

**ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)**

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

**ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Allied Cooperative Insurance Group (ACIG)
(A Saudi Joint Stock Company)

Opinion

We have audited the financial statements of Allied Cooperative Insurance Group (ACIG), (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statements of income, other comprehensive income, changes in equity and cash flows for the year then ended and the summary of significant accounting policies and other explanatory information.

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

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") as 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, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. 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 the matter below, a description of how our audit addressed the matter is provided in that context:

**Crowe**

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

**Ibrahim Ahmed Al-Bassam & Co**

Certified Public Accountants - Al-Bassam & Co.
Member firm of PKF International

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of Allied Cooperative Insurance Group (ACIG)
(A Saudi Joint Stock Company)

Key Audit Matters (Continued)

Key Audit Matter

Valuation of ultimate claim liabilities arising from insurance contracts

As at 31 December 2019, outstanding claims, claims incurred but not reported (IBNR), additional premium reserves and other technical reserves amounted to Saudi Riyals 34 million, Saudi Riyals 61.8 million, Saudi Riyals 2.3 million and Saudi Riyals 1.7 million respectively as reported in Note 9 to the financial statements.

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.

In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of actuarial methods are used by the actuary to determine these technical reserves. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

We considered this as a key audit matter since use of management assumptions and judgements could result in material overstatement / understatement of the Company's profitability.

The Company's disclosures about the significant accounting policies of the above mentioned key audit matter are included in Note 3 to the financial statements.

How our audit addressed the key audit matter

We understood and evaluated key controls around the claims handling and technical reserve setting processes of the Company including completeness and accuracy of claims data used in the actuarial reserving process.

We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences

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 accounting records.

In order to assess management's methodologies and assumptions, we were assisted by our actuary specialist to understand and evaluate the Company's actuarial practices and the technical reserves established. In order to obtain comfort over the Company's actuarial report, our actuarial specialist performed the following:

- Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods.
- Assessed key actuarial assumptions including claims historical experience, ratios and expected frequency and severity of claims. We assessed these assumptions by comparing them with our expectations based on the Company's current trends and our own industry knowledge.
- Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

**To the Shareholders of Allied Cooperative Insurance Group (ACIG)
(A Saudi Joint Stock Company)**

Other information included in the Company's 2019 Annual Report

Management is responsible for the other information in the Company's annual report. Other information consists of the information included in the Company's 2019 annual report, other than the financial statements and our auditors' report thereon, which 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 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 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

In preparing the financial statements, the Management 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 the Management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing "ISAs" as 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of Allied Cooperative Insurance Group (ACIG)
(A Saudi Joint Stock Company)

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

As part of an audit in accordance with International Standards on Auditing ("ISAs") as 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.
- Conclude on the appropriateness of the Managements' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of Allied Cooperative Insurance Group (ACIG)
(A Saudi Joint Stock Company)

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

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

Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountants
P. O. Box 10504
Riyadh 11443
Kingdom of Saudi Arabia

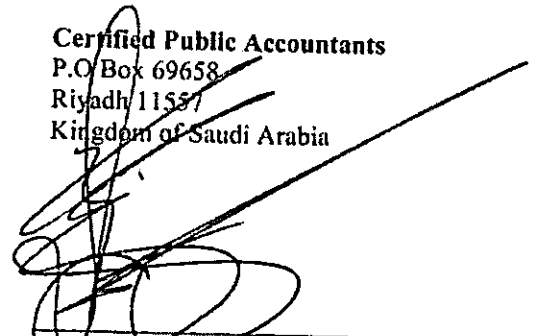


Abdullah M. AlAzem
Certified Public Accountant
License No. 335

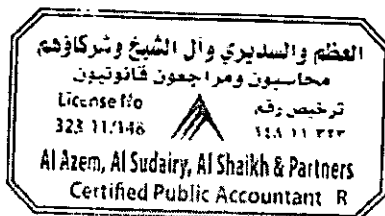
23 March 2020
28 Rajab 1441

For Al-Bassam & Co.

Certified Public Accountants
P.O. Box 69658
Riyadh 11557
Kingdom of Saudi Arabia



Ibrahim A. Al-Bassam
Certified Public Accountant
License No. 337



ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	Notes	31 December 2019 SR' 000	31 December 2018 SR' 000
ASSETS			
Cash and cash equivalents			
Term deposits	5	77,479	93,495
Premiums and reinsurers' receivable – net	6	194,583	187,239
Reinsurers' share of unearned premiums	7	88,140	93,978
Reinsurers' share of outstanding claims	9.2	21,323	22,738
Reinsurers' share of claims incurred but not reported	9.1	9,718	10,543
Deferred policy acquisition cost	9.1	6,597	6,004
Due from a related party	9.3	14,157	12,050
Property and equipment, net		1,760	2,391
Intangible assets	10	3,598	5,445
Right of use asset –net	11	5,008	4,564
Available-for-sale investments	11(a)	7,227	-
Prepayments and other receivables	8	51,106	57,734
Accrued commission on statutory deposit		50,481	34,649
Statutory deposit		1,653	1,386
TOTAL ASSETS	15	<u>30,000</u>	<u>20,000</u>
		<u>562,830</u>	<u>552,216</u>
LIABILITIES			
Policyholders claim payable			
Accrued and other payables		1,506	8,741
Reinsurances' balances payable	13	10,345	17,302
Unearned commission income		16,470	11,505
Unearned premiums		1,339	1,266
Premium deficiency reserve	9.2	254,360	252,007
Other technical reserve	9.1	2,308	2,020
Outstanding claims	9.1	1,716	1,796
Claims incurred but not reported	9.1	34,024	42,419
Employees' terminal benefits	9.1	61,887	55,769
Lease liabilities	14	12,011	9,789
Surplus distribution payable	11(b)	7,122	-
Zakat and income tax	14	5,982	5,457
Accrued commission on statutory deposit payable to SAMA	21	8,479	5,111
TOTAL LIABILITIES		<u>1,653</u>	<u>1,386</u>
		<u>419,202</u>	<u>414,568</u>
SHAREHOLDERS' EQUITY			
Share capital			
Accumulated losses	22	200,000	200,000
Fair value reserve on investments		(59,514)	(61,233)
Re measurement reserve of employees' terminal benefits		3,973	(759)
TOTAL SHAREHOLDERS' EQUITY		<u>(831)</u>	<u>(360)</u>
		<u>143,628</u>	<u>137,648</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>562,830</u>	<u>552,216</u>
COMMITMENTS AND CONTINGENCIES	12	<u>2,998</u>	<u>2,941</u>

The accompanying notes 1 to 30 form an integral part of these financial statements.

ALLIED COOPERATIVE INSURANCE COMPANY (ACIG)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	31 December 2019	31 December 2018 (Restated)
		SR' 000	SR' 000
REVENUES			
Gross premiums written			
Less: Reinsurance premium ceded		529,352	500,013
- Local			
- Foreign		(4,486)	(4,315)
		(49,716)	(35,127)
		(54,202)	(39,442)
Less: Excess of loss premiums			
- Local			
- Foreign		(1,713)	(2,349)
		(2,570)	(2,210)
		(4,283)	(4,559)
Net premiums written		470,867	456,012
Changes in unearned premiums, net		(3,768)	(18,991)
Net premiums earned		467,099	437,021
Reinsurance commission earned		3,751	2,175
Other underwriting income		2,251	11,109
Net revenues		473,101	450,305
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid		399,682	346,972
Less: Reinsurers' share of claims paid		(36,330)	(37,211)
Net claims paid		363,352	309,761
Changes in outstanding claims, net		(7,569)	7,634
Changes in claims incurred but not reported, net		5,525	5,680
Changes in loss adjustment expenses		(80)	1,796
Net claims incurred		361,228	324,871
Change in other technical reserves		-	(60)
Change in premium deficiency reserve		288	2,020
Policy acquisition costs		25,288	29,621
Other underwriting expenses		5,949	2,868
Total underwriting cost and expenses		392,753	359,320
Net underwriting income		80,348	90,985
OTHER OPERATING (EXPENSE) / INCOME			
Release of/(allowance for) doubtful debts		227	(7,499)
General and administrative expenses	25	(82,197)	(81,254)
Commission income on deposits		6,174	5,016
Realized gain on available for sale investments		3,063	2,137
Impairment on available for sale investments		-	(6,189)
Other income		25	11
TOTAL OTHER OPERATING (EXPENSES) / INCOME		(72,708)	(87,778)
Total income for the year before zakat		7,640	3,207
Zakat Charge for the year		(5,396)	(5,764)
Total income / (loss) for the year after zakat		2,244	(2,557)
Surplus attributed to the insurance operations		(525)	(849)
Total income / (loss) for the year attributable to the shareholders		1,719	(3,406)
Earnings / (loss) per share (Expressed in SAR per share)			
Basic / diluted earnings/ (loss) per share	23	0.08	(0.17)

The accompanying notes 1 to 30 form an integral part of these financial statements.

Dr. Amr

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ALLIED COOPERATIVE INSURANCE COMPANY (ACIG)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	31 December 2019 SR' 000	31 December 2018 (Restated) SR' 000
Total income/(loss) for the year			
Other comprehensive income / (loss)		2,244	(2,557)
<i>Items that will not be reclassified to statement of income in subsequent years</i>			
-Actuarial gains losses on employees' terminal benefits		(471)	(360)
<i>Items that are or may be reclassified to statements of income in subsequent years</i>			
- Available for sale investments:			
- Impairment on available-for-sale investment		-	6,189
- Net change in fair value		4,732	(2,709)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,505	563
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE INSURANCE OPERATIONS		(54)	(489)
TOTAL COMPREHENSIVE INCOME /(Loss) ATTRIBUTABLE TO THE SHAREHOLDERS		6,451	74

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The accompanying notes 1 to 30 form an integral part of these financial statements.

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

2019	Notes	Share capital	Accumulated losses	Fair value reserve on investments	Re measurement reserve of defined benefit obligation	Total Equity
		SR'000	SR'000	SR'000	SR'000	SR'000
Balance at the beginning of the year		200,000	(61,233)	(759)	(360)	137,648
Comprehensive income/ (loss) for the year:						
Total income for the year attributable to the shareholders		-	1,719	-	-	1,719
Actuarial losses on employees' terminal benefits		-	-	-	(471)	(471)
Changes in fair values of available for sale investments		-	-	4,732	-	4,732
Balance at the end of the year		200,000	(59,514)	3,973	(831)	143,628
2018	Notes	Share capital	Accumulated losses	Fair value reserve on investments	Re measurement reserve of defined benefit obligation	Total Equity
		SR'000	SR'000	SR'000	SR'000	SR'000
Balance at the beginning of the year		200,000	(57,827)	(4,239)	-	137,934
Comprehensive income/ (loss) for the year:						
Total loss for the year attributable to the shareholders		-	(3,406)	-	-	(3,406)
Actuarial losses on employees' terminal benefits		-	-	-	(360)	(360)
Changes in fair values of available for sale investments		-	-	(2,709)	-	(2,709)
Impairment on available for sale investments		-	-	6,189	-	6,189
Balance at the end of the year		200,000	(61,233)	(759)	(360)	137,648

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The accompanying notes 1 to 30 form an integral part of these financial statements.

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	31 December 2019	31 December 2018 (Restated)
	SR' 000	SR' 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Total income for the year	7,640	3,207
<i>Adjustments for non-cash items:</i>		
Depreciation of property and equipment	2,226	1,867
Amortization of intangible assets	914	707
Net realized gain on available-for-sale investments	(2,355)	(2,137)
Reversal of / allowance for doubtful debts	(227)	7,499
Impairment on available for sale investments	-	6,189
Provision for employees' terminal benefits	2,268	1,719
<i>Changes in operating assets and liabilities:</i>		
Premiums and reinsurers' receivable	6,065	(14,552)
Reinsurers' share of unearned premiums	1,415	6,738
Reinsurers' share of outstanding claims	825	5,031
Reinsurers' share of claims incurred but not reported	(593)	595
Deferred policy acquisition costs	(2,107)	3,286
Due from related party	631	(144)
Prepayments and other receivables	(15,832)	4,108
Policyholders claim payables	(7,235)	6,224
Reinsurers' balances payable	4,965	(12,226)
Unearned commission income	73	446
Unearned premiums	2,353	12,253
Outstanding claims	(8,395)	4,994
Claims incurred but not reported	6,118	5,086
Other technical reserves	208	3,756
Accrued and other payables	(6,956)	(3,396)
Increase in Lease Liabilities	7,122	-
Right of use assets	(7,227)	-
Employees' terminal benefits paid	(8,104)	41,250
Zakat and income tax paid	(517)	(577)
Net cash generated from operating activities	(2,029)	(2,781)
	(10,650)	37,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions in property and equipment	(379)	(3,769)
Additions in intangible assets	(1,358)	(1,406)
Proceed from sale of property and equipment	-	2
Purchase of available-for-sale investments	(10,218)	(19,738)
Proceed from sale of available for sale investment	23,933	5,155
Placement of short term deposit	-	185,000
Purchase of term deposits	(7,344)	(187,239)
Purchase of statutory deposit	(10,000)	-
Net cash used in investing activities	(5,366)	(21,995)
Net change in cash and cash equivalents	(16,016)	15,897
Cash and cash equivalents, beginning of the year	93,495	77,598
Cash and cash equivalents, end of the year	77,479	93,495
NON-CASH INFORMATION		
Change in fair value of available-for-sale investments	4,732	(2,709)
Actuarial loss on defined benefit obligation	(471)	(360)

The accompanying notes 1 to 30 form an integral part of these financial statements.

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ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Allied Cooperative Insurance Group ("the Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030171999 dated 9 Shabaan 1428H, corresponding to 22 August 2007.

The activities of the Company are to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. On 4 April 2009, the Company received a license from the Saudi Arabian Monetary Authority ("SAMA") to engage in insurance in Saudi Arabia. The Company commenced its commercial operations on 1 July 2009. The Company was listed on the Saudi Stock Exchange (Tadawul) on 27 August 2007.

There are 3 registered branches as set out below:

Branch	Commercial Registration Number	Place of issuance	Date
Branch of ACIG	2051043671	Al Khobar	12 Ramadan 1439 H
Branch of ACIG	5855035150	Khamis Mushayt	12 Ramadan 1439 H
Branch of ACIG	4030204059	Jeddah	12 Ramadan 1439 H

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB").

SAMA instructed the Insurance Companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The accounting policies used in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2018, except for the change in the accounting for zakat and income tax as explained below:

Change in the accounting for zakat and income tax:

As mentioned above, the basis of preparation has been changed for the period ended 30 June 2019 onwards as a result of the issuance of latest instructions from SAMA. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA, the zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2018 by SR 5.76 million. The change has had no impact on the statement of cash flows for the year ended 31 December 2018.

**ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. BASIS OF PREPARATION-(Continued)

(a) Statement of compliance-(Continued)

Change in the accounting for zakat and income tax-(continued)

Financial statement impact	Account	Before the restatement for the year ended December 31, 2018	Effect of restatement	As restated as at and for the year ended December 31, 2018
Statement of changes in equity	Accrued zakat and income tax	5,764	(5,764)	-
Statement of income	Zakat charge for the period	-	5,764	5,764
Statement of income	Earnings per share	0.12	(0.29)	(0.17)

These financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of available-for-sale investments. The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as current: cash and cash equivalents, short term deposits, premiums and reinsurers' receivable - net, reinsurers' share of unearned premium, reinsurers' share of outstanding claims, reinsurers' share of claims incurred but not reported, deferred policy acquisitions cost, due from related parties, prepaid expenses and other assets, policyholders claim payable, accrued and other liabilities, unearned premiums, unearned reinsurance commission, outstanding claims, claims incurred but not reported, other technical reserves, surplus distribution payable and zakat and income tax. The following balances would generally be classified as non-current: end-of-service indemnities, investments, statutory deposit, accrued income on statutory deposit and property and equipment.

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

The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders' operations which are presented in Note 26 of the financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations. Accordingly, the statements of financial position, statements of income, 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.

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

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

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

2. BASIS OF PREPARATION-(Continued)

(a) Statement of compliance-(Continued)

As per the by-laws of the Company, surplus arising from the Insurance Operations is distributed as follows:

Transfer to Shareholders' operations	90%
Transfer to Policyholders' operations	10%
	<u>100%</u>

In case of deficit, the whole deficit will be transferred to Shareholders' operations.

(c) 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.

(d) Fiscal year

The Company follows a fiscal year ending December 31.

(e) Significant accounting estimates and judgements

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

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.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on quarterly basis.

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

**ALLIED COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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2. BASIS OF PREPARATION-(Continued)

(e) Significant accounting estimates and judgements-(Continued)

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. .

Impairment losses on receivables

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms.

Deferred policy acquisition costs

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs (DAC) and are amortized in the statement of insurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus.

Premium deficiency reserve

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

Fair value of financial instruments

The fair value for financial instruments traded in active markets at the reporting date are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed 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.

Going concern

The Company's management has made an assessment of its 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.

**ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

2. BASIS OF PREPARATION-(Continued)

(e) Significant accounting estimates and judgements-(Continued)

Useful lives of property and equipment and intangible assets

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

Employees defined benefit obligations

The employees' defined benefits obligation is determined by an independent actuary using the projected unit credit method as recommended in IAS 19 "Employee benefits". The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using interest rates of sovereign debt instruments that are denominated in Saudi Riyals and have maturity periods approximating that of the gratuity liability.

The present value of the defined benefit obligation depends on several factors that are determined by the actuary using assumptions such as discount rate, expected future salary increases, mortality rates and staff turnover etc. These estimates are subject to significant uncertainty due to their long-term nature and are reviewed at each reporting date.

Provision for zakat

Zakat provision is made and recorded at the end of each fiscal year in accordance with General Authority of Zakat and Tax (GAZT) regulations applicable in the Kingdom of Saudi Arabia. Differences in zakat assessments are recorded in the income statement when final zakat assessments are obtained.

Deferred tax

Deferred tax asset is recognised only to the extent that it is probable that the future taxable profits will be available and credits can be utilized. Deferred tax asset has not been provided in these financial statements for the year ended 31 December 2019 since the Company does not anticipate availability of future taxable profit to utilize any tax credits. The amount of deferred tax asset as at 31 December 2019 is estimated to be Nil (31 December 2018:Nil)

Reinsurance

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

3. CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS

The accounting policies and risk management policy used in the preparation of the financial statement are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2018, except as explained below:

Standards issued and effective

<u>Standard/ Interpretation</u>	<u>Description</u>	<u>Effective date</u>
IFRS 16	Leases	1 January 2019

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3. CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS - (continued)

Standards issued and effective - (continued)

IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. On 1 January 2019 i.e. the effective date, IFRS 16 had no significant financial impact on the Company's financial statements. IFRS 16 stipulates that all lease and the associated contractual rights and obligations should generally be recognized in the Company's statement of financial position, unless the term is 12 months or less or the lease is for low value assets.

IFRS 16 'Leases' introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for lessees. For each lease, the lessee recognizes a liability for the lease obligation incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs, which is amortized over the useful life.

i) Right of use (RoU) Assets / Lease Liabilities

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

• **Right of Use Assets**

The Company applies the cost model, and measures the right of use assets at cost:

- a) Less any accumulated depreciation and any accumulated impairment losses; and
- b) Adjusted for any re-measurement of the lease liability for lease modifications.

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

• **Lease Liability**

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. After the commencement date, the Company measures the lease liability by:

- a) Increasing the carrying amount to reflect incremental financing rate on the lease liability;
- b) Reducing the carrying amount to reflect the lease payments made; and
- c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

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3. CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS - (continued)

Standards issued and effective - (continued)

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

The following is the lease liability recognised at 1 January 2019:

	SR '000'
Total lease liabilities recognised under IFRS 16 at 1 January 2019	9,985

Standards and amendments published but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they are effective.

<u>Standard/ Interpretation</u>	<u>Description</u>	<u>Effective from periods beginning on or after the following date</u>
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to IAS 1 & IAS 8	Definition of material	1 January 2020
IFRS 9	Financial Instruments	Refer below
IFRS 17	Insurance Contracts (note below)	Refer below

IFRS 17 – Insurance Contracts

Overview

This standard has been published on 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:

- Embedded derivatives, if they meet certain specified criteria;
- Distinct investment components; and
- 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:

**ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
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3. CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS - (continued)

Standards and amendments published but not yet effective - (continued)

IFRS 17 – Insurance Contracts - (continued)

Measurement – (continues)

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;

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, the CSM is also adjusted for in addition to adjustment under general model;

- changes in the entity’s share of the fair value of underlying items,
- changes in the effect of the time value of money and 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 the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period for each contract in the group is one year or less. With the PAA, the liability for remaining coverage corresponds to premiums received at initial recognition less insurance acquisition cash flows. The general model remains applicable for the measurement of incurred claims. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid/received in one year or less from the date the claims are incurred.

Effective date

The IASB issued an Exposure Draft Amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting. The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4, is currently 1 January 2023.

ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

3. CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS - (continued)

Standards and amendments published but not yet effective - (continued)

IFRS 17 – Insurance Contracts - (continued)

Under the current exposure draft, it is proposed to amend the IFRS 17 effective date to reporting periods beginning on or after 1 January 2022. This is a deferral of 1 year compared to the previous date of 1 January 2021. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intend 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.

Impact

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

Impact Area	Summary of Impact
Financial Impact	The Financial Impact Analysis is currently in process in accordance with the instructions from the Regulator
Data Impact	IFRS 17 has additional data requirements and Company has majority of data available and currently is in the process of building data warehouse to accommodate any extra data requirements and consolidate the data in one place coming from its various IT systems..
IT Systems	The company has recently changed its IT system which gives its in house IT management more control. Further changes would need to be made in the IT system to make it compatible with IFRS 17 particular on the financial reporting side.
Process Impact	Process Impact will be determined as part of the Operational Impact Analysis which is currently ongoing in accordance with the instructions of the Regulator. Majority of the company's business is expected to fall under Premium Allocation Approach for which the process impact is believed to be moderate.
Impact on RI Arrangements	RI Arrangements are currently being reviewed as part of the Financial and Operational Impact Analysis. The impact is believed to be moderate.
Impact on Policies & Control Frameworks	The company in due course plans to update its policies and procedures to be compatible with IFRS 17.

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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The Company has started with their implementation process and have set up an implementation committee.

**ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

3. CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS - (continued)

Standards and amendments published but not yet effective - (continued)

IFRS 9 – Financial Instruments

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

a) Classification and measurement:

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost, fair value through other comprehensive income or 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 would be recycled through profit or loss upon sale, if both conditions are met:

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

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

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

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

b) Impairment:

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

c) Hedge accounting:

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

**ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

3. CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS - (continued)

Standards and amendments published but not yet effective - (continued)

IFRS 9 – Financial Instruments - (continued)

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
- b. annual reporting periods beginning on or after 1 January 2021. The IASB is proposing to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to 1 January 2023. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously;

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

The Company has performed a detailed assessment beginning 1 January 2017: (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.

As at 31 December 2019, the Company has total financial assets and insurance related assets amounting to SR 495.25 million and SR 51.79 million, respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SR 433.27 million (2018: SR 433.13 million). Other financial assets consist of available for sale investments amounting to SR 51.1 million (2018: SR 57.7 million). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 25. The Company financial assets have low credit risk as at 31 December 2019 and 2018. 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.

ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

4. SIGNIFICANT ACCOUNTING POLICIES

Insurance contracts

Insurance contracts are defined as those containing insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance of existence of insurance risk. This insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

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 year.

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

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft 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 and accidents resulting in the total or partial loss of cargoes.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover). For property insurance contracts, the main risks are fire, 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. In Saudi Arabia, it is compulsory for all vehicles to have minimum third party cover. The Company also issues comprehensive motor policies. Such motor policies cover damages to vehicles due to storm, tempest, flood, fire, theft and personal accident.

Accident insurance includes money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability 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, roads, 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 electronic equipment insurance.

Medical insurance is designed to compensate 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.

**ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

4. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Insurance contracts - (continued)

Claim and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

Reinsurance

In the ordinary course of business, the Company cedes insurance premiums and risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' statement of financial position representing premiums due to reinsurers, net of commission income which represents income earned from reinsurance companies, or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties.

The Company assesses its reinsurance assets, if any, for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the impairment loss in the statement of insurance operations and accumulated surplus. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for insurance and other receivables. The impairment loss is also calculated following the same method used for these financial assets.

Impairment and un-collectability of financial assets

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

Evidence of impairment may include:

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

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

4. SIGNIFICANT ACCOUNTING POLICIES - (continued)

Reinsurance - (continued)

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 prolonged 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.

Impairment and un-collectability of financial assets – (continued)

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.

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

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

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

Impairment of non-financial assets

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

**ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

4. SIGNIFICANT ACCOUNTING POLICIES - (continued)

Impairment of non-financial assets - (continued)

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).

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.

Investments

All investments are initially recognised at cost, being the fair value consideration given including acquisition charges associated with the investment. Financial assets are initially recognised at fair values plus, in the case of all financial assets not carried at fair value through income statement, transaction costs that are directly attributable to their acquisition.

Fair values of 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.

a) FVIS Investments

Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investments classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the statement of shareholders' operations and statement of insurance operations and accumulated surplus.

b) 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."

**ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

4. SIGNIFICANT ACCOUNTING POLICIES - (continued)

Investments - (continued)

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 amortised cost and the maturity amount is also amortised 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.

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.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, cash at banks and short term deposits with an original maturity of less than three months at the date of acquisition.

Property and equipment

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

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

4. SIGNIFICANT ACCOUNTING POLICIES - (continued)

Property and equipment - (continued)

	Years
Motor vehicles	4
Furniture, fittings and office equipment	7
Computers	4
Leasehold improvements	7

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of insurance operations and accumulated surplus.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of shareholders' operations as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

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.

Intangible assets

Computer software 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 computer software with a limited useful life using straight-line method over the following periods:

	Years
IT development and software	4

Provisions for obligations

Provisions are recognized when the Company has a legal or constructive obligation 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.

Trade and other payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Liabilities are recognized for amounts to be paid for services received, whether or not billed to the Company

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement of such transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are included in the statement of income.

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the 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 initially by writing off related deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

**ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

4. SIGNIFICANT ACCOUNTING POLICIES - (continued)

Liability adequacy test - (continued)

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Insurance and other receivables

Insurance and other receivable are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income. An allowance 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 their original terms. Subsequent recoveries, of amounts previously written off are credited in the statement of insurance operations and accumulated surplus. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.

End-of-service benefits

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

Revenue recognition

Recognition of premiums and commission revenue

Gross premiums and commissions on insurance contracts are recognized when the insurance policy is issued. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents last three months of the premiums written during the current financial period.

Premiums and commission income, which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:

- Last three month of premiums for marine cargo business
- Predefined calculation for engineering line of business for risks undertaken that extend beyond a single year.
- Actual number of days for other lines of business

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 recognized over the period of risk.

Commission income

Commission income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable.

**ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

4. SIGNIFICANT ACCOUNTING POLICIES - (continued)

Dividend income

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

Investment income

Investment income on debt instruments classified under available for sale investments and term deposits are accounted for on an effective interest basis.

Claims

Gross claims consist of benefits and claims paid to policyholders, changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses net of salvage recoveries.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, 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 experience is maintained for the cost of settling claims

incurred but not reported (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date.

Any difference between the provisions at the statement of financial position date and settlements and provisions in the following period is included in the statement of income for that year.

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

Salvage and subrogation reimbursements

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

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvaged vehicles or property acquired are recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the vehicle or property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

De-recognition of financial instruments

The de-recognition 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 the ownership.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized 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.

**ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

4. SIGNIFICANT ACCOUNTING POLICIES - (continued)

Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of income within operating expenses on a straight-line basis over the period of the lease.

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 level for which there are separately identifiable cash flows (cash-generating units).

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 or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders' share of net adjusted income for the year. Zakat and income tax is accrued on a quarterly basis. Effective January 1, 2018, based on the Circular issued by SAMA, the

Company amended its accounting policy to charge zakat and tax directly into retained earnings in the statement of changes in equity instead of statement of income.

Unearned commission income

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

Fair values of financial instruments

Financial instruments comprise cash and cash equivalents, premiums receivable, reinsurance receivables, investments, outstanding claims, reinsurance payables and certain other assets and liabilities.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or based on the expected discounted cash flows.

The fair values of financial assets and liabilities are not materially different from their carrying values at the reporting date.

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 instrument (i.e., without modification or repackaging);

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.

ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

4. SIGNIFICANT ACCOUNTING POLICIES - (continued)

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.

Premium deficiency reserve

The Company carries out an analysis of loss/combined ratios for the expired period. Such ratios are being calculated by taking into account the relevant incurred but not reported provision and then used for the determination of premium deficiency reserve for each class of business.

Segmental reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incurs expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organized into business units based on their products and services and has three reportable operating segments as follows:

- Motor Insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Medical insurance, which covers medical costs, medicines, and all other medical services and supplies. General accident, which covers miscellaneous accident classes of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity.
- Other classes, which covers any other classes of insurance not included above.

Shareholders' income is a non-operating segment. Income earned from short term deposits, time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations is allocated to this segment on an appropriate basis.

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

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

**ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

5. CASH AND CASH EQUIVALENTS

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

	2019	2018
	SR'000	SR'000
<i>Insurance operations</i>		
Bank balances and cash	65,320	83,409
<i>Shareholders' operations</i>		
Bank balances and cash	12,159	10,086
Total cash and cash equivalents	77,479	93,495

6. TERM DEPOSITS

	2019	2018
	SR'000	SR'000
<i>Insurance Operations</i>		
Term deposits	138,920	138,256
<i>Shareholders' Operations</i>		
Term deposits	55,663	48,983

The term deposits are held with the commercial banks. These term deposits are denominated in Saudi Arabian Riyals and have been an original maturity of more than three months and less than twelve months. The carrying amounts of these term deposits reasonably approximate their fair values at the reporting date.

7. PREMIUMS AND REINSURERS' RECEIVABLE - NET

Receivables comprise amounts due from the following:

	2019	2018
	SR'000	SR'000
Due from policyholders	74,438	75,050
Due from policyholders – related parties	2,248	3,752
Due from Brokers and agents	19,548	22,590
Receivables from reinsurers	4,984	5,891
	101,218	107,283
Provision for doubtful debts	(13,078)	(13,305)
Premiums and reinsurers' receivable – net	88,140	93,978

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

	2019	2018
	SR'000	SR'000
Balance at the beginning of the year	13,305	5,806
Provision for the year	-	7,499
Reversal for the year	(227)	-
Write-offs	-	-
Balance at the end of the year	13,078	13,305

ALLIED COOPERATIVE INSURANCE COMPANY
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FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

7. PREMIUMS AND REINSURERS' RECEIVABLE - NET - (continued)

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

	<u>Total</u>	<u>Neither past due nor impaired</u>	<u>Past due but not impaired</u>			<u>Past due and impaired</u>	
			<u>Less than 30 days</u>	<u>31 - 90 days</u>	<u>91 - 180 days</u>	<u>181 - 360 days</u>	<u>More than 360 days</u>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Premium and reinsurance receivables, net							
-Due from policyholders	74,438	-	41,540	3,043	20,863	6,206	2,786
-Due from policyholders – related parties	2,248	-	10	3	5	142	2,088
-Due from Brokers and agents	19,548	-	10,380	2,642	1,272	3,786	1,468
-Receivables from reinsurers	4,984	-	-	4,984	-	-	-
-Provision for doubtful debts	(13,078)	-	-	-	(5,789)	(2,533)	(4,756)
2019	88,140	-	51,930	10,672	16,351	7,601	1,586

	<u>Total</u>	<u>Neither past due nor impaired</u>	<u>Past due but not impaired</u>			<u>Past due and impaired</u>	
			<u>Less than 30 days</u>	<u>31 - 90 days</u>	<u>91 - 180 days</u>	<u>181 - 360 days</u>	<u>More than 360 days</u>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Premium and reinsurance receivables, net							
-Due from policyholders	75,050	-	42,396	3,181	11,192	15,414	2,867
-Due from policyholders – related parties	3,752	-	2,930	83	86	312	341
-Due from Brokers and agents	22,590	-	5,380	3,061	5,231	7,832	1,086
-Receivables from reinsurers	5,891	-	841	5,050	-	-	-
-Provision for doubtful debts	(13,305)	-	-	-	(2,476)	(7,608)	(3,221)
2018	93,978	-	51,547	11,375	14,033	15,950	1,073

The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

The five largest customers accounts for 15% (31 December 2018: 14%) of the premiums receivable as at 31 December 2019.

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8. INVESTMENTS

i) Shareholders' operations

Investments of the insurance operations comprise the following:

	2019 SR'000	2018 SR'000
Available for sale "AFS"	<u>51,106</u>	<u>57,734</u>

a) Investment securities are classified as follows:

i) Available-for-sale investments

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	2019 SAR' 000	2018 SAR' 000	2019 SAR' 000	2018 SAR' 000	2019 SAR' 000	2018 SAR' 000
Investment in sukuk	25,000	25,000	-	-	25,000	25,000
Quoted securities	11,256	15,755	-	4,957	11,256	20,712
Unquoted securities	1,923	1,923	-	-	1,923	1,923
Units in quoted local real estate fund	12,927	10,099	-	-	12,927	10,099
Available for sale	51,106	52,777	-	4,957	51,106	57,734

Movements in available for sale investments are as follows:

	Investment in sukuk SR'000	Quoted securities SR'000	Unquoted Securities SR'000	Units in quoted local real estate fund SR'000	Total SR'000
As at 1 January 2019	25,000	20,712	1,923	10,099	57,734
Purchases	-	10,218	-	-	10,218
Disposals	-	(21,578)	-	-	(21,578)
Changes in fair value of investments	-	1,904	-	2,828	4,732
As at 31 December 2019	25,000	11,256	1,923	12,927	51,106

	Investment in sukuk SR'000	Quoted securities SR'000	Unquoted Securities SR'000	Units in quoted local real estate fund SR'000	Total SR'000
As of 1 January 2018	25,000	16,800	1,923	-	43,723
Purchases	-	9,746	-	9,992	19,738
Disposals	-	(3,018)	-	-	(3,018)
Changes in fair value of investments	-	(2,816)	-	107	(2,709)
As at 31 December 2018	25,000	20,712	1,923	10,099	57,734

ALLIED COOPERATIVE INSURANCE COMPANY
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FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

9. TECHNICAL RESERVES (INSURANCE OPERATIONS)

9.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	2019 SR'000	2018 SR'000
Claims payable to policyholders		
Gross outstanding claims	34,024	42,419
	<u>34,024</u>	<u>42,419</u>
Claims incurred but not reported	61,887	55,769
Additional premium reserves	2,308	2,020
Other technical reserves	1,716	1,796
	<u>99,935</u>	<u>102,004</u>
Less:		
- Reinsurers' share of outstanding claims	(9,718)	(10,543)
- Reinsurers' share of claims Incurred but not reported	(6,597)	(6,004)
	<u>(16,315)</u>	<u>(16,547)</u>
Net outstanding claims and reserves	<u>83,620</u>	<u>85,457</u>

9.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	For the year ended 31 December 2019		
	Gross SR'000	Reinsurance SR'000	Net SR'000
Balance as at the beginning of the year	252,007	(22,738)	229,269
Premium written during the year	529,352	(58,485)	470,867
Premium earned during the year	(526,999)	59,900	(467,099)
Balance as at the end of the year	<u>254,360</u>	<u>(21,323)</u>	<u>233,037</u>

	For the year ended 31 December 2018		
	Gross SR'000	Reinsurance SR'000	Net SR'000
Balance as at the beginning of the year	239,754	(29,476)	210,278
Premium written during the year	500,013	(44,001)	456,012
Premium earned during the year	(487,760)	50,739	(437,021)
Balance as at the end of the year	<u>252,007</u>	<u>(22,738)</u>	<u>229,269</u>

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9. TECHNICAL RESERVES (INSURANCE OPERATIONS) – (continued)

9.3 Movement in deferred policy acquisition costs

	For the year ended 31 December 2019		
	Gross	Reinsurance	Net
	SR'000	SR'000	SR'000
Balance, January 1	12,050	-	12,050
Incurred during the year	25,288	-	25,288
Amortized during the year	(23,181)	-	(23,181)
Balance, December 31	14,157	-	14,157

	For the year ended 31 December 2018		
	Gross	Reinsurance	Net
	SR'000	SR'000	SR'000
Balance, January 1	15,336	-	15,336
Incurred during the year	29,621	-	29,621
Amortized during the year	(32,907)	-	(32,907)
Balance, December 31	12,050	-	12,050

10. PROPERTY AND EQUIPMENT, NET

	Motor Vehicles	Furniture, fittings and office equipment	Computer Equipment	Leasehold improvements	Total 2019	Total 2018
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Cost:						
January 1	116	7,178	6,253	5,455	19,002	15,372
Additions	-	103	240	36	379	3,769
Disposals	-	-	-	-	-	(2)
December 31	116	7,281	6,493	5,491	19,381	19,139
Accumulated depreciation:						
January 1	112	6,330	4,173	2,942	13,557	11,827
Charge for the year	2	171	274	1,772	2,219	1,867
Additions	-	1	6	-	7	-
December 31	114	6,502	4,453	4,714	15,783	13,694
Net book value						
December 31, 2019	2	779	2,040	777	3,598	-
December 31, 2018	5	586	666	4,188	-	5,445

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11. INTANGIBLE ASSETS

	<u>Software</u>	<u>Total</u>	<u>Total</u>
		2019	2018
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Cost:			
January 1	8,091	8,091	6,685
Additions	1,358	1,358	1,406
Disposals	-	-	-
December 31	<u>9,449</u>	<u>9,449</u>	<u>8,091</u>
Accumulated amortization			
January 1	3,527	3,527	2,820
Amortization charge	914	914	707
Disposals	-	-	-
December 31	<u>4,441</u>	<u>4,441</u>	<u>3,527</u>
Net book value			
December 31, 2019	<u>5,008</u>	<u>5,008</u>	<u>-</u>
December 31, 2018	<u>4,564</u>	<u>-</u>	<u>4,564</u>

11 (A). RIGHT OF USE ASSETS, NET

	<u>Building</u>	<u>Total</u>	<u>Total</u>
		2019	2018
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Cost:			
Impact of adoption of IFRS 16	9,985	9,985	-
December 31	<u>9,985</u>	<u>9,985</u>	<u>-</u>
Accumulated amortization			
January 1	-	-	-
Charge for the period	2,758	2,758	-
December 31	<u>2,758</u>	<u>2,758</u>	<u>-</u>
Net book value			
December 31, 2019	<u>7,227</u>	<u>7,227</u>	<u>-</u>
December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>

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11 (B). LEASE LIABILITIES

	Building	Total	Total
	SR'000	2019	2018
		SR'000	SR'000
Liability			
Impact of adoption of IFRS 16	9,985	9,985	-
Finance cost	321	321	-
At end of the year	10,306	10,306	-
Payments			
At beginning of the year	-	-	-
Paid during the year	3,184	3,184	-
At end of the year	7,122	7,122	-
Balance at the end of the year			

Lease liability is break into maturity wise as follows:

Less than one year	1,280	1,280	-
One to five years	5,842	5,842	-
Lease liabilities – net	7,122	7,122	-

12. COMMITMENTS AND CONTINGENCIES

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

	2019	2018
	SR'000	SR'000
Letters of guarantee	2,998	2,941

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2019	2018
	SR'000	SR'000
Accrued expenses	1,561	3,198
Other payable	5,675	4,391
Brokers payable	2,922	6,769
VAT payable	187	1,130
Others	-	1,814
	10,345	17,302

14. SURPLUS DISTRIBUTION PAYABLE

	2019	2018
	SR'000	SR'000
Opening surplus distribution payable as at January 1	5,457	4,608
Total income attributed to the insurance operations during the year	525	849
Surplus paid to policy holders	-	-
Closing surplus distribution payable as at December 31	5,982	5,457

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15. STATUTORY DEPOSIT

	2019	2018
	SR'000	SR'000
<i>Shareholders' operations</i>		
Statutory deposit	<u>30,000</u>	<u>20,000</u>

As required by Saudi Arabian Insurance Regulations, the Company deposited 15% (December 31, 2018: 10%) of its paid up capital, amounting to SR 30 million (December 31, 2018: 20 million) in a bank designated by the Saudi Arabian Monetary Authority (SAMA). During the year, the additional increase of statutory deposit amounting to SR 10 Million was made as per SAMA's instruction number 8223/89 to raise statutory capital up to 15% of its paid capital. The Company cannot withdraw this deposit without SAMA's approval.

16. EMPLOYEE END OF SERVICE BENEFITS

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

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

	2019	2018
	SR'000	SR'000
Present value of defined benefit obligation	<u>12,011</u>	<u>9,789</u>

16.2 Movement of defined benefit obligation

	2019	2018
	SR'000	SR'000
Opening balance	9,789	8,287
Charge to statement of income	2,268	1,719
Charge to statement of other comprehensive income	471	360
Payment of benefits during the year	(517)	(577)
Closing balance	<u>12,011</u>	<u>9,789</u>

16.3 Reconciliation of present value of defined benefit obligation

	2019	2018
	SR'000	SR'000
Present value of defined benefit obligation as at January 1	9,789	8,287
Current service costs	1,840	1,404
Financial costs	428	315
Actuarial (loss)/ gain from experience adjustments	471	360
Benefits paid during the year	(517)	(577)
Present value of defined benefit obligation as at December 31	<u>12,011</u>	<u>9,789</u>

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16. EMPLOYEE END OF SERVICE BENEFITS – (continued)

16.4 Principal actuarial assumptions

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

	2019	2018
Valuation discount rate	3.2%	4.50%
Expected rate of increase in salary level across different age bands	1.40%	2.5%

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

	2019	2018
	SR'000	SR'000
Valuation discount rate		
- Increase by 1%	10,696	9,121
- Decrease by 1%	13,442	10,554
Expected rate of increase in salary level across different age bands		
- Increase by 1%	13,521	10,616
- Decrease by 1%	10,611	9,147
Mortality rate		
- 1 year Mortality age set back	11,963	9,786
- 1 year Mortality age set forward	11,913	9,792
Withdrawal turnover		
- Increase by 10%	11,948	9,778
- Decrease by 10%	11,932	9,794

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17. CLAIMS DEVELOPMENT TABLE

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the periods beginning from year 2013 and earlier onwards whose claim experience has not been fully developed.

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

Claims development table gross of reinsurance:

2019

Accident year or Underwriting year	2013 & Earlier	2014	2015	2016	2017	2018	2019	Total
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Estimate of ultimate claims cost gross of reinsurance:								
At the end of accident year	156,406	141,498	287,332	351,010	267,868	331,435	387,920	1,923,469
One year later	180,014	157,746	317,234	328,798	266,333	325,348	-	1,575,473
Two years later	185,650	159,743	311,082	325,167	264,489	-	-	1,246,131
Three years later	189,466	155,957	317,782	325,018	-	-	-	988,223
Four years later	194,238	155,498	316,809	-	-	-	-	666,545
Five years later	196,493	107,477	-	-	-	-	-	303,970
Six years later	177,847	-	-	-	-	-	-	177,847
Current estimate of cumulative claims	177,847	107,477	316,809	325,018	264,489	325,348	387,920	1,904,908
Cumulative payments to date	(176,488)	(107,219)	(315,178)	(322,419)	(260,754)	(314,240)	(312,698)	(1,808,996)
Liability recognized in statement of financial position	1,359	258	1,631	2,599	3,735	11,108	75,222	95,912
Salvage and subrogation	-	-	2	26	-	71	7,626	7,725
Premium deficiency reserve	-	-	-	-	-	2,020	288	2,308
Outstanding Claims and Reserves	1,226	85	1,042	1,677	1,275	3,509	25,210	34,024

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17. CLAIMS DEVELOPMENT TABLE - (continued)

2018

Accident year or Underwriting year	2013 & earlier SR'000	2014 SR'000	2015 SR'000	2016 SR'000	2017 SR'000	2018 SR'000	Total SR'000
Estimate of ultimate claims cost gross of reinsurance:							
At the end of accident year	156,406	141,498	287,332	351,010	267,868	331,435	1,535,549
One year later	180,014	157,746	317,234	328,798	266,333	-	1,250,124
Two years later	185,650	159,743	311,082	325,167	-	-	981,643
Three years later	189,466	155,957	317,782	-	-	-	663,205
Four years later	194,238	155,498	-	-	-	-	349,736
Five years later	196,493	-	-	-	-	-	196,493
Current estimate of cumulative claims	196,493	155,498	317,782	325,167	266,333	331,435	1,592,708
Cumulative payments to date	(193,217)	(154,344)	(314,048)	(318,974)	(255,926)	(258,011)	(1,494,520)
Liability recognized in statement of financial position	3,276	1,154	3,734	6,193	10,407	73,424	98,188
Salvage and subrogation	-	-	(11)	31	159	3	182
Premium deficiency reserve	-	-	-	-	-	2,020	2,020
Outstanding claims and reserves	3,186	954	2,221	2,949	4,797	28,312	42,419

Claims development table net of reinsurance:

2019

Accident year or Underwriting year	2013 & Earlier SR'000	2014 SR'000	2015 SR'000	2016 SR'000	2017 SR'000	2018 SR'000	2019 SR'000	Total SR'000
Estimate of ultimate claims cost gross of reinsurance:								
At the end of accident year	151,745	135,778	263,384	296,603	234,163	296,948	354,195	1,732,816
One year later	173,726	148,040	290,006	292,520	234,837	290,702	-	1,429,831
Two years later	178,299	147,709	287,832	293,618	233,135	-	-	1,140,593
Three years later	180,944	145,718	290,677	292,725	-	-	-	910,064
Four years later	184,913	144,897	289,958	-	-	-	-	619,768
Five years later	187,184	100,829	-	-	-	-	-	288,013
Six years later	168,515	-	-	-	-	-	-	168,515
Current estimate of cumulative claims	168,515	100,829	289,958	292,725	233,135	290,702	354,195	1,730,059
Cumulative payments to date	(167,897)	(102,153)	(288,867)	(291,076)	(229,543)	(279,708)	(291,219)	(1,650,463)
Liability recognized in statement of financial position	618	(1,324)	1,091	1,649	3,592	10,994	62,976	79,596
Salvage and subrogation	-	-	2	26	-	71	7,626	7,725
Premium deficiency reserve	-	-	-	-	-	2,020	288	2,308
Outstanding Claims and Reserves	489	(1,496)	502	727	1,131	3,477	19,476	24,306

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17. CLAIMS DEVELOPMENT TABLE - (continued)

2018

Accident year or Underwriting year	2013 & Prior SR'000	2014 SR'000	2015 SR'000	2016 SR'000	2017 SR'000	2018 SR'000	Total SR'000
Estimate of ultimate claims cost net of reinsurance:							
At the end of accident year	151,745	135,778	263,384	296,603	234,163	296,948	1,378,621
One year later	173,726	148,040	290,006	292,520	234,837	-	1,139,129
Two years later	178,299	147,709	287,832	293,618	-	-	907,458
Three years later	180,944	145,718	290,677	-	-	-	617,339
Four years later	184,913	144,897	-	-	-	-	329,810
Five years later	187,184	-	-	-	-	-	187,184
Current estimate of cumulative claims	187,184	144,897	290,677	293,618	234,837	296,948	1,448,161
Cumulative payments to date	(185,324)	(145,356)	(287,753)	(289,918)	(224,780)	(233,389)	(1,366,520)
Liability recognized in statement of financial position	1,860	(459)	2,924	3,700	10,057	63,559	81,641
Salvage and subrogation	-	-	(11)	31	159	3	182
Premium deficiency reserve	-	-	-	-	-	2,020	2,020
Outstanding claims and reserves	1,770	(631)	1,568	926	4,466	23,777	31,876

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The management assessed that cash and short-term deposits, receivables from related parties, loans to related parties, trade and other payables, bank overdrafts, variable rate loans and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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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18. FAIR VALUE 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.

	Fair value			
	Carrying value	Level 1	Level 2	Level 3
	SR'000	SR'000	SR'000	SR'000
31 December 2019				
- Available for sale investments				
Debt instrument	25,000	-	25,000	-
Equities	11,256	11,256	-	-
Other	14,850	12,927	-	1,923
	<u>51,106</u>	<u>24,183</u>	<u>25,000</u>	<u>1,923</u>
				<u>51,106</u>

	Fair value			
	Carrying value	Level 1	Level 2	Level 3
	SR'000	SR'000	SR'000	SR'000
31 December 2018				
- Available for sale investments				
Debt instrument	25,000	-	25,000	-
Equities	20,712	20,712	-	-
Other	12,022	10,099	-	1,923
	<u>57,734</u>	<u>30,811</u>	<u>25,000</u>	<u>1,923</u>
				<u>57,734</u>

	Carrying value	Level 1	Level 2	Level 3	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
31 December 2019					

Financial liabilities not measured at fair value

- Policy Holders	22,069	-	-	22,069	22,069
	<u>22,069</u>	<u>-</u>	<u>-</u>	<u>22,069</u>	<u>22,069</u>

	Fair value			
	Carrying value	Level 1	Level 2	Level 3
	SR'000	SR'000	SR'000	SR'000
31 December 2018				

Financial liabilities not measured at fair value

- Policy Holders	29,673	-	-	29,673	29,673
	<u>29,673</u>	<u>-</u>	<u>-</u>	<u>29,673</u>	<u>29,673</u>

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18. FAIR VALUE OF FINANCIAL INSTRUMENTS - (continued)

b. Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values at 31 December 2019 and 31 December 2018, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Available for sale equity securities (unquoted)/ Investments held as FVSI (unquoted)	<i>Market comparison technique:</i> The valuation model is based on market multiples derived from quoted prices of companies comparable to investee and the expected EBITDA of the investee. This estimate is adjusted for the effect of non-marketability of the equity securities.	<ul style="list-style-type: none"> Forecast annual revenue growth rate Forecast EBITDA margin Adjusted market multiple 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> The annual revenue growth rate were higher (lower); The EBITDA margin were higher (lower); or The adjusted market multiple were lower (higher). <p>Generally, a change in the annual revenue growth is accompanied by a directionally similar change in EBITDA margin.</p>
Corporate debt securities / Held to maturity investments	<i>Market comparison technique:</i> The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable.	Not applicable.

19. SEGMENTAL INFORMATION

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.

Segment results do not include general and administrative expenses, provision for doubtful debts and other income.

Segment assets do not include cash and cash equivalents, investments, prepayments and other receivables, and property and equipment, net.

Segment liabilities do not include reinsurance payables, accrued expenses and other liabilities, due to shareholders' operations and employees' terminal benefits

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19. SEGMENTAL INFORMATION – (continued)

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

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

As at December 31, 2019							
Operating segments	Insurance operations					Sharehold ers operations	Total
	Medical	Motor	General Accident	Others	Total - Insurance operations		
	SR'000	SR'000	SR'000	SR'000	SR'000		
Assets							
Cash and cash equivalents	-	-	-	-	65,320	12,159	77,479
Term Deposits	-	-	-	-	138,920	55,663	194,583
Premiums and reinsurers' receivable - net	-	-	-	-	88,140	-	88,140
Reinsurers' share of unearned premiums	11,952	-	5,111	4,260	21,323	-	21,323
Reinsurers' share of outstanding claims	4,640	2,869	1,731	478	9,718	-	9,718
Reinsurers' share of claims incurred but not reported	5,053	-	667	877	6,597	-	6,597
Deferred policy acquisition costs	4,407	8,478	733	539	14,157	-	14,157
Unallocated assets	-	-	-	-	63,863	86,970	150,833
Total assets	26,052	11,347	8,242	6,154	408,038	154,792	562,830
Liabilities							
Policyholders claims payable	-	-	-	-	1,506	-	1,506
Reinsurers' balances payable	-	-	-	-	16,470	-	16,470
Unearned reinsurance commission	-	-	450	889	1,339	-	1,339
Unearned premiums	56,922	177,232	15,023	5,183	254,360	-	254,360
Premium deficiency reserves	2,308	-	-	-	2,308	-	2,308
Other technical reserves	171	1,322	183	40	1,716	-	1,716
Outstanding claims	16,303	12,309	4,776	636	34,024	-	34,024
Claims incurred but not reported	17,790	40,587	2,552	958	61,887	-	61,887
Unallocated liabilities and equity	-	-	-	-	34,428	154,792	189,220
Total liabilities	93,494	231,450	22,984	7,706	408,038	154,792	562,830

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19. SEGMENTAL INFORMATION - (continued)

Operating segments	As at December 31, 2018						
	Insurance operations				Total - Insurance operations	Shareholders operations	Total
	Medical SR '000	Motor SR '000	General Accident SR '000	Others SR '000	SR '000	SR '000	SR '000
Assets							
Cash and cash equivalents	-	-	-	-	83,409	10,086	93,495
Term Deposits	-	-	-	-	138,256	48,983	187,239
Premiums and reinsurers' receivable - net	-	-	-	-	93,978	-	93,978
Reinsurers' share of unearned premiums	9,074	29	2,701	10,934	22,738	-	22,738
Reinsurers' share of outstanding claims	4,120	2,869	3,027	527	10,543	-	10,543
Reinsurers' share of claims incurred but not reported	3,492	-	1,054	1,458	6,004	-	6,004
Deferred policy acquisition costs	4,824	5,874	964	388	12,050	-	12,050
Unallocated assets	-	-	-	-	40,447	85,722	126,169
Total assets	21,510	8,772	7,746	13,307	407,425	144,791	552,216
Liabilities							
Policyholders claims payable	-	-	-	-	8,741	-	8,741
Reinsurers' balances payable	-	-	-	-	11,505	-	11,505
Unearned reinsurance commission	-	6	356	904	1,266	-	1,266
Unearned premiums	61,257	164,538	14,742	11,470	252,007	-	252,007
Premium deficiency reserves	2,020	-	-	-	2,020	-	2,020
Other technical reserves	168	1,371	201	56	1,796	-	1,796
Outstanding claims	18,504	17,523	5,690	702	42,419	-	42,419
Claims incurred but not reported	15,075	36,798	2,323	1,573	55,769	-	55,769
Unallocated liabilities and equity	-	-	-	-	31,902	144,791	176,693
Total liabilities	97,024	220,236	23,312	14,705	407,425	144,791	552,216

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

19. SEGMENTAL INFORMATION - (continued)

Operating segments	For the year ended 31 December 2019				
	Medical	Motor	General	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
REVENUES					
Gross premiums written	139,035	354,693	15,902	19,722	529,352
- Direct					
Less: Reinsurance premiums ceded					
-Local	(2,659)	-	(126)	(1,701)	(4,486)
-Foreign	(25,641)	-	(8,330)	(15,745)	(49,716)
Excess of loss premiums					
-Local	-	(1,263)	(220)	(230)	(1,713)
-Foreign	-	(1,895)	(331)	(344)	(2,570)
Net written premiums	110,735	351,535	6,895	1,702	470,867
Changes in net unearned premiums	7,213	(12,722)	2,129	(388)	(3,768)
Net premiums earned	117,948	338,813	9,024	1,314	467,099
Other Underwriting Income	-	6	754	2,991	3,751
Reinsurance Commission earned	-	2,251	-	-	2,251
TOTAL REVENUES	117,948	341,070	9,778	4,305	473,101
UNDERWRITING COSTS AND EXPENSES					
Gross claims paid and loss adjustment expenses	132,301	263,258	3430	693	399,682
Less: Reinsurers' share of claims paid	(31,371)	(2,594)	(1,829)	(536)	(36,330)
Net claims paid	100,930	260,664	1,601	157	363,352
Changes in outstanding claims, net	(2,720)	(5,214)	382	(17)	(7,569)
Changes in IBNR, net	1,153	3,789	617	(34)	5,525
Change in loss adjustment expenses	3	(49)	(17)	(17)	(80)
Net claims incurred	99,366	259,190	2,583	89	361,228
Other premium deficiency reserve	288	-	-	-	288
Policy acquisition costs	9,736	13,388	893	1,271	25,288
Other underwriting expenses	1,455	4,494	-	-	5,949
TOTAL UNDERWRITING COSTS AND EXPENSES	110,845	277,072	3,476	1,360	392,753
NET UNDERWRITING (LOSS)/ INCOME	7,103	63,998	6,302	2,945	80,348
OTHER OPERATING (EXPENSES)/ INCOME					
Release of doubtful debts					227
General and administrative expenses					(82,197)
Commission income on deposits					6,174
Realized gain on available-for-sale investments					3,063
Impairment on available-for-sale investments					-
Other income					25
TOTAL OTHER OPERATING (EXPENSES)/ INCOME					(72,708)
NET SURPLUS					7,640
Shareholders' absorption of deficit/ (Surplus transferred to Shareholders)					(7,115)
NET RESULT AFTER SHAREHOLDERS' ABSORPTION OF DEFICIT/ TRANSFER OF SURPLUS TO SHAREHOLDERS					525

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

19. SEGMENTAL INFORMATION - (continued)

Operating segments	For the year ended December 31, 2018				Total SR'000
	Medical SR'000	Motor SR'000	General Accident SR'000	Others SR'000	
REVENUES					
Gross premiums written					
- Direct	152,751	323,683	9,360	14,219	500,013
Less: Reinsurance premiums ceded					
- Local	(3,012)	-	(94)	(1,209)	(4,315)
- Foreign	(19,615)	(84)	(4,018)	(11,410)	(35,127)
Excess of loss premiums					
- Local	-	(1,309)	(900)	(141)	(2,350)
- Foreign	-	(1,963)	(35)	(211)	(2,209)
Net written premiums	130,124	320,327	4,313	1,248	456,012
Changes in net unearned premiums	(12,660)	(10,912)	4,680	(99)	(18,991)
Net premiums earned	117,464	309,415	8,993	1,149	437,021
Other Underwriting Income	4,708	6,401	-	-	11,109
Reinsurance Commission earned	-	15	607	1,553	2,175
TOTAL REVENUES	122,172	315,831	9,600	2,702	450,305
UNDERWRITING COSTS AND EXPENSES					
Gross claims paid and loss adjustment expenses	120,571	225,217	573	611	346,972
Less: Reinsurers' share of claims paid	(32,889)	(3,804)	(30)	(488)	(37,211)
Net claims paid	87,682	221,413	543	123	309,761
Changes in outstanding claims, net	6,781	138	704	11	7,634
Changes in IBNR, net	6,064	(348)	(10)	(26)	5,680
Change in loss adjustment expenses	168	1,371	201	56	1,796
Net claims incurred	100,695	222,574	1,438	164	324,871
Changes in premium deficiency reserve	2,020	-	-	-	2,020
Other technical reserves	-	-	-	(60)	(60)
Policy acquisition costs	11,404	16,592	878	747	29,621
Other underwriting expenses	1,150	1,718	-	-	2,868
TOTAL UNDERWRITING COSTS AND EXPENSES	115,269	240,884	2,316	851	359,320
NET UNDERWRITING (LOSS)/ INCOME	6,903	74,947	7,284	1,851	90,985
OTHER OPERATING (EXPENSES)/ INCOME					
Allowance for doubtful debts					(7,499)
General and administrative expenses					(81,254)
Commission income on deposits					5,016
Realized gain on available for sale investments					2,137
Impairment on available-for-sale investments					(6,189)
Other income					11
TOTAL OTHER OPERATING (EXPENSES)/ INCOME					(87,778)
NET (DEFICIT)/ SURPLUS					3,207
Shareholders' absorption of deficit/ (Surplus transferred to Shareholders)					(2,358)
NET RESULT AFTER SHAREHOLDERS' ABSORPTION OF DEFICIT/ TRANSFER OF SURPLUS TO SHAREHOLDERS					849

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019—(continued)

19. SEGMENTAL INFORMATION - (continued)

	For the year ended December 31, 2019				
	Medical	Motor	Properties and	Protection and	Total
	SR'000	SR'000	accident	savings	SR'000
Gross written premium					
Retail	12,562	343,350	6,051	-	361,963
Very Small	11,368	1,181	679	-	13,228
Small	39,723	4,765	6,897	-	51,385
Medium	24,807	1,840	4,657	-	31,304
Large	50,575	3,557	17,340	-	71,472
Total	139,035	354,693	35,624	-	529,352

	For the year ended December 31, 2018				
	Medical	Motor	Properties and	Protection and	Total
	SR'000	SR'000	accident	savings	SR'000
Gross written premium					
Retail	6,983	313,625	4,286	-	324,894
Very Small	4,647	1,461	630	-	6,738
Small	29,809	4,458	4,145	-	38,412
Medium	24,923	2,237	5,072	-	32,232
Large	86,389	1,902	9,446	-	97,737
Total	152,751	323,683	23,579	-	500,013

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

20. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	Nature of transaction	Transaction for the year ended		Closing balance Receivables / (Payables)	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
		SR'000	SR'000	SR'000	SR'000
Abiat (Affiliate)	Premium written	2	58	77	75
	Claim paid	(69)	(106)	(1)	(13)
Fuji Saudi Arabia (Affiliate)	Premium written	1	928	1,048	1,275
	Claim paid	(936)	(713)	(100)	(180)
GEEC (Affiliate)	Premium written	(5)	372	570	575
	Claim paid	(398)	(232)	(36)	(50)
Mayar Holding (Affiliate)	Premium written	18	229	177	200
	Claim paid	(93)	84	(1)	(11)
Taya Feed Mill Factory (Affiliate)	Premium written	44	262	131	258
	Claim paid	(161)	85	(16)	(4)
Taya Real Estate (Affiliate)	Premium written	54	214	3	99
	Claim paid	(185)	26	(15)	(3)
Taya Holding (Affiliate)	Premium written	27	220	-	300
	Claim paid	(443)	307	(37)	(13)
GCP Co. (Affiliate)	Premium written	5	113	66	122
	Claim paid	(115)	135	(1)	(12)
Al Huda Charity Trust (Affiliate)	Premium written	4	50	-	35
	Claim paid	(49)	27	(2)	(1)
Saudi Wings Co. (Affiliate)	Premium written	1	17	3	12
	Claim paid	(33)	8	(1)	-
Taya Agriculture Co. (Affiliate)	Premium written	145	406	35	300
	Claim paid	(188)	161	(4)	(22)

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

20. RELATED PARTY TRANSACTIONS AND BALANCES – (continued)

Related party	Nature of transaction	Transaction for the year ended		Closing balance Receivables / (Payables)	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
		SR'000	SR'000	SR'000	SR'000
Bakri and sons Holding Co. (Affiliate)	Premium written	-	-	-	-
	Claim paid	-	-	(200)	(200)
Saudi Drip Irrigation system Co. (Affiliate)	Premium written	133	300	-	28
	Claim paid	(863)	174	(36)	(13)
Red Sea Marine Services Co. (Affiliate)	Premium written	72	24	-	26
	Claim paid	-	-	-	-
Solaiman A.El Khareiji consultant (SAK) (Affiliate)	Premium written	-	49	-	-
	Claim paid	-	7	-	-
M/s Arabian Gulf Co. For Maintenance & Contracting (Affiliate)	Premium written	24	68	65	65
	Claim paid	9	46	-	-
Abdullah Al Rayes EST (Affiliate)	Premium written	15	4	20	4
	Claim paid	(28)	1	-	(8)
M/s Al Bihar International Company Limited (Affiliate)	Premium written	24	24	-	-
	Claim paid	-	-	-	-
M/s Edama Co Medical	Premium written	2	26	2	19
	Claim paid	(25)	8	-	-
M/s Nama Real Estate	Premium written	19	29	2	21
	Claim paid	(45)	10	-	-
M/s Valie Real Estate	Premium written	1	18	-	13
	Claim paid	(5)	5	-	-
VEION	Premium written	53	-	42	-
	Claim paid	-	-	-	-
Dr Yousef Basodan	Premium written	-	5	-	-
	Claim paid	-	-	-	-

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

20. RELATED PARTY TRANSACTIONS AND BALANCES – (continued)

Related party	Nature of transaction	Transaction for the year ended		Closing balance Receivables / (Payables)	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
		SR'000	SR'000	SR'000	SR'000
Engr. Thamer bin Abdallah bin Rayes	Premium written	4	3	-	-
	Claim paid	-	-	-	-
Dr. Abdullatif Al-Sheikh	Premium written	0.50	1	-	-
	Claim paid	-	-	-	-
Mr. Hesham Mohammed Abdullah Al Shareef and family	Premium written	30	41	-	-
	Claim paid	-	-	-	(5)
	Claim paid on behalf of ACIG Bahrain	-	(1440)	-	2,391
M/s. GULF ELEVATORS & ESCALATORS CO. LTD	Premium written	116	-	-	-
	Claim paid	(25)	-	-	-
Niss Nouf Saud Elhakabani	Premium written	4	-	-	-

Remuneration and compensation of BOD Members and Top Executives (Disclose number of top executives)

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and top executives for the year ended 31 December 2019 and 2018:

	BOD members (Non-Executive)	Top Executives including the CEO and CFO
2019	SR'000	SR'000
Salaries and compensation	-	5,467
Allowances	176	-
Annual remuneration	1,290	120
End of service indemnities	-	410
Total	1,466	5,997
2018	SR'000	SR'000
Salaries and compensation	-	5,051
Allowances	181	-
Motivational plans	1,070	120
Annual remuneration	-	410
End of service indemnities	-	-
Total	1,251	5,581

ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

21. ZAKAT AND INCOME TAX

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

	2019 SR'000	2018 SR'000	
Equity	200,000	200,000	
Opening provisions and other adjustments	35,153	14,093	
Net book value of long term assets	(8,606)	(10,009)	
Accumulated losses	(55,469)	(57,827)	
Statutory deposit	-	(20,000)	
Unrealised loss on available for sale investments	(49,007)	(57,734)	
	<u>122,071</u>	<u>68,523</u>	
Adjusted income for the year	13,643	11,847	
Zakat base at 2.5%	<u>135,714</u>	<u>80,370</u>	
	2019 SR'000	2018 SR'000	
Balance, January 1	5,086	2,103	
Provided during the year	5,396	5,764	The
Payments during the year	(2,029)	(2,781)	diffe
Balance, December 31	<u>8,453</u>	<u>5,086</u>	renc
			es

between the financial and the zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

Zakat base has been computed based on the Company's understanding of the Zakat regulations enforced in the Kingdom of Saudi Arabia. The Zakat regulations in Saudi Arabia are subject to different interpretations, and the assessments to be raised by the GAZT could be different from the declarations filed by the Company.

Income tax:

Foreign shareholder, being Islamic Development Bank (IDB) is exempted from income tax.

	2019 SR'000	2018 SR'000
Balance, January 1	25	25
Provided during the year	-	-
Payments during the year	-	-
Balance, December 31	<u>25</u>	<u>25</u>

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

21. ZAKAT AND INCOME TAX – (continued)

Status of assessments

Zakat and income tax returns have been filed with the General Authority of Zakat and Tax ("GAZT") for the years ended up to 31 December 2018. Final certificate has been received from GAZT for the year ended 31 December 2008. However, GAZT has raised an additional assessment in respect of the returns filed for the years ended 31 December 2008, 2009 and 2010 amounting to SR 1.86 million which has been paid. The major difference of additional assessment relates to disallowance of a portion of pre incorporation expenses and withholding tax. The Company has filed an objection against this additional assessment with the preliminary tax objection Committee subsequent to the year end, as adverse decision was received from the preliminary Tax Objection Committee, upon which the Company filed appeal with the Higher Objection Committee. The high appeal committee issued its decision in favour of the Company with respect to Zakat and rejected the appeal related to withholding tax. The Company has referred the matter to the board of grievance. In this regard, the Company has issued a letter of guarantee amounting to SAR 1.83 million in favour of GAZT (see contingency and commitment notes). And they have paid the amount of tax SAR 1,274,012. The company has raised an objection for unfavourable assessment raised by GAZT for the years 31 December 2013 till 2015 with the amount of SAR 4,981,048. The objection is currently under study by GAZT.

22. SHARE CAPITAL

The authorized, issued and paid up capital of the Company was SAR 200 Million at December 31, 2019 (December 31, 2018: SAR 200 Million) consisting of 20 Million shares (December 31, 2018: 20 Million shares) of SAR 10 each.

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

	31 December 2019		
	Authorized and issued		Paid up
	No. of Shares		SAR'000
Founding Shareholders	800	80,000	80,000
General Public	1,200	120,000	120,000
	<u>2,000</u>	<u>200,000</u>	<u>200,000</u>

On 16 January 2020, the Company's board of directors approved the decrease in share capital amounting to SAR 59 million in order to absorb the accumulated losses and also approved to increase the share capital by SAR 150 million through the issuance of right shares to the existing shareholders. The Capital decrease has been approved by SAMA on March 15, 2020.

	31 December 2018		
	Authorized and issued		Paid up
	No. of Shares		SAR'000
Founding Shareholders	800	80,000	80,000
General Public	1,200	120,000	120,000
	<u>2,000</u>	<u>200,000</u>	<u>200,000</u>

23. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share for the year have been calculated by dividing the net income for the year by the weighted average number of issued and outstanding shares for the year.

ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

24. 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.

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

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

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

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at 31 December 2019 consists of paid-up share capital of SAR 200 million and accumulated losses of SAR 58.14 million (31 December 2018: paid-up share capital of SAR 200 million and accumulated losses of SAR 61.23 million.) in the statement of financial position.

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

25. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
	SR'000	SR'000
Employee costs	48,424	49,340
Legal and professional fees	1,308	1,310
Office rent	2,547	4,939
Depreciation and amortization	5,174	2,574
Office expenses	2,473	2,721
Marketing	10,461	9,043
Traveling	951	2,104
Other	8,595	7,119
Audit Expense	466	343
Share transfer – Tadawul expense	259	258
Directors remuneration	1,460	1,460
General Assembly Expense	79	43
	<u>82,197</u>	<u>81,254</u>

**ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

26. RISK MANAGEMENT

(a) Insurance

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

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 36% of total reinsurance assets at the reporting date.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 15% of shareholders' equity on a gross basis and 3% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 5% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

Concentration of insurance risk

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

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

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

**ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)**

26. RISK MANAGEMENT – (continued)

Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the statement of financial position date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Claims are payable to Policyholders and third parties depending upon the terms of the contract as contained in policy terms and conditions. The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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

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

Process used to decide on assumptions

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

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

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

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

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26. RISK MANAGEMENT – (continued)

Process used to decide on assumptions – (continued)

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

Sensitivity analysis

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

A hypothetical 2% change in the claim ratio, net of reinsurance, would impact net underwriting income/ (loss) as follows;

Income from insurance operations	2019	2018
	SR'000	SR'000
Impact of change in claim ratio by - 2%		
Medical	9,462	8,916
Motor	70,774	80,856
General Accident	6,482	7,507
Others	2,971	1,989
	89,689	99,268
 Income from insurance operations	 2019	 2018
	SR'000	SR'000
Impact of change in claim ratio by + 2%		
Medical	4,744	4,980
Motor	57,222	68,836
General Accident	6,122	7,061
Others	2,919	1,713
	71,007	82,590

(a) Reinsurance risk

In order to limit the financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsuring its exposures.

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

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

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26. RISK MANAGEMENT – (continued)

(a) Reinsurance risk – (continued)

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance of the reinsurers, wherever applicable, are thoroughly reviewed by the Company and agreed to pre-set requirements of the Company's Board of Directors before approving them for exchange of reinsurance business. As at 31 December 2019 and 2018, there is no significant concentration of reinsurance balances.

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

(b) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Board Investment Committee and Risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders and shareholders which are in line with their expectations.
- The Company stipulates diversification benchmarks by type of instrument and geographical area, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.
- There is strict control over hedging activities (e.g., equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

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

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

Currency Risk

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

The Company's transactions are principally in Saudi Arabian Riyals. So that the foreign currency risk is not significant.

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26. RISK MANAGEMENT - (continued)

Commission Rate Risk

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

An increase or decrease of 50 basis points in interest yields would result in a change in the income for the year of SAR 8.07 million (2018: SAR 9.36 million).

The commission bearing investments of the Company and their maturities as at December 31, 2019 and 2018 are as follows:

	<u>Less than 1 year</u>	<u>More than 1 year</u>	<u>Total</u>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Insurance Operations			
2019	138,920	-	138,920
2018	138,256	-	138,256
Shareholders Operations			
2019	55,663	25,000	80,663
2018	48,983	25,000	73,983

Other Price Risk

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

The Company's investments amounting to SAR 24.2 million (2018: SAR 30.8 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

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

	<u>Fair value change</u>	<u>Effect on Company's profit</u>
	<i>SR'000</i>	<i>SR'000</i>
31 December 2019	+ / - 10%	+/- 2,420
31 December 2018	+ / - 10%	+/- 3,080

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2019 and 2018. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

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26. RISK MANAGEMENT - (continued)

(c) Credit Risk

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

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

	2019 SR'000	2018 SR'000
<u>ASSETS - INSURANCE OPERATIONS</u>		
Cash and cash equivalents	65,320	83,409
Available-for-sale investments	-	-
Premium receivables, net	83,154	88,087
Reinsurance receivables, net	4,986	5,891
Reinsurers' share of outstanding claims	16,315	16,547
Prepayments and other receivables	46,270	28,047
Total	<u>216,045</u>	<u>221,981</u>
	2019 SR'000	2018 SR'000
<u>ASSETS - SHAREHOLDERS' OPERATIONS</u>		
Cash and cash equivalents	12,159	10,086
Available-for-sale investments	51,106	57,734
Total	<u>63,265</u>	<u>67,820</u>

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Approximately 100% (2018: approximately 100%) of the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Credit risk exposure

	2019 SR' 000	2018 SR' 000	2019 SR' 000	2018 SR' 000	2019 SR' 000	2018 SR' 000
	Investment grade		Non-investment grade		Unrated	
Investments:						
- Available for sale						
Debt instruments	-	-	25,000	25,000	-	-
Equities	11,256	20,712	-	-	-	-
Other	12,927	10,099	-	-	1,923	1,923
Premium and reinsurance balance receivable						
Policyholders'	-	-	-	-	83,154	88,087
Due from a related party	-	-	-	-	1,760	2,391
Reinsurance receivables	-	-	-	-	4,986	5,891
Total	24,183	30,811	25,000	25,000	91,823	98,292

ALLIED COOPERATIVE INSURANCE COMPANY
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26. RISK MANAGEMENT - (continued)

(d) Liquidity Risk

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

- The Company's liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.
- Contingency funding plans are in place, which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.
- The Company's catastrophe excess-of-loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

The table below summarizes the maturities of the Company's undiscounted contractual obligations relating to financial liabilities:

Maturity Profile	2019			2018		
	SR '000			SR '000		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
<u>ASSETS</u>						
<u>INSURANCE OPERATIONS</u>						
Short term deposit	138,920	-	138,920	138,256	-	138,256
<u>SHAREHOLDER OPERATIONS</u>						
Short term deposit	55,663	-	55,663	48,983	-	48,983
SUKUK	-	25,000	25,000	-	25,000	25,000
Total	194,583	25,000	219,583	187,239	25,000	212,239
<u>LIABILITIES</u>						
<u>INSURANCE OPERATIONS</u>						
Reinsurance payables	16,470	-	16,470	11,505	-	11,505
Accounts payable	5,599	-	5,599	17,038	-	17,038
Outstanding claims	95,911	-	95,911	98,188	-	98,188
Accrued and other payables	5,220	-	5,220	7,229	-	7,229
<u>SHAREHOLDER OPERATIONS</u>						
Accrued and other payables	8,680	1,653	10,333	5,397	1,386	6,783
Total	131,880	1,653	133,533	139,357	1,386	140,743

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

The assets with maturity less than one year are expected to realize as follows:

- Deposits are expected to be matured within 6 months from the date of placement.
- Cash and bank balances are available on demand.

ALLIED COOPERATIVE INSURANCE COMPANY
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26. RISK MANAGEMENT - (continued)

(d) Liquidity Risk - (continued)

- Reinsurers share of outstanding claims majorly pertain to property and casualty segment and are generally realized within 6 to 12 months based on settlement of balances with reinsurers.

The liabilities with maturity less than one year are expected to settle as follows:

- Reinsurers' balances payable are settled on a quarterly basis as per terms of reinsurance agreements.
- As per the Regulation, all insurance claims need to be settled within the time limits specified in this regard. Majority of gross outstanding claims are expected to be settled within the time limits set in this regard subject to meeting all the documentation requirements. Property and casualty policies due to the inherent nature are generally settled within 45 days from the date of receipt of loss adjustor report
- The claims payable, accrued expenses and other liabilities are expected to settle within a period of 1-3 months from the period end date.
- Surplus distribution payable is to be settled within 6 months of annual general meeting in which financial statements are approved.

(e) Operational Risk

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

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

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

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

ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

27. SUPPLEMENTARY INFORMATION

Statement of financial position

	31 December 2019			31 December 2018		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
ASSETS						
Cash and cash equivalents	65,320	12,159	77,479	83,409	10,086	93,495
Term deposits	138,920	55,663	194,583	138,256	48,983	187,239
Premiums and reinsurers' receivable – net	88,140	-	88,140	93,978	-	93,978
Reinsurers' share of unearned premiums	21,323	-	21,323	22,738	-	22,738
Reinsurers' share of outstanding claims	9,718	-	9,718	10,543	-	10,543
Reinsurers' share of claims incurred but not reported	6,597	-	6,597	6,004	-	6,004
Deferred policy acquisition cost	14,157	-	14,157	12,050	-	12,050
Due from a related party	1,760	-	1,760	2,391	-	2,391
Property and equipment, net	3,598	-	3,598	5,445	-	5,445
Intangible assets	5,008	-	5,008	4,564	-	4,564
Right of use asset – net	7,227	-	7,227	-	-	-
Available-for-sale investments	-	51,106	51,106	-	57,734	57,734
Prepayments and other receivables	46,270	4,211	50,481	28,047	6,602	34,649
Statutory deposit	-	30,000	30,000	-	20,000	20,000
Accrued commission on statutory deposit	-	1,653	1,653	-	1,386	1,386
Total Assets	408,038	154,792	562,830	407,425	144,791	552,216
LIABILITIES						
Policyholders claim payable	1,506	-	1,506	8,741	-	8,741
Accrued and other payables	10,144	201	10,345	17,016	286	17,302
Reinsurances' balances payable	16,470	-	16,470	11,505	-	11,505
Unearned commission income	1,339	-	1,339	1,266	-	1,266
Unearned premiums	254,360	-	254,360	252,007	-	252,007
Premium deficiency reserve	2,308	-	2,308	2,020	-	2,020
Other technical reserve	1,716	-	1,716	1,796	-	1,796
Outstanding claims	34,024	-	34,024	42,419	-	42,419
Claims incurred but not reported	61,887	-	61,887	55,769	-	55,769
Employees' terminal benefits	12,011	-	12,011	9,789	-	9,789
Lease liabilities	7,122	-	7,122	-	-	-
Surplus distribution payable	5,982	-	5,982	5,457	-	5,457
Accrued zakat and income tax	-	8,479	8,479	-	5,111	5,111
Accrued commission on statutory deposit payable to SAMA	-	1,653	1,653	-	1,386	1,386
TOTAL LIABILITIES	408,869	10,333	419,202	407,785	6,783	414,568
SHAREHOLDER'S EQUITY						
Share capital	-	200,000	200,000	-	200,000	200,000
Accumulated losses	-	(59,514)	(59,514)	-	(61,233)	(61,233)
Fair value reserve on investments	-	3,973	3,973	-	(759)	(759)
Actuarial reserve for end of service benefits	(831)	-	(831)	(360)	-	(360)
TOTAL SHAREHOLDERS' EQUITY	(831)	144,459	143,628	(360)	138,008	137,648
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	408,038	154,792	562,830	407,425	144,791	552,216

ALLIED COOPERATIVE INSURANCE COMPANY
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FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

27. SUPPLEMENTARY INFORMATION – (continued)

Statement of income

	2019			2018		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
REVENUES						
Gross premiums written	529,352	-	529,352	500,013	-	500,013
Less: Reinsurance premiums ceded						
Local	(4,486)	-	(4,486)	(4,315)	-	(4,315)
Foreign	(49,716)	-	(49,716)	(35,127)	-	(35,127)
	(54,202)	-	(54,202)	(39,442)	-	(39,442)
Less: excess of loss premiums						
Local	(1,713)	-	(1,713)	(2,349)	-	(2,349)
Foreign	(2,570)	-	(2,570)	(2,210)	-	(2,210)
	(4,283)	-	(4,283)	(4,559)	-	(4,559)
Net premiums written	470,867	-	470,867	456,012	-	456,012
Changes in unearned premiums, net	(3,768)	-	(3,768)	(18,991)	-	(18,991)
Net premiums earned	467,099	-	467,099	437,021	-	437,021
Reinsurance commission earned	3,751	-	3,751	2,175	-	2,175
Other underwriting income	2,251	-	2,251	11,109	-	11,109
Net Revenues	473,101	-	473,101	450,305	-	450,305
Gross claims paid	399,682	-	399,682	346,972	-	346,972
Less: Reinsurers' share of claims paid	(36,330)	-	(36,330)	(37,211)	-	(37,211)
Net claims paid	363,352	-	363,352	309,761	-	309,761
Changes in outstanding claims, net	(7,569)	-	(7,569)	7,634	-	7,634
Changes in incurred but not reported, net	5,525	-	5,525	5,680	-	5,680
Changes in loss adjustment expenses	(80)	-	(80)	1,796	-	1,796
Net claims incurred	361,228	-	361,228	324,871	-	324,871
Other technical reserves	-	-	-	(60)	-	(60)
Change in premium deficiency reserve	288	-	288	2,020	-	2,020
Policy acquisition costs	25,288	-	25,288	29,621	-	29,621
Other underwriting expenses	5,949	-	5,949	2,868	-	2,868
Total underwriting cost and expenses	392,753	-	392,753	359,320	-	359,320
Net result of insurance operations	80,348	-	80,348	90,985	-	90,985
OTHER OPERATING (EXPENSE) / INCOME						
Allowance for / (Reversal) of doubtful debts	227	-	227	(7,499)	-	(7,499)
General and administrative expenses	(79,932)	(2,265)	(82,197)	(79,150)	(2,104)	(81,254)
Commission income on deposits	4,580	1,594	6,174	4,146	870	5,016
Realized gain on available for sale investments	-	3,063	3,063	-	2,137	2,137
Impairment on available for sale investments	-	-	-	-	(6,189)	(6,189)
Other income	25	-	25	11	-	11
TOTAL OTHER OPERATING (EXPENSES) / INCOME	(75,100)	2,392	(72,708)	(82,492)	(5,286)	(87,778)
Net Surplus	5,248	2,392	7,640	8,493	(5,286)	3,207
Surplus transferred to Shareholders	(4,723)	4,723	-	(7,644)	7,644	-
Net result after transfer of surplus to shareholders	525	7,115	7,640	849	2,358	3,207

ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

27. SUPPLEMENTARY INFORMATION – (continued)

Statement of income - (continued)

	2019			2018		
	Insurance operations SR '000	Shareholder s' operations SR '000	Total SR '000	Insurance operations SR '000	Shareholders ' operations SR '000	Total SR '000
Zakat expense for the year	-	(5,396)	(5,396)	-	(5,764)	(5,764)
Net result after zakat	525	1,719	2,244	849	(3,406)	(2,557)
Earnings Per share	0.03	0.09	0.12	0.04	(0.17)	(0.13)
<u>Other comprehensive income / (loss)</u>						
Shareholder's absorption of deficit/surplus	525	1,719	2,244	849	(3406)	(2,557)
Items that will not be reclassified to statement of income in subsequent years						
-Actuarial gains losses on defined benefit obligation	(471)	-	(471)	(360)	-	(360)
Items that are or may be reclassified to statements of income in subsequent years						
- Available for sale investments:						
- Impairment on available for sale investment	-	-	-	-	6,189	6,189
- Net change in fair value	-	4,732	4,732	-	(2,709)	(2,709)
<u>TOTAL COMPREHENSIVE (LOSS) /</u>	<u>54</u>	<u>6,451</u>	<u>6,505</u>	<u>489</u>	<u>٧٤</u>	<u>563</u>
<u>INCOME FOR THE YEAR</u>						

ALLIED COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

27. SUPPLEMENTARY INFORMATION – (continued)

Statement of cash flows

	2019			2018		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
CASH FLOWS FROM OPERATING ACTIVITIES						
Total income for the year	5,248	2,392	7,640	849	2,358	3,207
<i>Adjustments for non-cash items:</i>						
Depreciation of property and equipment	2,226	-	2,226	1,867	-	1,867
Amortization of intangible assets	914	-	914	707	-	707
Net realised gain on available for sale investments	-	(2,355)	(2,355)	-	(2,137)	(2,137)
Allowance for/(Reversal of) doubtful debts	(227)	-	(227)	7,499	-	7,499
Impairment on available for sale investments	-	-	-	-	6,189	6,189
Provision for end-of-service indemnities	2,268	-	2,268	1,719	-	1,719
<i>Changes in operating assets and liabilities:</i>						
Premiums and reinsurers' receivable	6,065	-	6,065	(14,552)	-	(14,552)
Reinsurers' share of unearned premiums	1,415	-	1,415	6,738	-	6,738
Reinsurers' share of outstanding claims	825	-	825	5,031	-	5,031
Reinsurers' share of claims Incurred but not reported	(593)	-	(593)	595	-	595
Deferred policy acquisition costs	(2,107)	-	(2,107)	3,286	-	3,286
Due from related party	631	-	631	(144)	-	(144)
Prepayments and other receivables	(18,223)	2,391	(15,832)	5,183	(1,075)	4,108
Policyholders claim payables	(7,235)	-	(7,235)	6,224	-	6,224
Reinsurers' balances payable	4,965	-	4,965	(12,226)	-	(12,226)
Unearned commission income	73	-	73	446	-	446
Unearned premiums	2,353	-	2,353	12,253	-	12,253
Outstanding claims	(8,395)	-	(8,395)	4,994	-	4,994
Claims incurred but not reported	6,118	-	6,118	5,086	-	5,086
Other technical reserves	208	-	208	3,756	-	3,756
Accrued and other payables	(6,872)	(84)	(6,956)	(3,428)	32	(3,396)
Increase in lease liability	7,122	-	7,122	-	-	-
Change of right of use assets	(7,227)	-	(7,227)	-	-	-
	(10,448)	2,344	(8,104)	35,883	5,367	41,250
End-of-service indemnities paid	(517)	-	(517)	(577)	-	(577)
Zakat and income tax paid	-	(2,029)	(2,029)	-	(2,781)	(2,781)
Net cash generated from operating activities	(10,965)	315	(10,650)	35,306	2,586	37,892
CASH FLOWS FROM INVESTING ACTIVITIES						
(Additions) in property and equipment	(379)	-	(379)	(3,769)	-	(3,769)
(Additions) in intangible assets	(1,358)	-	(1,358)	(1,406)	-	(1,406)
Proceed from sale of property and equipment	-	-	-	2	-	2
Purchase of available-for-sale investments	-	(10,218)	(10,218)	-	(19,738)	(19,738)
Proceed from sale of available-for-sale investment	-	23,933	23,933	-	5,155	5,155
Sale of short term deposit	-	-	-	147,249	37,751	185,000
Purchase of term deposits and statutory deposits	(7,344)	-	(7,344)	(138,256)	(48,983)	(187,239)
Purchase of statutory deposits	(10,000)	-	(10,000)	-	-	-

ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 – (continued)

27. SUPPLEMENTARY INFORMATION – (continued)

Statement of cash flows – (continued)

	2019			2018		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Net cash (used in) investing activities	(19,081)	13,715	(5,366)	3,820	(25,815)	(21,995)
Net change in cash and cash equivalents	(30,046)	14,030	(16,016)	39,126	(23,229)	15,897
Cash and cash equivalents, beginning of the year	83,409	10,086	93,495	44,283	33,315	77,598
Cash and cash equivalents, end of the year	53,363	24,116	77,479	83,409	10,086	93,495
NON-CASH INFORMATION						
Change in fair value of available for sale investments	-	4,432	4,732	-	(2,709)	(2,709)
Actuarial loss on defined benefit obligation	(471)	-	(471)	(360)	-	(360)

28. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to current period presentation (if applicable).

29. SUBSEQUENT EVENTS

a) Capital Structure change

Subsequent to the year end, the Company decided to change the capital structure, for details refer to Note 22.

b) Coronavirus outbreak

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

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on March 17, 2020 corresponding to 22 Rajab AH 1441.