in preparing these financial statements are set out below (continued)**

#### **Operating segments**

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

- Medical provides compensation to policy holders for expenses incurred in treatment of a disease, illness or injury.
- Motor provides coverage against losses and liability related to motor vehicles.
- Other includes property, marine, engineering, accident and liability and miscellaneous categories.

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

#### **Statutory reserves**

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

#### **Fair values**

The fair values of financial assets 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 flow using commission for items with similar terms and risk characteristics.

For financial assets where there is no active market, fair value is determined by reference to the market value of a similar financial assets or where the fair values cannot be derived from active market, they are determined using a variety of valuation techniques. The inputs of these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

#### **Accounts payable and accruals**

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

#### **Provisions**

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

#### **Provision for outstanding claims**

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

### **3. SIGNIFICANT ACCOUNTING POLICIES – (continued)**

c) The significant accounting policies used in preparing these financial statements are set out below (continued)

#### **Provision for outstanding claims – (continued)**

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

#### **Premium deficiency reserve**

Estimation of the premium deficiency is highly sensitive to a number of assumptions as to the future events and conditions. It is based on 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 considers the claims and premiums relationship which is expected to apply on month to month basis. Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that past claims pattern are stable and will continue in future.

#### **Going concern**

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

### **4. CASH AND CASH EQUIVALENTS**

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

	<b>Insurance operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Bank balance and cash	<b>47,892</b>	26,834
	<b>Shareholders' operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Bank balances	<b>111,354</b>	2,927

### **5. TERM DEPOSITS**

The term deposits represent deposits held with the commercial banks and earn commission at market rates. These term deposits are denominated in Saudi Arabian Riyals and have an original maturity of more than three-months and less than twelve-months. As of 31 December 2020, the deposit carrying commission rates ranges from 0.8% to 4% (2019: from 2.2% to 4%).

	<b>Insurance operations</b>		
	<b>31 December</b>	<b>31 December</b>	<b>1 January</b>
	<b>2020</b>	<b>2019</b>	<b>2019</b>
		(Restated)	(Restated)
		<b>SR'000</b>	
Term deposits	<b>148,318</b>	258,282	245,178

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****5. TERM DEPOSITS (continued)**

	<b>Shareholders' operations</b>	
	31 December	1 January
<b>31 December</b>	2019	2019
<b>2020</b>	(Restated)	(Restated)
	<b>SR'000</b>	
Term deposits	-	100,201
		100,379

**6. PREMIUMS AND REINSURERS' RECEIVABLE – NET**

Receivables comprise amounts due from the following:

	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Policyholders	<b>74,563</b>	118,649
Receivables from reinsurers	<b>3,701</b>	4,688
	<b>78,264</b>	123,337
Provision for doubtful receivables	<b>(37,368)</b>	(37,130)
<b>Premiums and reinsurers' receivable – net</b>	<b>40,896</b>	86,207

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

	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Balance at the beginning of the year	<b>37,130</b>	41,734
Provision for the year	<b>238</b>	-
Reversal of provision	<b>-</b>	(4,604)
<b>Balance at the end of the year</b>	<b>37,368</b>	37,130

The age analysis of unimpaired premiums receivable arising from insurance contracts is as follows:

	<b>Up to three months</b>	<b>Above three and up to six months</b>	<b>Above six and less than twelve months</b>	<b>Twelve months and above</b>	<b>Total</b>
	<b>SR'000</b>				
<b>2020</b>	<b>23,072</b>	<b>2,797</b>	<b>3,139</b>	<b>11,888</b>	<b>40,896</b>
2019	41,594	23,367	14,299	6,947	86,207

Past due but not impaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customers' balances accounted for approximately 26% of this balance as at 31 December 2020 (31 December 2019: 24%). Premiums receivable comprise a large number of customers and insurance companies all within the Kingdom of Saudi Arabia.

**7. DEFERRED POLICY ACQUISITION COST**

	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Balance at the beginning of the year	<b>9,033</b>	14,135
Incurred for the year	<b>29,299</b>	22,929
Charge for the year	<b>(17,312)</b>	(28,031)
<b>Balance at the end of the year</b>	<b>21,020</b>	9,033



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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****8. CLAIMS INCURRED**

	<b>2020</b>	2019
	<b>SR'000</b>	SR'000
Gross claims paid	<b>347,288</b>	501,320
Gross outstanding claims at the end of the year (see note (i) below)	<b>149,460</b>	169,539
	<b>496,748</b>	670,859
Gross outstanding claims at the beginning of the year	<b>(169,539)</b>	(210,260)
Gross claims incurred	<b>327,209</b>	460,599
Reinsurance recoveries	<b>(35,133)</b>	(31,848)
Reinsurers' share of outstanding claims at the end of the year (see note (ii) below)	<b>(32,692)</b>	(21,018)
	<b>(67,825)</b>	(52,866)
Reinsurers' share of outstanding claims at the beginning of the year	<b>21,018</b>	23,783
Reinsurers' share of claims	<b>(46,807)</b>	(29,083)
Net claims incurred	<b>280,402</b>	431,516

(i) Gross outstanding claims as at 31 December 2020 represent the provision for IBNR amounting to SR 149,460 thousands (2019: SR 169,539 thousands).

(ii) Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

**CLAIM DEVELOPMENT TABLE**

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

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

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## NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

### 8. CLAIMS INCURRED – (continued)

#### CLAIM DEVELOPMENT TABLE – (continued)

##### 31 DECEMBER 2020

Accident year	2016 & earlier	2017	2018	2019	2020	Total
SR '000						
Estimate of ultimate claims cost:						
At the end of accident year	635,792	512,589	609,709	453,979	329,956	
One year later	584,477	517,900	589,837	446,386	-	
Two years later	545,421	516,589	587,015	-	-	
Three years later	538,820	512,304	-	-	-	
Four years later	748,796	-	-	-	-	
Current estimate of cumulative claims	748,796	512,304	587,015	446,386	329,956	2,624,457
Cumulative payments to date	(747,557)	(505,607)	(559,876)	(426,327)	(235,630)	(2,474,997)
Liability recognised in statement of financial position	1,239	6,697	27,139	20,059	94,326	149,460

##### 31 DECEMBER 2019

Accident year	2015 & earlier	2016	2017	2018	2019	Total
SR '000						
Estimate of ultimate claims cost:						
At the end of accident year	293,230	342,562	512,589	609,709	453,979	
One year later	278,395	306,082	517,900	589,837	-	
Two years later	264,510	280,911	516,589	-	-	
Three years later	242,611	296,209	-	-	-	
Four years later	262,882	-	-	-	-	
Current estimate of cumulative claims	262,882	296,209	516,589	589,837	453,979	2,119,496
Cumulative payments to date	(260,993)	(292,055)	(503,655)	(544,846)	(348,408)	(1,949,957)
Liability recognised in statement of financial position	1,889	4,154	12,934	44,991	105,571	169,539

### 9. INVESTMENTS

Investments are classified as follows:

	Insurance operations		
	31 December 2020	31 December 2019 (Restated)	1 January 2019 (Restated)
	SR'000		
- Held as FVSI (9-a)	103,021	25,926	39,942
- Held to maturity (9-c)	10,000	18,530	28,627
Total	113,021	44,456	68,569
	Shareholders' operations		
	31 December 2020	31 December 2019 (Restated)	1 January 2019 (Restated)
	SR'000		
- Held as FVSI (9-a)	48,947	53,562	89,401
- Available for sale (9-b)	1,923	1,923	1,923
- Held to maturity (9-c)	4,983	18,449	13,527
Total	55,853	73,934	104,851

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****9. INVESTMENTS – (continued)****a) FVSI****Movement in held as FVSI investment balance is as follows:**

	<b>Insurance operations</b>	
	<b>31 December 2020</b>	<b>31 December 2019 (Restated)</b>
	<b>SR'000</b>	
Opening balance	<b>25,926</b>	39,942
Purchased during the year	<b>81,931</b>	72,839
Disposals during the year	<b>(4,644)</b>	(83,434)
	<b>103,213</b>	29,347
Changes in fair value	<b>(192)</b>	(3,421)
Closing balance	<b>103,021</b>	25,926

**Details of held as FVSI investment balance is as follows:**

	<b>Source of Fair Value</b>	<b>2020</b>	<b>2019</b>
		<b>SR'000</b>	
Investment in equity securities	Quoted	<b>31,661</b>	3,127
Units in local Sukuk funds	NAV**	<b>55,068</b>	-
Local DPM* money market securities	NAV**	<b>16,292</b>	22,799
		<b>103,021</b>	25,926

	<b>Shareholders' operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Opening balance	<b>53,562</b>	89,401
Disposals during the year	<b>(8,427)</b>	(44,211)
	<b>45,135</b>	45,190
Changes in fair value	<b>3,812</b>	8,372
Closing balance	<b>48,947</b>	53,562

**Details of held as FVSI investment balance is as follows:**

	<b>Source of Fair Value</b>	<b>2020</b>	<b>2019</b>
		<b>SR'000</b>	
Units in local real estate funds	NAV**	<b>10,041</b>	10,041
Local DPM* money market securities	NAV**	<b>15,705</b>	24,025
Local DPM* equity securities	Quoted	<b>23,201</b>	19,496
Total		<b>48,947</b>	53,562

\* Managed at the discretion of a local regulated financial institution ("DPM").

\*\* NAV: Net Asset Value as announced by asset manager.

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****9. INVESTMENTS – (continued)****b) Available for sale investments****Movement in available-for-sale investment balance is as follows:**

	<b>Shareholders' operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Opening balance	<b>1,923</b>	1,923
Closing balance	<b>1,923</b>	1,923

- (i) Unquoted available for sale investment, having a carrying value of SR 1,923 thousand (2019: SR 1,923 thousand) are measured at cost as its fair value cannot be reliably measured due to the absence of active market and unavailability of observable market prices for similar instruments.

**c) Held to maturity investments****Movement in held to maturity investment balance is as follows:**

	<b>Insurance operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Opening balance	<b>18,530</b>	28,627
Disposals during the year	<b>(8,530)</b>	-
Matured during the year	-	(10,097)
Closing balance	<b>10,000</b>	18,530

	<b>Shareholders' operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Opening balance	<b>18,449</b>	13,526
Purchased during the year	-	4,982
Disposals during the year	<b>(13,466)</b>	-
Amortization of held to maturity investments	-	(59)
Closing balance	<b>4,983</b>	18,449



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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****10. PREPAYMENT EXPENSES AND OTHER ASSETS**

	<b>Insurance operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Prepayments	2,115	1,294
Advances to staff	2,728	2,595
Deposits	300	-
Accrued commission	178	178
Other receivables	36,726	14,513
	<b>42,047</b>	<b>18,580</b>
	<b>Shareholders' operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Other receivables	185	186

(\*) As per the management declaration; the company that developed the accounting system had prepared the financial transactions in the SAP system with an automated CBC system, whereby all operations are processed automatically and closed through suspense accounts through the system immediately. The management was unable to determine the details of these transactions and the reason for their accumulation in the suspense accounts due to the lack of a complete ledger and detailed statements illustrating the details of these differences and the outstanding transactions. The management escalated the matter to the developing company and a meeting was held with its representative in the Kingdom of Saudi Arabia in order to provide the company's management with the details and reasons behind these system differences that led to the existence of these accumulated amounts in the system. The management believes that the financial statements were prepared on the assumption of continuity and resolving technical and programmatic matters during the second quarter of 2021, based on management's assessment.

**11. PROPERTY AND EQUIPMENT- NET**

	<b>Motor Vehicle</b>	<b>Furniture and fixtures</b>	<b>Computers &amp; Equipment</b>	<b>Total 2020</b>	<b>Total 2019</b>
	<b>SR'000</b>				
<b>Cost:</b>					
1 January	96	18,234	16,165	34,495	31,922
Additions	-	21	116	137	2,627
Disposals	-	-	-	-	(54)
31 December	96	18,255	16,281	34,632	34,495
<b>Accumulated Depreciation:</b>					
1 January	39	10,741	11,671	22,451	17,463
Charge for the year	19	2,354	2,658	5,031	5,042
Disposals	-	-	-	-	(54)
31 December	58	13,095	14,329	27,482	22,451
<b>Net book value</b>					
<b>31 December 2020</b>	<b>38</b>	<b>5,160</b>	<b>1,952</b>	<b>7,150</b>	-
31 December 2019	57	7,493	4,494	-	12,044

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****12. INTANGIBLE ASSETS – NET**

<b>Software and license</b>	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
<b>Cost:</b>		
1 January	<b>8,850</b>	8,015
Additions	<b>-</b>	835
31 December	<b>8,850</b>	8,850
<b>Accumulated Amortization:</b>		
1 January	<b>2,546</b>	858
Charge for the year	<b>1,765</b>	1,688
31 December	<b>4,311</b>	2,546
<b>Net book value:</b>		
<b>31 December 2020</b>	<b>4,539</b>	
31 December 2019		<b>6,304</b>

**13. LEASES****13.1 Right of use assets**

	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
1 January	<b>26,936</b>	31,601
Additions during the year	<b>1,438</b>	2,005
Depreciation charge for the year	<b>(4,454)</b>	(5,095)
Terminations	<b>(1,993)</b>	(1,575)
<b>Net book value at 31 December</b>	<b>21,927</b>	26,936

The depreciation expense was charged to the statement of income within general and administrative expenses.

**13.2 Lease liability**

The weighted average incremental borrowing rate applied to lease liabilities was 4.4%.

	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Less than one year	<b>-</b>	4,134
One year to five years	<b>2,320</b>	12,373
More than five year	<b>17,602</b>	7,196
<b>Total lease liability</b>	<b>19,922</b>	23,703

Total interest expense on lease liabilities for the year ended 31 December 2020 was SR 1,293 thousands (2019: SR 1,521 thousands).

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****14. TECHNICAL RESERVE****14.1 Net outstanding claims and reserves**

Net outstanding claims and reserves comprise of the following:

	2020	2019
	SR'000	
Gross outstanding claims	56,863	59,098
Less: Realizable value of salvage and subrogation	(29,109)	(20,145)
Net outstanding claims	27,754	38,953
Claims incurred but not reported	121,706	130,586
Premium deficiency reserve	-	9,782
Other technical reserves	3,096	6,259
	152,556	185,580
Less:		
- Reinsurers' share of outstanding claims	(20,910)	(8,745)
- Reinsurers' share of claims incurred but not reported	(11,782)	(12,273)
	(32,692)	(21,018)
Net outstanding claims and reserves	119,864	164,562

**14.2 Movement in unearned premiums**

Movement in unearned premiums comprise of the following:

	2020		
	Gross	Reinsurance	Net
	SR'000		
Balance as at the beginning of the year	229,678	(21,858)	207,820
Premium written during the year	427,623	(67,659)	359,964
Premium earned during the year	(438,999)	66,247	(372,752)
Balance as at the end of the year	218,302	(23,270)	195,032

	2019		
	Gross	Reinsurance	Net
	SR'000		
Balance as at the beginning of the year	287,093	(13,139)	273,954
Premium written during the year	503,504	(65,640)	437,864
Premium earned during the year	(560,919)	56,921	(503,998)
Balance as at the end of the year	229,678	(21,858)	207,820

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****15. STATUTORY DEPOSIT**

	<b>2020</b>	2019
	<b>SR'000</b>	
Statutory deposit	<b>37,500</b>	37,500

As required by Saudi Arabian Insurance Regulations, the Company has deposited an amount equivalent to 15% of its paid up capital amount of SR 37.5 million (2019: SR 37.5 million) in a bank designated by the Saudi Arabian Monetary Authority ("SAMA"). Accrued income on this deposit is payable to SAMA amounting to SR 3.7 million (2019: SR 3.3 million) and this deposit cannot be withdrawn without approval from SAMA. During 2019, the Company has deposited an additional 5% of its paid up capital equivalent to SA 12.5 million to reach to a total amount of SR 37.5 million.

**16. COMMITMENTS AND CONTINGENCIES**

a. The Company's commitments and contingencies are as follows:

	<b>2020</b>	2019
	<b>SR'000</b>	
Letters of guarantee in favour of non-government customers	<b>700</b>	700
Letters of guarantee in favour of GAZT	<b>9,500</b>	9,500
	<b>10,200</b>	10,200

b. The Company enters into insurance contracts 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 the pending and threatened legal proceedings, management does not believe that any such proceedings (including litigation) that are in progress at reporting date will have a material effect on its results and financial position, however management has made provisions to cover any eventualities. .

c. The Company's bankers have given guarantees to non-government customers amounting to SR 0.7 million (2019: SR 0.7 million) in respect of motor insurance and to General Authority of Zakat and Tax amounting to SR 9.5 million (2019: SR 9.5 million) in respect of zakat assessments for years 2008 to 2012.

**17. ACCRUD EXPENSES AND OTHER LIABILITIES**

	<b>2020</b>	2019
	<b>SR'000</b>	
Accrued expenses	<b>6,704</b>	11,319
Payables to brokers and agents	<b>11,298</b>	9,276
Other suppliers and payables	<b>12,363</b>	10,439
	<b>30,365</b>	31,034

**18. UNEARNED REINSURANCE COMMISSION**

	<b>2020</b>	2019
	<b>SR'000</b>	
Balance at the beginning of the year	<b>3,401</b>	2,543
Commission received during the year	<b>7,299</b>	6,811
Commission earned during the year	<b>(6,967)</b>	(5,953)
	<b>3,733</b>	3,401

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****19. OTHER TECHNICAL RESERVES**

	2020	2019
	SR'000	
Catastrophe reserve	-	1,004
Data deficiency reserve	3,096	3,662
Reinsurance accrual reserve	-	1,593
	<u>3,096</u>	<u>6,259</u>

**20. EMPLOYEE BENEFIT OBLIGATIONS**

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

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

	2020	2019
	SR'000	
Present value of defined benefit obligation	<u>9,701</u>	<u>9,688</u>

**20.2 Movement of defined benefit obligation**

	2020	2019
	SR'000	
Opening balance	9,688	8,941
Charge to statement of income	2,106	2,220
Charge to other comprehensive income	(748)	1,879
Payment of benefits during the year	<u>(1,345)</u>	<u>(3,352)</u>
Closing balance	<u>9,701</u>	<u>9,688</u>

**20.3 Reconciliation of present value of defined benefit obligation**

	2020	2019
	SR'000	
Opening balance	9,688	8,941
Current service costs	1,835	1,958
Financial costs	271	262
Actuarial (gain) / loss from experience adjustments	(748)	1,879
Benefits paid during the year	<u>(1,345)</u>	<u>(3,352)</u>
	<u>9,701</u>	<u>9,688</u>

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## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **20. EMPLOYEE BENEFIT OBLIGATIONS – (continued)**

#### **20.4 Principal actuarial assumptions**

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

	<b>2020</b>	2019
Valuation discount rate	<b>2.80%</b>	2.80%
Expected rate of increase in salary level across different age bands	<b>1.00%</b>	1.00%

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

	<b>2020</b>	2019
Valuation discount rate	<b>SAR'000</b>	SAR'000
- Increase by 1%	<b>(943)</b>	(587)
- Decrease by 1%	<b>1,120</b>	668
Expected rate of increase in salary level across different age bands		
- Increase by 1%	<b>1,183</b>	674
- Decrease by 1%	<b>(1,010)</b>	(603)

The average duration of the defined benefit plan obligation at the end of the reporting period is 11 years.

### **21. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction 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 statement.

#### **Determination of fair value and fair value hierarchy**

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

Level 1: quoted 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.



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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****21. FAIR VALUES OF FINANCIAL INSTRUMENTS – (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.

Insurance Operations				
	Level 1	Level 2	Level 3	Total
	SR'000			
31 December 2020				
Financial assets measured at fair value				
- Investments held as FVSI	31,661	-	71,360	103,021
	31,661	-	71,360	103,021

Certain prior year investment classified under level 2 were restated to level 3.

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****21. FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)****a. Carrying amounts and fair value – (continued)**

Shareholders' Operations	Level 1	Level 2	Level 3	Total
	SR'000			
<b>31 December 2020</b>				
<b>Financial assets measured at fair value</b>				
- Investments held as FVSI	23,201	-	25,746	48,947
	<u>23,201</u>	<u>-</u>	<u>25,746</u>	<u>48,947</u>
Shareholders' Operations	Level 1	Level 2	Level 3	Total
	SR'000			
<b>31 December 2019</b>				
<b>Financial assets measured at fair value</b>				
- Investments held as FVSI	19,496	-	34,066	53,562
	<u>19,496</u>	<u>-</u>	<u>34,066</u>	<u>53,562</u>

Certain prior year investment classified under level 2 were restated to level 3.

**22. OPERATING SEGMENTS**

Operating segments 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 is measured in a manner consistent with that in the income statement. Segment assets and liabilities comprise operating assets and liabilities.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2019.

**SALAMA COOPERATIVE INSURANCE COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****22. OPERATING SEGMENTS– (continued)**

Segment assets do not include cash and cash equivalents, short term deposits, net premiums and reinsurers' receivable, net, prepayments and other receivables, amount due from a related party, investments, furniture, fittings and office equipment. Accordingly, they are included in unallocated assets. Segment liabilities do not include policyholders' claims, reinsurance payables, accruals and other payables and employees' end of service indemnities. Accordingly, they are included in unallocated liabilities.

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

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 2020 and 31 December 2019, its total revenues, expenses, and net income for the year then ended, are as follows:

	As at 31 December 2020					
	Insurance operations			Insurance operations	Shareholders' operations	Total
	Medical	Motor	Others			
	SR'000					
<b>Assets</b>						
Reinsurers' share of unearned premiums	-	15,975	7,295	23,270	-	23,270
Reinsurers' share of outstanding claims	-	(1,526)	22,436	20,910	-	20,910
Reinsurers' share of claims Incurred but not reported	1,348	7,783	2,651	11,782	-	11,782
Deferred policy acquisition costs	5,003	14,120	1,897	21,020	-	21,020
Unallocated assets				425,790	208,560	634,350
<b>Total Assets</b>				<u>502,772</u>	<u>208,560</u>	<u>711,332</u>
<b>Liabilities</b>						
Unearned premiums	43,935	159,757	14,610	218,302	-	218,302
Unearned reinsurance commission	-	1,836	1,897	3,733	-	3,733
Outstanding claims	8,907	(11,167)	30,014	27,754	-	27,754
Claims incurred but not reported	18,058	100,402	3,246	121,706	-	121,706
Other technical reserves	270	2,370	456	3,096	-	3,096
Unallocated liabilities and surplus				95,696	34,799	130,495
<b>Total Liabilities</b>				<u>470,287</u>	<u>34,799</u>	<u>505,086</u>
<b>Shareholders' Equity</b>						
Share capital				-	250,000	250,000
Statutory reserve				-	5,003	5,003
Accumulated losses				-	(48,705)	(48,705)
<b>Total Shareholders' Equity</b>				<u>-</u>	<u>206,298</u>	<u>206,298</u>
Re-measurement reserve of defined benefit obligations – related to insurance operations				(52)	-	(52)
<b>Total Equity</b>				<u>(52)</u>	<u>206,298</u>	<u>206,246</u>
<b>Total Liabilities and Equity</b>				<u>470,235</u>	<u>241,097</u>	<u>711,332</u>

# SALAMA COOPERATIVE INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

### 22. OPERATING SEGMENTS – (continued)

	As at 31 December 2019					
	Insurance operations				Shareholders’ operations	
	Medical	Motor	Others	Insurance operations		Total
	SR’000					
<b>Assets</b>						
Reinsurers’ share of unearned premiums	-	16,103	5,755	21,858	-	21,858
Reinsurers’ share of outstanding claims	-	-	8,745	8,745	-	8,745
Reinsurers’ share of claims incurred but not reported	-	10,948	1,325	12,273	-	12,273
Deferred policy acquisition costs	3,234	4,602	1,197	9,033	-	9,033
Unallocated assets				479,643	218,076	697,719
<b>Total Assets</b>				<b>531,552</b>	<b>218,076</b>	<b>749,628</b>
<b>Liabilities</b>						
Unearned premiums	59,069	161,020	9,589	229,678	-	229,678
Unearned reinsurance commission	-	1,852	1,549	3,401	-	3,401
Outstanding claims	14,104	11,974	12,875	38,953	-	38,953
Claims incurred but not reported	18,306	110,180	2,100	130,586	-	130,586
Premium deficiency reserve	9,238	-	544	9,782	-	9,782
Other technical reserves	1,594	3,661	1,004	6,259	-	6,259
Unallocated liabilities and surplus				100,714	28,459	129,173
<b>Total Liabilities</b>				<b>519,373</b>	<b>28,459</b>	<b>547,832</b>
<b>Shareholders’ Equity</b>						
Share capital				-	250,000	250,000
Statutory reserve				-	5,003	5,003
Accumulated losses				-	(52,407)	(52,407)
Total Shareholders’ Equity				-	202,596	202,596
Re-measurement reserve of defined benefit obligations – related to insurance operations				(800)	-	(800)
<b>Total Equity</b>				<b>(800)</b>	<b>202,596</b>	<b>201,796</b>
<b>Total Liabilities and Equity</b>				<b>518,573</b>	<b>231,055</b>	<b>749,628</b>

# SALAMA COOPERATIVE INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

### 22. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2020			
	Medical	Motor	Others	Total
	SR'000			
<b>REVENUES</b>				
Individual	-	284,983	3,939	288,922
Large	17,339	7,077	4,877	29,293
Medium	10,178	9,757	8,047	27,982
Small	15,353	8,367	6,742	30,462
Very Small	46,492	3,711	761	50,964
Gross premiums written	89,362	313,895	24,366	427,623
Reinsurance premiums ceded				
- Local	-	(82)	(1,005)	(1,087)
- Foreign	-	(31,284)	(13,281)	(44,565)
	-	(31,366)	(14,286)	(45,652)
Excess of loss expenses				
- Local	(943)	(148)	(262)	(1,353)
- Foreign	(14,234)	(5,437)	(983)	(20,654)
	(15,177)	(5,585)	(1,245)	(22,007)
<b>Net premiums written</b>	74,185	276,944	8,835	359,964
Changes in unearned premiums, net	15,134	1,136	(3,482)	12,788
<b>Net premiums earned</b>	89,319	278,080	5,353	372,752
Reinsurance commissions	-	3,612	3,355	6,967
Other underwriting income	2,253	1,236	2,191	5,680
<b>TOTAL REVENUES</b>	91,572	282,928	10,899	385,399
<b>UNDERWRITING COSTS AND EXPENSES</b>				
Gross claims paid	97,386	248,488	1,414	347,288
Reinsurers' share of claims paid	(13,503)	(20,845)	(785)	(35,133)
<b>Net claims paid</b>	83,883	227,643	629	312,155
Changes in outstanding claims, net	(5,197)	(21,614)	3,447	(23,364)
Changes in claims incurred but not reported, net	(1,596)	(6,614)	(179)	(8,389)
<b>Net claims incurred</b>	77,090	199,415	3,897	280,402
Changes in premium deficiency reserves	(8,969)	(40)	(773)	(9,782)
Changes in other technical reserves	(1,594)	(1,251)	(318)	(3,163)
Policy acquisition costs	6,010	8,865	2,437	17,312
Other underwriting expenses	7,506	18,765	173	26,444
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	80,043	225,754	5,416	311,213
<b>NET UNDERWRITING INCOME</b>	11,529	57,174	5,483	74,186
<b>OTHER OPERATING (EXPENSES) / INCOME</b>				
Allowances for doubtful debts				(238)
General and administrative expenses				(82,734)
Investment income				2,077
Commission from held to maturity investments				2,098
Commission income from term deposit				8,087
Unrealized gain on investments				3,620
Other income				3,220
<b>TOTAL OTHER OPERATING EXPENSES</b>				(63,870)
<b>NET INCOME FOR THE YEAR BEFORE ZAKAT</b>				10,316
Zakat				(6,000)
<b>NET INCOME FOR THE YEAR</b>				4,316
Net Income for the year attributable to insurance operations				(614)
<b>Net Income for the year attributable to the shareholders</b>				3,702

# SALAMA COOPERATIVE INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

### 22. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2019			
	Medical	Motor	Others	Total
	SR'000			
<b>REVENUES</b>				
Individual	7,022	213,809	2,287	223,118
Large	52,958	42,567	4,086	99,611
Medium	12,628	78,031	7,537	98,196
Small	16,368	11,660	5,174	33,202
Very Small	34,280	14,279	818	49,377
Gross premiums written	123,256	360,346	19,902	503,504
Reinsurance premiums ceded				
- Local	-	-	(691)	(691)
- Foreign	-	(36,059)	(12,555)	(48,614)
	-	(36,059)	(13,246)	(49,305)
Excess of loss expenses				
- Local	-	(234)	(230)	(464)
- Foreign	(9,923)	(4,927)	(1,021)	(15,871)
	(9,923)	(5,161)	(1,251)	(16,335)
<b>Net premiums written</b>	113,333	319,126	5,405	437,864
Changes in unearned premiums, net	310	66,683	(859)	66,134
<b>Net premiums earned</b>	113,643	385,809	4,546	503,998
Reinsurance commissions	-	2,098	3,855	5,953
Other underwriting income	-	2,216	-	2,216
<b>TOTAL REVENUES</b>	113,643	390,123	8,401	512,167
<b>UNDERWRITING COSTS AND EXPENSES</b>				
Gross claims paid	131,629	366,306	3,385	501,320
Reinsurers' share of claims paid	(7,065)	(22,458)	(2,325)	(31,848)
<b>Net claims paid</b>	124,564	343,848	1,060	469,472
Changes in outstanding claims, net	(2,602)	(12,904)	660	(14,846)
Changes in claims incurred but not reported, net	7,908	(31,172)	154	(23,110)
<b>Net claims incurred</b>	129,870	299,772	1,874	431,516
Changes in premium deficiency reserves	4,155	-	544	4,699
Changes in other technical reserves	(799)	-	683	(116)
Policy acquisition costs	6,661	19,080	2,290	28,031
Other underwriting expenses	11,833	9,234	278	21,345
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	151,720	328,086	5,669	485,475
<b>NET UNDERWRITING (LOSS) INCOME</b>	(38,077)	62,037	2,732	26,692
<b>OTHER OPERATING EXPENSES (EXPENSES) / INCOME</b>				
Reversal of provision for doubtful debts				4,604
General and administrative expenses				(100,331)
Investment loss				(208)
Commission from term deposits				8,413
Commission from held to maturity investments				163
Unrealized gain on investments				4,951
Other income				1,601
<b>TOTAL OTHER OPERATING (EXPENSES) / INCOME</b>				(80,807)
<b>NET LOSS FOR THE YEAR BEFORE ZAKAT</b>				(54,115)
Zakat				(6,000)
<b>NET LOSS FOR THE YEAR</b>				(60,115)
<b>Net income for the year attributable to insurance operations</b>				-
<b>Net loss for the year attributable to the shareholders</b>				(60,115)



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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****23. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent major shareholders, directors and key management personnel [Key Management Personnel includes all directors, executive and non-executive, and senior management] 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.

	Nature of transactions	Amount of transactions	
		For the year ended 31 December	
		2020	2019
<u>Entities controlled, jointly controlled or significantly influenced by related parties</u>		<u>SR'000</u>	
Tajeer Co. (affiliate)	Premium written	-	38,772
Chairman of the Board	Premium written	-	233
Rusd Global Company	Premium written	-	90
Al Firdous Group Co.	Premium written	-	766
Jabal Edsas Est.	Rent paid	-	4,114
Tajeer International Co.	Services received	-	5,923
Concord Insurance and Reinsurance Brokerage	Insurance commission	-	3,561
Kwader Pro	Services received	-	77
Alawwal Capital Co.	Investments in DPM and mutual funds	-	(105,985)

\*As at 24 July 2019 certain due from related party balances have been reclassified from related party balances to premium's receivables due to the fact that the previous chairman of Salama Company has due from balances through the related companies as he holds the same post as a chairman in the mention related party companies. Accordingly, the balances as of 31 December were transferred and included within premiums receivable.

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

	2020	2019
	<u>SR'000</u>	
Salaries and other allowances	2,975	366
End of service indemnities	1,042	1,420
	<u>4,017</u>	<u>1,786</u>
Remuneration to those charged with governance – Board of Directors	18	186
Remuneration to those charged with governance – Board Committees	9	-
	<u>27</u>	<u>186</u>

**SALAMA COOPERATIVE INSURANCE COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****24. ZAKAT****a. Charge for the year**

The Zakat charge for the year is calculated based on the following:

	2020	2019
	SR'000	
Equity	202,595	262,711
Opening provision and adjustments	63,595	100,088
Net book value of long term assets	(232,772)	(93,740)
	33,418	269,059
Adjusted income for the year	10,637	(53,774)
Zakat base	44,055	215,285

**Movements in provision during the year**

	2020	2019
	SR'000	
Balance at the beginning of the year	25,131	19,761
Charge for the year	6,000	6,000
Paid during the year	-	(630)
Balance at the end of the year	31,131	25,131

**b. Status of zakat assessments**

The Company submitted the Zakat declarations for the year ended 31 December 2019 and obtained the necessary Zakat and tax certificate.

The GAZT has issued assessments for the years from 2006 to 2012 amounting to SR 17,1 million which represents SR 9,3 million as zakat differences and SR 4,4 million as withholding tax differences and SR 3,4 million as withholding fines. the company has settled the amount of withholding tax differences amounting to SR 4,4 million and partially settled the delay fines amounting to SR 3,1 million and accordingly issued a letter of guarantee amounting to SR 9,5 million on the favour of GAZT for the zakat differences for the said years. The case is currently pending with the General Secretariat of the tax committees and their conclusion is awaited.

A settlement request was submitted to GAZT to pay an amount of SR 3 million to close the case, but the Zakat disputes committee reached to a decision to settle an amount of SR 7,7 million to finalize the assessments for the said years. The GAZT has rejected the Zakat disputes committee's decision with the completion of the hearing of the case raised to the Appeal Committee. The management expects that the volume of zakat liability will reach to SR 4,2 million and based on the objection and the information submitted to GAZT and the committees.

The GAZT has issued an assessment for the year 2014, which has requested an additional Zakat liability amounting to SR 1,2 million. The assessment was objected, and the objection was rejected by GAZT. The case has been escalated to the Preliminary Committee of the Tax Committees and their decision is awaited. The management believes that the volume of zakat liability will reach to SR 1,2 million.

The GAZT raised an assessment for the years from 2015 to 2018, which has requested an additional Zakat liability amounting to SR 14,1 million, and withholding tax liability for the years from 2014 to 2018, amounting to SR 7 million. Subsequent to the year ended 31 December 2020, the Company has settled the withholding tax differences to get the benefits of governmental revised 1st phase amnesty period (full exemption of penalty). The management believes that the volume of zakat liability will reach to SR 14,7 million.

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****25. SURPLUS DISTRIBUTION PAYABLE**

	2020	2019
	SR'000	
Balance at the beginning of the year	14,535	14,535
Income attributed to the insurance operations	614	-
Closing balance	15,149	14,535

**26. SHARE CAPITAL**

The authorized and issued share capital of the Company is SR 250 million divided into 25 million ordinary shares of SR 10 each.

**27. 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 shares.

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

**28. GENERAL AND ADMINISTRATIVE EXPENSE**

	Insurance operations	
	2020	2019
	SR'000	
Employees' costs	47,667	58,154
Office rent	1,155	1,337
Financial charges	1,293	1,521
Information technology	4,632	6,002
Training and development	30	366
Depreciation and amortization (see note 11,12 & 13)	11,250	11,825
Travelling	353	719
Communication	2,456	2,342
Printing and stationary	331	1,168
Fee and subscriptions	139	228
Utilities	281	312
Repair and maintenance	548	1,006
Audit and professional fees	3,994	5,152
Marketing and advertisement	885	837
Others	5,905	8,424
	80,919	99,393

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****28. GENERAL AND ADMINISTRATIVE EXPENSE - (continued)**

	<b>Shareholders' Operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	
Board attendance fees (see note a below)	<b>135</b>	133
Committee expenses (see note b below)	<b>38</b>	434
Others	<b>1,642</b>	371
	<b>1,815</b>	938

- a) Board attendance fees represent allowances for attending board meetings and sub-committee meetings.
- b) Committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses.

**29. EARNINGS / (LOSS) PER SHARE**

Earnings / (Loss) per share for the year has been calculated by dividing the net income for the year attributable to the shareholders by the weighted average number of issued and outstanding shares for the year.

**30. SUPPLEMENTARY INFORMATION****a) Statement of financial position**

	<b>2020</b>			<b>2019</b>		
	<b>Insurance operations</b>	<b>Share-holders' operations</b>	<b>Total</b>	<b>Insurance operations</b>	<b>Share-holders' operations</b>	<b>Total</b>
	<b>SR '000</b>	<b>SR '000</b>		<b>SR '000</b>	<b>SR '000</b>	
<b>ASSETS</b>						
Cash and cash equivalents	47,892	111,354	159,246	26,834	2,927	29,761
Term deposits	148,318	-	148,318	258,282	100,201	358,483
Premiums and reinsurers' receivable – net	40,896	-	40,896	86,207	-	86,207
Reinsurers' share of unearned premiums	23,270	-	23,270	21,858	-	21,858
Reinsurers' share of outstanding claims	20,910	-	20,910	8,745	-	8,745
Reinsurers' share of claims incurred but not reported	11,782	-	11,782	12,273	-	12,273
Deferred policy acquisition costs	21,020	-	21,020	9,033	-	9,033
Investments	113,021	55,853	168,874	44,456	73,934	118,390
Prepaid expenses and other assets	42,047	185	42,232	18,580	186	18,766
Right of use assets – net	21,927	-	21,927	26,936	-	26,936
Property and equipment	7,150	-	7,150	12,044	-	12,044
Intangible assets	4,539	-	4,539	6,304	-	6,304
Statutory deposit	-	37,500	37,500	-	37,500	37,500
Accrued commission on statutory deposit	-	3,668	3,668	-	3,328	3,328
Due from insurance operations	-	32,537	32,537	-	12,979	12,979
	<b>502,772</b>	<b>241,097</b>	<b>743,869</b>	<b>531,552</b>	<b>231,055</b>	<b>762,607</b>
(Less): Inter-operations eliminations	-	(32,537)	(32,537)	-	(12,979)	(12,979)
<b>TOTAL ASSETS</b>	<b>502,772</b>	<b>208,560</b>	<b>711,332</b>	<b>531,552</b>	<b>218,076</b>	<b>749,628</b>

**SALAMA COOPERATIVE INSURANCE COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020**
**30. SUPPLEMENTARY INFORMATION – (continued)**
**a) Statement of financial position – (continued)**

	2020			2019		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SR '000			SR '000		
<b><u>LIABILITIES</u></b>						
Policyholders claims payable	13,522	-	13,522	13,943	-	13,943
Accrued and other liabilities	30,365	-	30,365	31,034	-	31,034
Lease liabilities	19,922	-	19,922	23,703	-	23,703
Reinsurers' balances payable	7,037	-	7,037	7,811	-	7,811
Unearned premiums	218,302	-	218,302	229,678	-	229,678
Unearned reinsurance commission	3,733	-	3,733	3,401	-	3,401
Outstanding claims	27,754	-	27,754	38,953	-	38,953
Claims incurred but not reported	121,706	-	121,706	130,586	-	130,586
Premium deficiency reserves	-	-	-	9,782	-	9,782
Other technical reserves	3,096	-	3,096	6,259	-	6,259
Employee benefits obligation	9,701	-	9,701	9,688	-	9,688
Surplus distribution payable	15,149	-	15,149	14,535	-	14,535
Provision for zakat	-	31,131	31,131	-	25,131	25,131
Accrued commission income payable to SAMA	-	3,668	3,668	-	3,328	3,328
Due to shareholders' operations	32,537	-	32,537	12,979	-	12,979
	<b>502,824</b>	<b>34,799</b>	<b>537,623</b>	<b>532,352</b>	<b>28,459</b>	<b>560,811</b>
(Less): Inter-operations eliminations	(32,537)	-	(32,537)	(12,979)	-	(12,979)
<b><u>TOTAL LIABILITIES</u></b>	<b>470,287</b>	<b>34,799</b>	<b>505,086</b>	<b>519,373</b>	<b>28,459</b>	<b>547,832</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>						
Share capital	-	250,000	250,000	-	250,000	250,000
Statutory reserve	-	5,003	5,003	-	5,003	5,003
Accumulated loss	-	(48,705)	(48,705)	-	(52,407)	(52,407)
<b><u>TOTAL SHAREHOLDERS' EQUITY</u></b>	<b>-</b>	<b>206,298</b>	<b>206,298</b>	<b>-</b>	<b>202,596</b>	<b>202,596</b>
Re-measurement reserve of defined benefit obligation – related to insurance operations	(52)	-	(52)	(800)	-	(800)
<b><u>TOTAL EQUITY</u></b>	<b>(52)</b>	<b>206,298</b>	<b>206,246</b>	<b>(800)</b>	<b>202,596</b>	<b>201,796</b>
<b><u>TOTAL LIABILITIES AND EQUITY</u></b>	<b>470,235</b>	<b>241,097</b>	<b>711,332</b>	<b>518,573</b>	<b>231,055</b>	<b>749,628</b>
COMMITMENTS AND CONTINGENCIES	<b>700</b>	<b>9,500</b>	<b>10,200</b>	<b>700</b>	<b>9,500</b>	<b>10,200</b>

# SALAMA COOPERATIVE INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

### 30. SUPPLEMENTARY INFORMATION – (continued)

#### b) Statement of income

	For the year ended 31 December					
	2020			2019		
	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
<b><u>REVENUES</u></b>						
Gross premiums written	427,623	-	427,623	503,504	-	503,504
	427,623	-	427,623	503,504	-	503,504
Reinsurance premiums ceded						
- Local	(1,087)	-	(1,087)	(691)	-	(691)
- Foreign	(44,565)	-	(44,565)	(48,614)	-	(48,614)
	(45,652)	-	(45,652)	(49,305)	-	(49,305)
Excess of loss expenses						
- Local	(1,353)	-	(1,353)	(464)	-	(464)
- Foreign	(20,654)	-	(20,654)	(15,871)	-	(15,871)
	(22,007)	-	(22,007)	(16,335)	-	(16,335)
<b>Net premiums written</b>	<b>359,964</b>	<b>-</b>	<b>359,964</b>	<b>437,864</b>	<b>-</b>	<b>437,864</b>
Changes in unearned premiums, net	12,788	-	12,788	66,134	-	66,134
<b>Net premiums earned</b>	<b>372,752</b>	<b>-</b>	<b>372,752</b>	<b>503,998</b>	<b>-</b>	<b>503,998</b>
Reinsurance commissions	6,967	-	6,967	5,953	-	5,953
Other underwriting income	5,680	-	5,680	2,216	-	2,216
<b><u>TOTAL REVENUES</u></b>	<b>385,399</b>	<b>-</b>	<b>385,399</b>	<b>512,167</b>	<b>-</b>	<b>512,167</b>
<b><u>UNDERWRITING COSTS AND EXPENSES</u></b>						
Gross claims paid	347,288	-	347,288	501,320	-	501,320
Reinsurers' share of claims paid	(35,133)	-	(35,133)	(31,848)	-	(31,848)
<b>Net claims paid</b>	<b>312,155</b>	<b>-</b>	<b>312,155</b>	<b>469,472</b>	<b>-</b>	<b>469,472</b>
Changes in outstanding claims, net	(23,364)	-	(23,364)	(14,846)	-	(14,846)
Changes in claims incurred but not reported, net	(8,389)	-	(8,389)	(23,110)	-	(23,110)
<b>Net claims incurred</b>	<b>280,402</b>	<b>-</b>	<b>280,402</b>	<b>431,516</b>	<b>-</b>	<b>431,516</b>
Change premium deficiency reserves	(9,782)	-	(9,782)	4,699	-	4,699
Change other technical reserves	(3,163)	-	(3,163)	(116)	-	(116)
Policy acquisition costs	17,312	-	17,312	28,031	-	28,031
Other underwriting expenses	26,444	-	26,444	21,345	-	21,345
<b><u>TOTAL UNDERWRITING COSTS AND EXPENSES</u></b>	<b>311,213</b>	<b>-</b>	<b>311,213</b>	<b>485,475</b>	<b>-</b>	<b>485,475</b>
<b>NET UNDERWRITING INCOME</b>	<b>74,186</b>	<b>-</b>	<b>74,186</b>	<b>26,692</b>	<b>-</b>	<b>26,692</b>



# SALAMA COOPERATIVE INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

### 30. SUPPLEMENTARY INFORMATION – (continued)

#### b) Statement of income – (continued)

	For the year ended 31 December					
	2020			2019		
	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
<b><u>OTHER OPERATING (EXPENSES)/INCOME</u></b>						
Allowance for doubtful debts / (reversal of provision for bad debts)	(238)	-	(238)	4,604	-	4,604
General and administrative expenses	(80,919)	(1,815)	(82,734)	(99,393)	(938)	(100,331)
Investment income/(loss)	1,710	367	2,077	1,047	(1,255)	(208)
Commission from held to maturity investments	2,098	-	2,098	163	-	163
Commission income from term deposit	6,271	1,816	8,087	5,444	2,969	8,413
Unrealized (loss) / gain on investments	(192)	3,812	3,620	(3,421)	8,372	4,951
Other income	3,220	-	3,220	1,601	-	1,601
<b><u>TOTAL OTHER OPERATING (EXPENSES)/ INCOME</u></b>	<b><u>(68,050)</u></b>	<b><u>4,180</u></b>	<b><u>(63,870)</u></b>	<b><u>(89,955)</u></b>	<b><u>9,148</u></b>	<b><u>(80,807)</u></b>
<b>NET INCOME / (LOSS) FOR THE YEAR BEFORE ZAKAT</b>	<b>6,136</b>	<b>4,180</b>	<b>10,316</b>	<b>(63,263)</b>	<b>9,148</b>	<b>(54,115)</b>
Zakat	-	(6,000)	(6,000)	-	(6,000)	(6,000)
<b>NET INCOME / (LOSS) FOR THE YEAR AFTER ZAKAT</b>	<b>6,136</b>	<b>(1,820)</b>	<b>4,316</b>	<b>(63,263)</b>	<b>3,148</b>	<b>(60,115)</b>
Transfer to shareholders	(5,522)	1,820	(3,702)	63,263	(3,148)	60,115
<b><u>NET RESULT FROM INSURANCE OPERATIONS</u></b>	<b><u>614</u></b>	<b><u>-</u></b>	<b><u>614</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Earnings / (Loss) per share (Expressed in SAR per share)</b>						
Weighted average number of shares outstanding (thousands shares)	-	25,000	25,000	-	25,000	25,000
Basic and diluted earnings / (loss) per share	-	0.15	0.15	-	(2.40)	(2.40)

**SALAMA COOPERATIVE INSURANCE COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****30. SUPPLEMENTARY INFORMATION – (continued)****c) Statement of comprehensive income**

	For the year ended 31 December					
	2020			2019		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Net income / (loss) for the year	614	3,702	4,316	-	(60,115)	(60,115)
<b>Other comprehensive income:</b>						
<b>Items that will not be reclassified to statement of income in subsequent periods</b>						
Actuarial (losses) / gains on defined benefit obligations	748	-	748	(1,879)	-	(1,879)
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>	<b>1,362</b>	<b>3,702</b>	<b>5,064</b>	<b>(1,879)</b>	<b>(60,115)</b>	<b>(61,994)</b>
Less: income attributed to the insurance operations			(614)			-
Net income / (loss) attributed to the shareholders			<b>4,450</b>			<b>(61,994)</b>

# SALAMA COOPERATIVE INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

### 30. SUPPLEMENTARY INFORMATION – (continued)

#### d) Statement of cash flows

For the year ended 31 December

	2020			2019		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Income / (Loss) before surplus and zakat	614	9,702	10,316	-	(54,115)	(54,115)
<b>Adjustments for non-cash items:</b>						
Depreciation of property and equipment	5,031	-	5,031	5,042	-	5,042
Amortization of intangible assets	1,765	-	1,765	1,688	-	1,688
Depreciation of right of use assets	4,454	-	4,454	5,095	-	5,095
Finance cost on lease liabilities	1,293	-	1,293	1,521	-	1,521
Amortization of held to maturity investments	-	-	-	-	59	59
Allowance for doubtful debts/ (reversal of provision for bad debts)	238	-	238	(4,604)	-	(4,604)
Unrealized gain on investments at FVTSI	192	(3,812)	(3,620)	3,421	(8,372)	(4,951)
Employee benefit obligations	2,106	-	2,106	2,220	-	2,220
	15,693	5,890	21,583	14,383	(62,428)	(48,045)
<b>Changes in operating assets and liabilities:</b>						
Premiums and reinsurers' receivable	45,073	-	45,073	73,841	-	73,841
Reinsurers' share of unearned premiums	(1,412)	-	(1,412)	(8,719)	-	(8,719)
Reinsurers' share of outstanding claims	(12,165)	-	(12,165)	4,571	-	4,571
Reinsurers' share of claims Incurred but not reported	491	-	491	(1,806)	-	(1,806)
Deferred policy acquisition costs	(11,987)	-	(11,987)	5,102	-	5,102
Prepaid expenses and other assets	(23,467)	1	(23,466)	5,704	(93)	5,611
Accrued commission from statutory deposit	-	(340)	(340)	-	(642)	(642)
Policyholders claims payables	(421)	-	(421)	6,360	-	6,360
Accrued expenses and other liabilities	(669)	-	(669)	(21,145)	-	(21,145)
Reinsurers' balances payable	(774)	-	(774)	1,264	-	1,264
Unearned premiums	(11,376)	-	(11,376)	(57,415)	-	(57,415)
Unearned reinsurance commission	332	-	332	858	-	858
Outstanding claims	(11,199)	-	(11,199)	(19,417)	-	(19,417)
Claims incurred but not reported	(8,880)	-	(8,880)	(21,304)	-	(21,304)
Premium deficiency reserves	(9,782)	-	(9,782)	4,699	-	4,699
Other technical reserve	(3,163)	-	(3,163)	(116)	-	(116)
Accrued commission income payable to SAMA	-	340	340	-	642	642
	(33,706)	5,891	(27,815)	(13,140)	(62,521)	(75,661)
Zakat paid	-	-	-	-	(630)	(630)
Employee benefits paid	(1,345)	-	(1,345)	(3,352)	-	(3,352)
<b>Net cash flows (used in) / from operating activities</b>	<b>(35,051)</b>	<b>5,891</b>	<b>(29,160)</b>	<b>(16,492)</b>	<b>(63,151)</b>	<b>(79,643)</b>

**SALAMA COOPERATIVE INSURANCE COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****30. SUPPLEMENTARY INFORMATION – (continued)****d) Statement of cash flows – (continued)**

	For the year ended 31 December					
	2020			2019		
	Insurance	Share-	Total	Insurance	Share-	Total
	operations	holders' operation		operations	holders' operations	
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of investments	(81,931)	-	(81,931)	(72,839)	(4,982)	(77,821)
Proceeds from sale of investments	4,644	8,427	13,071	83,434	44,211	127,645
Statutory deposit	-	-	-	-	(12,500)	(12,500)
Placement of term deposits	(147,000)	(100,000)	(247,000)	(205,000)	(200,000)	(405,000)
Proceeds from term deposits	256,964	200,201	457,165	191,896	200,179	392,075
Proceeds from held to maturity investments	8,530	13,466	21,996	10,097	-	10,097
Purchase of property and equipment	(137)	-	(137)	(2,627)	-	(2,627)
Purchase of intangible assets	-	-	-	(835)	-	(835)
<b>Net cash flows from investing activities</b>	<b>41,070</b>	<b>122,094</b>	<b>163,164</b>	<b>4,126</b>	<b>26,908</b>	<b>31,034</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
<b>Payment of lease liabilities</b>	<b>(4,519)</b>	<b>-</b>	<b>(4,519)</b>	<b>(9,849)</b>	<b>-</b>	<b>(9,849)</b>
Due to shareholders' operations	19,558	(19,558)	-	(32,743)	32,743	-
<b>Net cash flows (used in) / from financing activities</b>	<b>15,039</b>	<b>(19,558)</b>	<b>(4,519)</b>	<b>(42,592)</b>	<b>32,743</b>	<b>(9,849)</b>
Net change in cash and cash equivalents	21,058	108,427	129,485	(54,958)	(3,500)	(58,458)
Cash and cash equivalents, beginning of the year	26,834	2,927	29,761	81,792	6,427	88,219
<b>Cash and cash equivalents, end of the year</b>	<b>47,892</b>	<b>111,354</b>	<b>159,246</b>	<b>26,834</b>	<b>2,927</b>	<b>29,761</b>

**31. RISK MANAGEMENT**

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through strategic planning process.

**Risk management structure****Board of Directors**

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

**Audit committee**

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

# **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **31. RISK MANAGEMENT – (continued)**

#### **Risk management structure – (continued)**

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

#### **Insurance risk**

The risk under an insurance policy is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such policies is that the actual claims and benefit payments exceed the carrying amount of insurance reserves. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient resources are available to cover claims.

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

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

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

The insurance claim liabilities are sensitive to various assumptions mentioned in note 2.

#### **Frequency and amounts of claims**

The frequency and amounts of claims can be affected by several factors such as flood, environmental and economical, atmospheric disturbance and concentration of risk etc. The Company underwrites mainly motor and medical risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

#### **Geographical concentration of risks**

The Company's insurance risk exposure relating to contract holders is concentrated in Kingdom of Saudi Arabia.

The company monitors concentration of risk primarily by class of business. The major concentration lies in motor and medical line of business.

#### **Independent actuarial review of claims and claims reserves**

In further mitigation of the insurance risk, the Company utilises an independent actuary who performs periodical reviews of the Company's claims modelling and claims projections as well as verifying the closing position claims reserves are adequate.

#### **Key assumption**

The principal assumption underlying the estimates is the Company's estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods as far as applicable.

**SALAMA COOPERATIVE INSURANCE COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****31. RISK MANAGEMENT – (continued)****Insurance risk – (continued)****Sensitivities**

The company believes that claim liabilities under insurance contract (Gross outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions. Sensitivity of loss for the year before Zakat to change in claim liabilities and IBNR based on an increase / decrease of 10% in outstanding claim reserve and increase / decrease of 15 % in IBNR is given below for each business segment.

	<b>2020 SR'000</b>		<b>2019 SR'000</b>	
<u>Outstanding claim net of reinsurance</u>	<b>Effect of 10% increase</b>	<b>Effect of 10% decrease</b>	<b>Effect of 10% increase</b>	<b>Effect of 10% decrease</b>
Motor	<b>964</b>	<b>(964)</b>	(1,197)	1,197
Medical	<b>(890)</b>	<b>890</b>	(1,410)	1,410
Others	<b>(758)</b>	<b>758</b>	(413)	413
	<b>(684)</b>	<b>684</b>	(3,020)	3,020

	<b>2020 SR'000</b>		<b>2019 SR'000</b>	
<u>IBNR</u>	<b>Effect of 15% increase</b>	<b>Effect of 15% decrease</b>	<b>Effect of 15% increase</b>	<b>Effect of 15% decrease</b>
Motor	<b>(13,893)</b>	<b>13,893</b>	(14,885)	14,885
Medical	<b>(2,507)</b>	<b>2,507</b>	(2,746)	2,746
Others	<b>(89)</b>	<b>89</b>	(116)	116
	<b>(16,489)</b>	<b>16,489</b>	(17,747)	17,747

**Reinsurance risk**

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

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurers are selected using the following parameters and guidelines set by the Company's management. The criteria may be summarized as follows:

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

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

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



# **SALAMA COOPERATIVE INSURANCE COMPANY**

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## **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **31. RISK MANAGEMENT – (continued)**

#### **Regulatory framework risk**

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities.

The operations of the Company are also subject to regulatory requirements within the jurisdiction it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

#### **Capital management risk**

Capital requirements are set and regulated by the Saudi Central Bank. These requirements are put in place to ensure sufficient solvency margins. Further 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 shares, if required in future. In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

#### **Financial risk**

The Company's principal financial instruments are receivables arising from insurance contracts, due from related parties, cash and cash equivalents, term deposits, investments, other receivables, outstanding claims and policy holder claims, reinsurance payable and certain other assets and liabilities. The main risks arising from the Company's financial instruments are market risk, commission rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

##### **Market risk**

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

The Company is exposed to market risk with respect to its FVIS investments. Market risk is managed by investing in reputed funds which maintain investments in diversified portfolios and equity shares and by continuous monitoring of developments in equity markets. In addition, the key factors that affect stock market movements are monitored, including analysis of the operational and financial performance of investees. A 100 basis point increase / (decrease) in net asset value of these funds can impact statement of insurance operations and accumulated surplus by SR 1,030 thousand (2019: SR 259 thousand) and statement of shareholder operations by SR 489 thousand (2019: SR 536 thousand).

##### **Commission rate risk**

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

The Company is subject to commission rate fair value risk on its fixed rate Murabaha deposits classified as term deposits in the statement of financial position. The company does not account for fixed commission rate instrument as held for trading or as FVIS investment. Accordingly, there is no impact on the income or equity of reasonably possible change in commission rate.

**SALAMA COOPERATIVE INSURANCE COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****31. RISK MANAGEMENT – (continued)**

Commission rate risk– (continued)

The Company is required to maintain a restricted deposit in accordance with insurance regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk of other financial instruments by monitoring changes in commission rates in the currencies in which its financial instruments are denominated.

**Insurance Operations**

Details of maturities of the major classes of commission bearing securities for insurance operations as at 31 December 2020 and 2019 are as follows:

	2020 SR '000			
	Less than 1 year	1 to 5 years	over 5 years	Total
Investments held to maturity (note 9)	-	10,000	-	10,000
	-	10,000	-	10,000
2019 SR '000				
	Less than 1 year	1 to 5 Years	over 5 years	Total
Investments held to maturity (note 9)	8,530	10,000	-	18,530
	8,530	10,000	-	18,530

The maturities of deposits have been determined on the basis of the remaining period, at the reporting date, to the contractual maturity date.

The effective interest rates for the commission bearing financial instruments were as follows:

	2020	2019
Saudi Riyal denominated financial assets	1.75%	2.15%

The following table demonstrates the sensitivity of statement of insurance operations to reasonably possible changes in interest rates, with all other variables held constant.

	2020 SR'000	2019 SR'000
	Effect on profit	Effect on profit
Saudi Riyals:		
Increase in interest rates by 100 basis points	2,475	2,905
Decrease in interest rates by 100 basis points	(2,475)	(2,905)

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****31. RISK MANAGEMENT – (continued)****Financial risk – (continued)**

Commission rate risk – (continued)

Details of maturities of the major classes of commission bearing securities for shareholders' operations as at 31 December 2020 and 2019 are as follows:

**Shareholders Operations**

<b>2020</b>			
<b>SR '000</b>			
<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>
Investments held to maturity	-	4,983	-
	-	4,983	-
			<b>4,983</b>

<b>2019</b>			
<b>SR '000</b>			
<b>Less than 1 year</b>	<b>1 to 5 Years</b>	<b>over 5 years</b>	<b>Total</b>
Investments held to maturity	-	18,449	-
	-	18,449	-
			<b>18,449</b>

The maturities of deposits have been determined on the basis of the remaining period, at the reporting date, to the contractual maturity date. The effective interest rates for the commission bearing financial instruments were as follows:

	<b>2020</b>	<b>2019</b>
Foreign currency denominated financial assets	<b>1.41%</b>	1.64%

The following table demonstrates the sensitivity of statement of insurance operations to reasonably possible changes in commission rates, with all other variables held constant.

	<b>2020</b>	<b>2019</b>
	<b>SR'000</b>	<b>SR'000</b>
	<b>Effect on profit</b>	<b>Effect on profit</b>
Saudi Riyals:		
Increase in commission rates by 100 basis points	<b>918</b>	1,192
Decrease in commission rates by 100 basis points	<b>(918)</b>	(1,192)

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of losses due to exchange rate fluctuations as the insurance operations and shareholders' operations primarily deal in Saudi Riyals and in US Dollar which is pegged to Saudi Riyals.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. All of the Company's underwriting activities are carried out in Saudi Arabia. For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the reporting date.

**SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2020****31. RISK MANAGEMENT – (continued)****Credit risk – (continued)**

The Company seeks to limit its credit risk with respect to customers by following the credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the overdue premiums receivable. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

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

	2020	2019
	SR' 000	
<b>Insurance' Operations</b>		
Cash and cash equivalents	47,892	26,834
Term deposits	148,318	258,282
Premiums receivable, net	38,900	83,320
Held to maturity investments	10,000	18,530
Reinsurance receivables, net	1,996	2,887
Other receivables	42,047	18,580
Reinsurers' share of outstanding claims including IBNR	32,692	21,018
	<b>321,845</b>	<b>429,451</b>
	2020	2019
	SR' 000	
<b>Shareholders' Operations</b>		
Cash and cash equivalents	111,354	2,927
Term deposit	-	100,201
Other receivables	185	186
Held to maturity investments	4,983	18,449
	<b>116,522</b>	<b>121,763</b>

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

All of the Company's financial assets and financial liabilities are expected to be realised and settled, respectively within 12 months from the reporting date, except for statutory deposit, which has no term (see note 15), and held to maturity assets, which are expected to be held until their maturities as mentioned in commission rate risk disclosure above. All financial liabilities are non-interest bearing.

The table below summarizes the maturity profile of the financial assets and liabilities of the Company based on remaining expected obligations. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized liabilities. Repayments that are subject to notice are treated as if notice were to be given immediately.

# SALAMA COOPERATIVE INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

### 31. RISK MANAGEMENT – (continued)

#### Liquidity risk (continued)

	As of 31 December 2020			As of 31 December 2019		
	SR' 000			SR' 000		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
<b>Assets- Insurance operations</b>						
Cash and cash equivalents	47,892	-	47,892	26,834	-	26,834
Term deposits	148,318	-	148,318	258,282	-	258,282
Premium and reinsures receivable - net	40,896	-	40,896	86,207	-	86,207
Reinsurers' share of unearned premiums	23,270	-	23,270	21,858	-	21,858
Reinsurers' share of outstanding claims	20,910	-	20,910	8,745	-	8,745
Reinsurers' share of IBNR	11,782	-	11,782	12,273	-	12,273
Investments	31,661	81,360	113,021	25,926	18,530	44,456
	<b>324,729</b>	<b>81,360</b>	<b>406,089</b>	<b>440,125</b>	<b>18,530</b>	<b>458,655</b>
	As of 31 December 2020			As of 31 December 2019		
	SR' 000			SR' 000		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
<b>Liabilities- Insurance operations</b>						
Policy holder claims payable	13,522	-	13,522	13,943	-	13,943
Reinsurers' balance payable	7,037	-	7,037	7,811	-	7,811
Other payables	23,661	-	23,661	19,715	-	19,715
Gross outstanding claims	27,754	-	27,754	38,953	-	38,953
Claims incurred but not reported	121,706	-	121,706	130,586	-	130,586
Premium deficiency reserve	-	-	-	9,782	-	9,782
Other technical reserves	3,096	-	3,096	6,259	-	6,259
Surplus distribution payable	15,149	-	15,149	14,535	-	14,535
<b><u>TOTAL LIABILITIES AND SURPLUS</u></b>	<b>211,925</b>	<b>-</b>	<b>211,925</b>	<b>241,584</b>	<b>-</b>	<b>241,584</b>
	As of 31 December 2020			As of 31 December 2019		
	SR' 000			SR' 000		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
<b>Assets- Shareholders operations</b>						
Cash and cash equivalents	111,354	-	111,354	2,927	-	2,927
Investments	23,201	32,652	55,853	20,847	53,087	73,934
Statutory deposit	-	37,500	37,500	-	37,500	37,500
Accrued income on statutory deposit	-	3,668	3,668	-	3,328	3,328
<b>TOTAL ASSETS</b>	<b>134,555</b>	<b>73,820</b>	<b>208,375</b>	<b>23,774</b>	<b>93,915</b>	<b>117,689</b>
	As of 31 December 2020			As of 31 December 2019		
	SR' 000			SR' 000		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
<b>Liabilities- Shareholders operations</b>						
Accrued commission income payable to SAMA	3,668	-	3,668	3,328	-	3,328
<b><u>TOTAL LIABILITIES AND SURPLUS</u></b>	<b>3,668</b>	<b>-</b>	<b>3,668</b>	<b>3,328</b>	<b>-</b>	<b>3,328</b>

## **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

### **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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#### **32. AMALGAMATION OF SHAREHOLDERS AND INSURANCE OPERATIONS**

Certain of the comparative figures have been reclassified and regrouped to conform to the in the current year presentation. These changes as summarized below, were mainly to conform with the SAMA requirements:

- As discussed in note 2 to these financial statements, previously statement of financial position, statement of income, and statement of cash flows were presented separately for insurance operations and shareholders operations which are combined together to present one Company level statement of financial position, statement of income and statement of cash flows.
- The amounts “due to / from” shareholders and insurance operations which previously reported separately in the respective statement of financial position, are now eliminated (refer note 30 (a)).
- Share of insurance operations surplus split in the ratio of 90/10 between shareholders and insurance operations and presented separately is now presented as an expense in statement of income (refer note 30 (b)).

#### **33. IMPACT OF COVID-19**

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

In response to the spread of the Covid-19 virus in the Kingdom of Saudi Arabia where the Company operates and its consequential disruption to the social and economic activities in the Saudi Arabia market, 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; and
- the continuity of its business throughout the Kingdom is protected and kept intact.

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

#### **Medical technical reserves**

Based on the management’s assessment, the management believes that the Government’s decision to assume the medical treatment costs for both Saudi citizens and expatriates has helped in reducing any unfavorable impact. During the lockdown, the Company saw a decline in medical reported claims (majorly elective and non-chronic treatment claims) which resulted in a drop in claims experience.

#### **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.

## **SALAMA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

### **NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 DECEMBER 2020**

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#### **33. IMPACT OF COVID-19 – (continued)**

For new retail motor policies issued as per above circular, the premium is earned over the period of 12 months as the impact of earnings over the period of coverage. i.e 14 month are not considered significant by the management for the year ended December 31, 2020.

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, 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.

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

#### **34. COMPARATIVE FIGURES AND PRIOR YEARS ADJUSTEMENTS**

During the year, management identified certain adjustments required to prior years financial statements and restated them accordingly. The details are provided below:

- Certain short term deposits of SR 102.9 million at 31 December 2019 (2018: SR 104 million) previously classified as held-to-maturity investments were reclassified to the term deposits line item.
- Investment in a managed fund of SR 8.3 million at 31 December 2019 (2018: SR 21.96 million) that was previously classified as held-to-maturity investment was reclassified to FVSI investments.

The above adjustments did not have a significant impact on the comparative statement of income and statement of changes in equity.

- In addition, certain of the prior year figures in the statement of financial position, statement of income and statement of cash flows have been reclassified to conform to current year presentation.

#### **35. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 18 Sha'aban 1442H, corresponding to 31 March 2021.