AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

INDEX

KPMG Al Fozan & Partners
Certified Public Accountants

Ibrahim Ahmed Al-Bassam & Co
Certified Public Accountants - Al-Bassam & Co.
(member firm of PKF International)

Independent auditors' report

To the Shareholders of Al Alamiya for Cooperative Insurance Company

Opinion

We have audited the financial statements of **Al Alamiya for Cooperative Insurance Company** (the "Company"), which comprise the statement of financial position as at 31 December 2020 and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising 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 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Basis for Opinion

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

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for 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.

Independent auditors' report

To the Shareholders of Al Alamiya for Cooperative Insurance Company (continued)

Key Audit Matter (continued)

Key audit matter	How the matter was addressed in our audit
<u>Valuation of ultimate claim liability arising from insurance contract</u> As at 31 December 2020, the gross outstanding claims including claims Incurred but Not Reported (IBNR) and other technical reserves amounted to SR 105,711,000 (2019: SR 123,677,000) as reported in Note 9.1 of the financial statements. The valuation of ultimate insurance contract liabilities is the key judgmental area for management given the level of subjectivity inherent in estimating the impact of claim events that have occurred for which the ultimate outcome remains uncertain. The Company uses a range of actuarial methodologies to estimate these claims. This requires significant judgments relating to factors and assumptions such as inflation, claims development pattern and regulatory requirements. Due to significance of amount involved and the exercise of significant judgment by management in the process for determination of ultimate insurance contract liabilities, we have determined it to be a key audit matter. *Refer to note 2 (e)(i) which which contains the disclosure of critical accounting judements, estimates and assumptions relating to the ultimate liability arising from claims under insurance contracts and note 3 which discloses accounting policies for claims.*	• We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes for claims processing and payment, including controls over the completeness and accuracy of the claim estimates recorded. • We tested on a samples basis the amounts recorded for claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves. • We engaged our actuarial specialist to assess the methodologies and assumptions used by the management in determining the reserves for incurred but not reported claims. We have also reviewed the actuarial reserve report issued by the Company's appointed actuary. • We evaluated the completeness and accuracy of data used by management in their calculation of ultimate insurance contract liabilities and evaluated the results of liability adequacy test. • We assessed the adequacy and appropriateness of the related disclosures in the financial statements.

Independent auditors' report

To the Shareholders of Al Alamiya for Cooperative Insurance Company (continued)

Other Information

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

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

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

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs as endorsed in KSA, the applicable requirements of the Regulations for Companies, 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 intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

KPMG Al Fozan & Partners
Certified Public Accountants

Ibrahim Ahmed Al-Bassam & Co
Certified Public Accountants - Al-Bassam & Co.
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Independent auditors' report

To the Shareholders of Al Alamiya for Cooperative Insurance Company (continued)

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

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

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

- Conclude on the appropriateness of 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, then 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 of the Company.

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

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 for 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.

For KPMG Al Fozan & Partners
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16 March 2021

KPMG Al Fozan & Partners Certified Public Accountants C.R. 46

Al-Bassam & Co. Certified Public Accountants C.R.1010385804 License 520/11/323

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

		SR '000	
	Notes	**December 31, 2020**	December 31, 2019
ASSETS			
Cash and cash equivalents	*4*	**23,056**	14,919
Term deposits	*5*	**411,015**	431,765
Premiums and reinsurers' receivable, net	*8*	**36,052**	44,107
Reinsurers' share of unearned premiums	*9.2*	**42,241**	41,006
Reinsurers' share of outstanding claims	*9.1*	**60,296**	50,799
Reinsurers' share of claims incurred but not reported	*9.1*	**3,386**	9,178
Deferred policy acquisition costs	*9.3*	**2,527**	4,159
Available for sale investments	*6*	**130,016**	157,850
Due from related parties	*20*	**734**	69
Prepaid expenses and other assets		**11,947**	10,629
Deferred tax asset	*15e*	**1,072**	1,064
Property and equipment	*12*	**1,413**	1,145
Intangible assets	*12*	**4,029**	1,561
Statutory deposit	*11*	**40,000**	40,000
Accrued commission income on statutory deposit	*11*	**5,297**	4,151
TOTAL ASSETS		**773,081**	812,402

Khalid Allagany
CEO and Managing Director

Fadi Aboul Hosn
Chief Financial Officer

The accompanying notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 31 DECEMBER 2020

	Notes	SR' 000 December 31, 2020	SR' 000 December 31, 2019
LIABILITIES			
Outstanding claims reserve	*9.1*	**74,096**	82,315
Claims incurred but not reported	*9.1*	**26,047**	36,575
Other technical reserves	*9.1*	**5,568**	4,787
Accrued expenses and other liabilities	*13*	**37,879**	35,893
Reinsurers' balances payable		**74,048**	81,420
Unearned premiums	*9.2*	**60,932**	73,610
Accounts payables		**4,569**	15,060
Unearned reinsurance commission	*9.4*	**7,168**	4,360
Due to related parties	*20*	**3,763**	1,788
End-of-service benefits	*22*	**10,713**	10,616
Zakat and income tax	*15d*	**50,916**	44,267
Accrued commission income payable to SAMA		**5,297**	4,151
Accumulated surplus	*10*	**8,404**	9,852
TOTAL LIABILITIES		**369,400**	404,694
EQUITY			
Share capital	*16*	**400,000**	400,000
Statutory reserve		**1,161**	1,161
(Accumulated losses) / retained earnings	*17*	**(1,503)**	4,643
Fair value reserve for available for sale investments	*7(b)*	**3,768**	2,168
Actuarial reserve for employee benefits		**255**	(264)
TOTAL EQUITY		**403,681**	407,708
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND EQUITY		**773,081**	812,402
COMMITMENTS AND CONTINGENCIES	*19*	**851**	1,046

Khalid Allagany
CEO and Managing Director

Fadi Aboul Hosn
Chief Financial Officer

The accompanying notes 1 to 28 form an integral part of these financial statements.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Notes	SR '000 2020	SR '000 2019
REVENUES			
Gross premiums written			
- Direct		**190,508**	219,034
- Reinsurance		**662**	907
	9.2	**191,170**	219,941
Reinsurance premiums ceded			
- Local		**(4,673)**	(2,176)
- Foreign		**(127,693)**	(110,993)
		(132,366)	(113,169)
Excess of loss premium			
- Local		**(261)**	(206)
- Foreign		**(4,953)**	(4,157)
		(5,214)	(4,363)
Total reinsurance premium ceded	9.2	**(137,580)**	(117,532)
NET PREMIUMS WRITTEN	9.2	**53,590**	102,409
Changes in unearned premiums		**12,678**	38,863
Changes in reinsurers 'share of unearned premiums		**1,235**	(15,531)
NET PREMIUMS EARNED	9.2	**67,503**	125,741
Reinsurance commissions	9.4	**17,326**	12,671
TOTAL REVENUES		**84,829**	138,412
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid		**(78,550)**	(116,200)
Reinsurers' share of claims paid		**34,301**	37,468
NET CLAIMS PAID		**(44,249)**	(78,732)
Changes in outstanding claims		**8,219**	3,405
Changes in reinsurers' share of outstanding claims		**9,497**	6,444
Changes in claims incurred but not reported, net		**4,736**	10,730
Changes in other technical reserves		**(781)**	(4,094)
NET CLAIMS INCURRED		**(22,578)**	(62,247)
Policy acquisition costs	9.3	**(15,090)**	(18,060)
Other underwriting expenses		**(1,378)**	(1,119)
TOTAL UNDERWRITING COSTS AND EXPENSES		**(39,046)**	(81,426)
NET UNDERWRITING INCOME		**45,783**	56,986
OTHER OPERATING (EXPENSES) / INCOME			
(Allowance) / reversal for impairment of receivables	8	**(1,078)**	6,827
General and administrative expenses	18	**(61,163)**	(58,673)
Investment income on term deposits		**6,752**	12,591
Investment income on bonds and sukuks		**3,849**	3,590
Other income		**7,305**	4,066
TOTAL OTHER OPERATING EXPENSES		**(44,335)**	(31,599)
TOTAL INCOME FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		**1,448**	25,387
TOTAL INCOME FOR THE YEAR ATTRIBUTED TO THE INSURANCE OPERATIONS	25B	--	(1,728)
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**1,448**	23,659
ZAKAT CHARGE FOR THE YEAR	15	(7,477)	(7,486)
INCOME TAX CHARGE FOR THE YEAR	15	(117)	(1,154)
NET (LOSS) / INCOME AFTER ZAKAT AND INCOME TAX FOR THE YEAR ATTRIBUTABLE TO THE SHARE HOLDERS		(6,146)	15,019
BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE (SR)		(0.15)	0.38

The accompanying notes 1 to 28 form an integral part of these financial statements.

Khalid Allagany
CEO and Managing Director

Fadi Aboul Hosn
Chief Financial Officer

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Notes	SR '000 **2020**	SR '000 2019
Total (loss) / income for the year		**(6,146)**	16,747
OTHER COMPREHENSIVE INCOME			
-Items that may be reclassified to statement of income in subsequent periods			
Change in fair value of available for sale investments	*6*	**1,600**	3,837
-Items that will not be reclassified to statement of income in subsequent periods			
Remeasurement gain on end-of-service benefits		**519**	193
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(4,027)**	20,777
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTED TO THE INSURANCE OPERATIONS	*25C*	**--**	(1,728)
NET COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(4,027)**	19,049

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Fadi Aboul Hosn
Chief Financial Officer

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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER
SR in '000'

2020	*Notes*	**Share capital**	**Statutory Reserve**	**Retained earnings / (Accumulated losses)**	**Fair value reserve for available for sale investments**	**Actuarial reserve for employee benefit**	**Total Equity**
Balance at January 1, 2020		**400,000**	**1,161**	**4,643**	**2,168**	**(264)**	**407,708**
Total comprehensive income for the year							
Changes in fair values of available for sale investments	6	--	--	--	**1,600**	--	**1,600**
Net loss after Zakat and Income Tax for the year attributable to shareholders		--	--	**(6,146)**	--	--	**(6,146)**
Remeasurement of defined benefit liability	22a	--	--	--	--	**519**	**519**
Transfer to statutory reserve		--	--	--	--	--	--
Balance at December 31, 2020		**400,000**	**1,161**	**(1,503)**	**3,768**	**255**	**403,681**

2019	*Notes*	Share capital	Statutory Reserve	(Accumulated losses) / retained earnings	Fair value reserve for available for sale investments	Actuarial reserve for employee benefit	Total Equity
Balance at January 1, 2019		400,000	--	(9,215)	(1,669)	(457)	388,659
Total comprehensive income for the year							
Changes in fair values of available for sale investments	6	--	--	--	3,837	--	3,837
Net income after Zakat and Income Tax for the year attributable to shareholders		--	--	15,019	--	--	15,019
Remeasurement of defined benefit liability	22a	--	--		--	193	193
Transfer to statutory reserve		--	1,161	(1,161)	--	--	--
Balance at December 31, 2019		400,000	1,161	4,643	2,168	(264)	407,708

Khalid Allagany
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Chief Financial Officer

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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

	Note	SR' 000 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Total Income for the year before zakat and income tax		**1,448**	25,387
Adjustments for non-cash items:			
Depreciation of property and equipment	*12*	**995**	789
Amortization of intangible assets	*12*	**650**	57
Amortizations of investments	*6b*	**334**	74
(Reversal)/Allowance for provisions for impairment of receivables	*8*	**1,078**	(6,827)
Provision for end-of-service benefits	*22*	**2,017**	2,293
		6,522	21,773
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		**6,977**	33,588
Reinsurers' share of unearned premiums		**(1,235)**	15,531
Reinsurers' share of outstanding claims		**(9,497)**	(6,444)
Reinsurers' share of claims Incurred but not reported		**5,792**	(948)
Deferred policy acquisition costs		**1,632**	472
Due from related parties		**(665)**	561
Prepaid expenses and other assets		**(1,318)**	(3,512)
Accrued income from statutory deposits		**(1,146)**	(1,092)
Accounts payables		**(10,491)**	6,589
Accrued expenses and other liabilities		**1,986**	109
Reinsurers' balances payable		**(7,372)**	28,636
Unearned premiums		**(12,678)**	(38,863)
Unearned reinsurance commission		**2,808**	994
Outstanding claims reserve		**(8,219)**	(3,405)
Claims incurred but not reported		**(10,528)**	(9,782)
Other technical reserves		**781**	4,094
Accrued commission income payable to SAMA		**1,146**	1,092
Due to related parties		**1,975**	743
		(33,530)	50,136
Zakat and income tax paid	*15d*	**(953)**	(1,969)
End-of-service benefits paid	*22*	**(1,401)**	(3,134)
Surplus paid to policy holders	*10*	**(1,448)**	(2,139)
Net cash (used in) / generated from operating activities		**(37,332)**	42,894
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposals / additions in available for sale investments, net	*6b*	**29,100**	(61,105)
Disposals / additions in term deposits, net		**20,750**	(20,535)
Additions in intangible assets		**(3,118)**	(1,618)
Additions in property and equipment	*12*	**(1,263)**	(393)
Net cash generated from / (used in) investing activities		**45,469**	(83,651)
Net change in cash and cash equivalents		**8,137**	(40,757)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**14,219**	54,976
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*4*	**22,356**	14,219
NON-CASH INFORMATION			
Change in fair value of available for sale investments	6	**1,600**	3,837
Remeasurement gain on end-of-service benefits	*22a*	**519**	193

Khalid Allagany
CEO and Managing Director

Fadi Aboul Hosn
Chief Financial Officer

The accompanying notes 1 to 28 form an integral part of these financial statements.

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Al Alamiya for Cooperative Insurance Company (The Company) is a Saudi joint stock Company registered on 29 Dhu-al Qu'dah, 1430H (17 November 2009) under commercial registration (CR) number 4030194978. The registered head office of the Company is in Riyadh under CR number of 1010287831 with branches in Jeddah (CR 4030194978) and Khobar (CR 2051042939). The registered address of the Company's head office is as follows:

Al Alamiya for Cooperative Insurance Company
Prince Mohammed bin Abdul Aziz Road,
Home Centre Building, P.O. Box: 6393,
Riyadh 11442, Kingdom of Saudi Arabia

The activities of the Company are to transact cooperative insurance and reinsurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 26 Dhu Al Hijjah, 1430H (13 December 2009), the Company received the license from the Saudi Central Bank (SAMA) to transact insurance business in the Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

a) *Basis of Presentation*

The financial statements for the year ended December 31, 2020 have been prepared in accordance with:

- International Financial Reporting Standard (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization of Certified Public Accountants (SOCPA) (collectively referred to as "IFRS as endorsed in KSA").

- The requirements of the Regulations for Companies and 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.

As required by Saudi Arabian Insurance Regulations, the Company maintains separate book of accounts for Insurance Operations and Shareholders' Operations. The physical custody of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of other revenue and expenses from joint operations is determined by the management and Board of Directors.

The statement of financial position, statement of income and statement of comprehensive income and cash flows of the insurance operations and shareholders operations which are presented in note 25 of the financial statement have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the Insurance Operations and the Shareholders Operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred below in note 25 reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company-level financial information in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Interoperation 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. Surplus from insurance operations' and actuarial reserves from employee benefits are shown separately as Accumulated Surplus in the statement of financial position and as Actuarial reserve for employee benefits in the statement of equity, respectively.

The Company is required to distribute 10% of the net surplus from insurance operations to policyholders and the remaining 90% is to be allocated to the shareholders of the Company in accordance with the Insurance Law and Implementation Regulations issued by SAMA. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

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, term deposits, premiums and reinsurers' receivable, net, reinsurance share of unearned premiums, reinsurance share of outstanding claims, reinsurance share of IBNR, due from related party, deferred policy acquisition costs, and prepaid expenses and other assets. The following balances would generally be classified as non-current property and equipment and intangible assets, deferred tax assets, statutory deposit, accrued commission income on statutory deposit and available for sale investments in insurance operations.

2 BASIS OF PREPARATION (Continued)

b) Basis of measurement

The financial statements have been prepared under the historical cost basis, except for the measurement at fair value of available for sale investments and End of Service Benefits (EOSB) at present value of future obligations using projected unit credit method.

c) Functional and presentational currency

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

d) Fiscal year

The Company follows a fiscal year ending December 31.

e) Critical accounting judgments, estimates and assumptions

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated 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 statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the foreseeable future are discussed below.

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims Incurred But Not Reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the end of reporting date, for which the insured event has occurred prior to the end of reporting date. The Company uses the services of a qualified actuary in the valuation of IBNR as well as premium deficiency reserves.

(ii) Impairment on premiums and reinsurance balances receivable

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 considers past-due status being indicative of the ability to pay all amounts due as per contractual terms.

(iii) Impairment of available for sale financial assets

The Company determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

f) Seasonality of operations

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019. Based on the adoption of amendments to existing standard and in consideration of current economic environment, the following accounting policies are applicable effective 1 January 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual financial statements.

a) Amendments to existing accounting standards

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2020. The management has assessed that the amendments have no significant impact on the Company's financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements, nor is there expected to be any future impact to the Company.

Amendments to References to the Conceptual Framework in IFRS Standards

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

b) Standards issued but not yet effective

In addition to the above-mentioned standards, the following standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Further, the Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect date in future dates.

i) IFRS 9 Financial Instruments

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

Classification and measurement

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

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

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

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

b) Standards issued but not yet effective (continued)

i) IFRS 9 Financial Instruments (continued)

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

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

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

Impairment

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

Hedge accounting

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

Effective date

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

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

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

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 preliminary assessment which included below:

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

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

b) Standards issued but not yet effective (continued)

i) IFRS 9 Financial Instruments (continued)

Impact assessment

As at December 31, 2020, the Company has total financial assets and insurance related assets amounting to SR 646.2 million (2019: SR 692.9 million) and SR 108.5 million (2019: SR 105.1 million), respectively. Financial assets mainly represent investments held at amortized cost which consist of cash and cash equivalents, term deposits, premium and reinsurers' receivables, due from related parties, statutory deposits and accrued income on statutory deposits amounting to SR 516.2 million (2019: SR 535 million). Other financial assets consist of available for sale investments amounting to SR 130 million (2019: SR 157.9 million). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Credit risk exposure and concentration of credit risk of these financial assets are mentioned in note 23.

The Company financial assets have low credit risk as at December 31, 2020 and 2019. The above is based on the preliminary assessment of IFRS 9 which 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.

ii) IFRS 17 Insurance Contracts

Overview

This standard has been published on May 18, 2017, it establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 – Insurance contracts.
The new standard applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features provided the entity also issues insurance contracts. It requires to separate the following components from insurance contracts:

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

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

Measurement

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

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

b) 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;

c) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Standards issued but not yet effective (continued)

ii) IFRS 17 Insurance Contracts (continued)

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

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

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

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

Effective date

The Company intends to apply the Standard on its effective date i.e. January 1, 2023. The IASB issued an Exposure Draft Amendments to IFRS 17 proposing certain amendments to IFRS 17 during June 2019 and received comments from various stakeholders. On March 17, 2020, the IASB completed its discussion on the amendments to IFRS 17 Insurance Contracts that were proposed for public consultation in June 2019. It decided that the effective date of the Standards will be deferred to annual reporting periods beginning on or after 1 January 2023. The IASB expects to issue the amendments to IFRS 17 in the second quarter of 2020. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customer and IFRS 9 have also been applied.

Transition

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

Presentation and Disclosures

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

Impact assessment:

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

Impact Area	Summary of Impact
Initial recognition	For insurance contracts issued, the initial recognition date is the earliest of the (1) premium due date, or where there is no due date specified, the date of receipt (2) the date the group of contracts is deemed to be onerous, (3) the date the group of contracts incepts. A formal process needs to be implemented to identify onerous contracts prior to inception.
Product assessment	The need for the BBA (Building Block Approach) depends on the business mix and any changes in the business mix in future and would require a substantial effort to implement. There are currently no plans for material change in business mix. Therefore, it is unlikely that Al Alamiya will require integrated BBA functionality.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

b) Standards issued but not yet effective (continued)

ii) IFRS 17 Insurance Contracts (continued)

Impact Area	Summary of Impact
Level of aggregation	Portfolios will need to be disaggregated into annual cohorts and classified (in groups) as either onerous or profitable, with no significant risk of becoming onerous or profitable, with significant possibility of becoming onerous (remaining contracts), on initial recognition Al Alamiya will need a process for the identification and monitoring of onerous contracts over time. Insurance and reinsurance contracts grouping needs to be reengineered in accordance with the aggregation criteria defined in IFRS 17.
Best Estimate Liabilities ("BEL"):	"BEL" calculations will be required under IFRS 17 which needs a different level of granularity, depending on Al Alamiya's IFRS 17 level of aggregation. Some of the inputs of "BEL" calculation will need improved data flows compared to current standards particularly around expense allocation.
Premium Allocation Approach Liability For Remaining Coverage ("PAA LFRC")	Premium receipt data, coming from the Treasury system, is not readily linked to the core insurance system at the level of aggregation required under IFRS 17 (i.e. "Analyst" class) which is an important element of LFRC calculation under the IFRS 17 requirement.
Discounting	If Al Alamiya elects to discount its LFIC, then new functionality and new processes will be required to perform the necessary calculations. Cash-flows and yield curves need to be stored at the required level of aggregation. More complex functionality will be required if OCI is used.
Risk Adjustment	Al Alamiya will need to calculate an explicit Risk Adjustment in accordance with the IFRS 17 requirements, ensuring that it is available at the required level of aggregation. Further, the Risk Adjustment and resulting confidence level will need to be disclosed in the financial statements. Currently Al Alamiya does not calculate anything similar to the Risk Adjustment and there is no existing methodology
Contractual Service Margin ("CSM")	Financial impact assessment to assess PAA qualification of Al Alamiya is currently being carried out and if required to use BBA approach, the CSM would be required. Use of BBA and requirement of CSM depend on Al Alamiya's business mix and would require substantial effort to implement.
Reinsurance contracts held	Under IFRS 17 reinsurance contracts held should be considered and measured separately from the gross business. Al Alamiya will need to ensure that all the measurement principles mentioned above are also assessed for its reinsurance held and that presentation and disclosure and transition requirements are met. systems and processes will need to be developed to account for them appropriately
Presentation and Disclosure	IFRS 17 will fundamentally change the presentation of the primary financial statements and many of the notes and will result in a number of additional detailed disclosure requirements. This will be the case, in particular, for the requirements. New analysis/reports, disaggregation in the chart of accounts, level of aggregation, and system capability requires amendment to present and disclose information in line with the requirements of IFRS 17.
Financial Impact	Work is in progress to calculate the Financial impact of IFRS 17 in comparison to IFRS 4.
Data Impact	IFRS 17 has additional data requirements (e.g. premium due date for initial recognition, premium receipt data for the LFRC, RI contracts held break down into risk attaching or loss incurring for assessing contract boundaries, lower granularity to meet level of aggregation requirements and data for additional disclosures as per IFRS 17).
IT Systems Impact	Assessment is being done of existing systems capabilities for IFRS 17 calculations and user requirements specification needs to be anticipated prior to the setup and configuration of the new IT platform, storage and reporting and whether new systems/calculation engines should be implemented. Calculation engine is expected to be able to deliver the IFRS 17 required calculations, such as discounting (with OCI) and the LFRC. Therefore, Al Alamiya need to have the required data and assumptions to feed the calculation engine.

The Company has started its implementation process and has set up a project team, supervised by a steering committee.
The Company has not early adopted the following new IFRS and amendments to IFRS effective for annual years beginning after 1 January 2020. These standards, once adopted, are not expected to have any impact on the Company's financial statements amounts or presentation.

- COVID-19 – Related Rent Concessions (Amendments to IFRS 16)
- Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January,1, 2022
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

c) *The following is summary of significant accounting policies followed in preparation of these financial statements which is consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019:*

- ***Cash and Bank Balances***

Cash and bank balances comprise cash on hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the date of acquisition.

- ***Prepayments***

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

- ***Accrued Expenses and Other Liabilities***

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

- ***Insurance Contracts***

Insurance contracts are those contracts where the Company (The Insurer) has accepted significant insurance risk from another party (The Policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (The Insured Event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

- ***Available For Sale Investments (AFS)***

Available for sale investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through income statement. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS investments are subsequently measured at fair value.

Return on debt securities is recognised on an effective yield method. Profit or loss on sale of investments is recognised at the time of sale. Dividend income is recognised when right to receive such dividend is established.

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under 'fair value reserve for available for sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

Any significant or prolonged decline in value of investments is adjusted for and reported in the statement of income as impairment charges. Fair values of investments are based on quoted prices for marketable securities or estimated fair values.

- ***Provisions***

A provision for incurred liabilities is recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

- ***Liability Adequacy Test***

As at each year end, an assessment is made of whether provision of unearned premium is adequate. Provision for premiums deficiency reserve is made where the expected claims and related expenses are expected to exceed unearned premiums. At the end of each reporting date, the Company reviews it premiums deficiency reserve and carries out a liability adequacy test to ensure the adequacy of the insurance contracts liabilities using the current best estimates of future contractual cash flows, claims handling and administration expenses. If these estimates show that the carrying amount of insurance liabilities is insufficient, the deficiency is recognized in the statement of income by establishing a provision in the statement of financial position. The Company estimates premium deficiency reserve based on actuarial valuation for each line of business separately.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- *Revenue Recognition*

Premiums and commissions are taken into income over the terms of the policies to which they relate, on a pro-rata basis. Unearned premiums and commissions represent the portion of premiums and commissions relating to the un expired period of coverage. The change in the provision for unearned premium and unearned commission is taken to the statement of income in the same order that revenue is recognised over the period of risk.

Retained premiums and commissions 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 months of the period-end, in respect of marine cargo;
- Actual number of days for other lines of business; and
- Pre-defined calculation for engineering class of business for risks undertaken that extend beyond a single year. In accordance with this calculation, lower premiums are earned in the first year which gradually increase towards the end of the tenure of the policy.

- *Claims*

These include the cost of claims and claims handling expenses paid during the year, together with the movements in provisions for outstanding claims, claims incurred but not reported (IBNR) and claims handling provisions.

Total outstanding claims comprise estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date, net of salvage and other recoveries including claims handling expenses.

The Company estimates its claims provisions based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Company's prior experience, is maintained for Incurred But Not Reported (IBNR) claims as well as for the cost of settling pending claims at the statement of financial position date.

The IBNR amount is based on estimates calculated using widely accepted actuarial techniques such as Chain Ladder, Bornhuetter Ferguson Method and loss ratio which are reviewed at regular intervals by the Company's appointed actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. Regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating provisions are that past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a fair reflection of the likely level of ultimate claims to be incurred for the more recent years.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant reinsurance contract. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

- *Receivables*

Premiums receivable are non-derivative financial assets with fixed or determinable payments. These are recognized when due and are measured initially at fair value of the consideration received or receivable. Subsequent to initial recognition, receivables are 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 carrying amount will not be recoverable. Premiums receivable are derecognized when the de recognition criteria for financial assets have been met.

- *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value is depreciated on a straight line basis over the estimated useful life as follows:

	Years
Furniture, fixtures and office equipment	3
Motor vehicles	3

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- ***Property and Equipment** (continued)*

The assets' residual values and useful lives are reviewed at each financial position date and adjusted prospectively if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from disposal of property and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the related property and equipment and are recognised in the statement of income when the related property and equipment is disposed.

- ***Intangible Assets***

Intangible assets are stated at cost less accumulated amortization and any impairment in value. The cost less estimated residual value is amortized on a straight-line basis over the estimated useful life of three years.

- ***Reinsurance***

The Company cedes insurance risk in the normal course of business for a portion of risk it is insuring. 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 financial position representing premiums due to 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. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

- ***Deferred Policy Acquisition Costs (DPAC)***

DPAC are those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts that are deferred to the extent that those costs are recoverable out of future premiums. All other policy acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, these costs are amortised based on the term of expected future premiums. Amortisation is recorded 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 amortisation period and are treated as a change in accounting estimate.

- ***Salvage and Subrogation Reimbursement***

Some insurance contracts permit the Company to sell a (usually damaged) asset 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 outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of property. Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from action against the liable third party.

- ***Foreign Currencies***

Transactions in foreign currencies are initially recorded at the spot exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate at the reporting date. All differences arising on non–trading activities are taken to the statement. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non–monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

As the Company's foreign currency transactions are primarily in US dollars, which is pegged against Saudi Riyals, therefore foreign exchange gains and losses are not significant and have not been disclosed separately.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- ***Impairment of Non-Financial assets***

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

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

- ***Offsetting***

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

- ***Impairment of Financial assets***

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the statement of income. Impairment is determined as follows:

a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- 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 reorganisation;
- 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.

- ***Derecognition of Financial Instruments***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:
- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

- ***Trade Date Accounting***

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- ***Expense Recognition***

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

- ***Reinsurance Premiums***

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the year and are recognised from the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date.

- ***Unearned Commission Income***

Commission receivable on outwards reinsurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate. Amortisation is recorded in the statement of income.

- ***Reinsurance Claims***

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant reinsurance contract.

- ***Lease***

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

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The Company did not make any such adjustments during the periods presented.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Segmental Reporting*

An operating segment is a component of the Company that is engaged in business activities from which it may earn revenues and incur expenses and which is subject to risk and rewards that are different from those of other segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Board of Directors that makes strategic decisions. The Company is organised into business units based on their products and services and has six reportable operating segments as follows:

- Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting there from.
- Motor insurance products which provide coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Engineering includes long term Erection All Risks (EAR) and Contractor All Risk (CAR) policies and annual policies for Machinery Break Down (MBD), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD.
- Medical products which provide health care cover to policyholders.
- Marine insurance for loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.
- Group Life insurance which provides life insurance to groups of policyholders.
- Others include mainly general accident.

Shareholders' operations is a non-operating segment. Income earned from investments is its 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.

No inter-segment transactions occurred during the year. If any transactions were to occur, transfer prices between operating segments are set mutually agreed terms. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

- *Statutory Reserve*

In accordance with its by-laws, the Company shall allocate 20% of its net income and after setting off the accumulated losses, each year to a statutory reserve until it has built up a reserve equal to the share capital.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

SR'000	December 31, 2020	December 31, 2019
Bank balances and cash – Insurance operations	20,174	13,312
Bank balances and cash – Shareholders' operations	2,182	907
Short term deposits – Shareholders' operations	--	--
Cash and cash equivalents in statement of cashflows	22,356	14,219
Deposits against letters of guarantee – Insurance operations	700	700
Total	**23,056**	14,919

The Company holds an amount of SR 0.7 million (31 December 2019: SR 0.7 million) in the statement of financial position as letters of guarantee in favor of the Company's service providers.

5. TERM DEPOSITS

Term deposits are placed with counterparties which have credit ratings of A- to A+ ratings under Standard and Poor's and Fitch ratings methodology. Term deposits are placed with local banks with a maturity of more than three months from the date of original placement and earn investment income at weighted average rate of 1.5 % per annum (2019: 2.6% per annum). The carrying amounts of the term deposits approximate the fair value at the statement of financial position date.

6. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments are classified as follows:

SR'000	December 31, 2020			December 31, 2019		
	Domestic	**International**	**Total**	Domestic	International	Total
Available for sale investments – Insurance operations *	**1,923**	--	**1,923**	1,923	--	1,923
Available for sale investments – Shareholders' operations	**128,093**	--	**128,093**	126,867	29,060	155,927
Total available for sale investments	**130,016**	--	**130,016**	128,790	29,060	157,850

a) Insurance operations – Available for sale investments

* This represents investments in respect of the Company's shareholding in Najm for Insurance Services which is a claim's service provider.

b) Shareholders' operations – Available for sale investments

SR '000	*2020*		*2019*	
	Amortised cost SR	*Market value SR*	*Amortised cost SR*	*Market value SR*
Bonds – Fixed rate (Quoted)				
QNB (Qatar National Bank) Finance	--	--	13,523	13,502
Abu Dhabi Commercial Bank	--	--	15,604	15,558
Sukuks – Fixed rate (Quoted)				
Saudi Government Sukuk	**124,325**	**128,093**	124,630	126,867
	124,325	**128,093**	153,757	155,927

Movement in the available for sale investment balance for shareholders' operations is as follows:

	Shareholders' operations	
SR'000	**December 31, 2020**	December 31, 2019
Opening balance	**155,927**	91,059
Purchases	--	61,105
Maturities	**(29,100)**	--
Amortization of investments	**(334)**	(74)
Changes in fair value of investments	**1,600**	3,837
Closing balance	**128,093**	155,927

The geographical split of investments held as available for sale comprise of sukuks / bonds issued by Government of Kingdom of Saudi Arabia.

The cumulative unrealized gain in fair value of available for sale investments amounts to SR 3.77 million (31 December 2019: SR 2.17 million) is presented within the shareholders' equity in the statement of financial position.

7. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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.

a. Carrying amounts and fair value (1)

The following table shows the carrying amount and fair values of financial assets 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			
SR'000s **December 31, 2020**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Shareholders' operations					
Available for sale investments measured at fair value					
Sukuks	**128,093**	**128,093**	--	--	**128,093**
Insurance Operations					
Najm	**1,923**			**1,923**	**1,923**
	130,016	**128,093**	--	**1,923**	**130,016**

		Fair value			
SR'000s **December 31 , 2019**	Carrying value	Level 1	Level 2	Level 3	Total
Shareholders' operations					
Available for sale investments measured at fair value					
Bonds and Sukuks	155,927	155,927	--	--	155,927
Insurance Operations					
Najm	1,923	--	--	1,923	1,923
	157,850	155,927	--	1,923	157,850

The unlisted security of SR 1.92 million (2019: SR 1.92 million) held as part of Company's insurance operations, was stated at cost in the absence of active markets or other means of reliably measuring their fair value.

During the year ended 31 December 2020, there were no transfers into or out of level 3 fair value measurements. To determine the fair value of such investments, management used a valuation technique in which all significant inputs were based on observable market data. There were no transfers in between levels during the year ended 31 December 2020.

8. PREMIUMS AND REINSURERS' RECEIVABLE

Receivables comprise amounts due from the following:

SR'000	Insurance operations December 31, 2020	Insurance operations December 31, 2019
Policyholders	**21,276**	15,494
Brokers and agents	**16,656**	16,193
Related parties (Note 20)	**4,958**	9,815
Receivables from reinsurers	**4,270**	12,635
	47,160	54,137
Provision for doubtful receivables	**(11,108)**	(10,030)
Premiums and reinsurers' receivable – net	**36,052**	44,107

Allowance for impairment of receivables include SR 0.15 million (2019: Nil) against receivables from related parties. Movement in the allowance for impairment of receivables is as follows:

SR '000	2020	2019
Balance at 1 January	**10,030**	16,857
Charge / (reversal) of impairment for the year	**1,078**	(6,827)
Balance at 31 December	**11,108**	10,030

SR '000		Neither past due nor impaired			Past due but not impaired		Past due and impaired
	Total	**Less than 30 days**	**31 - 60 days**	**61 - 90 days**	**90 - 180 days**	**181 - 360 days**	**More than 360 days**
Premium and reinsurance receivables							
- Policyholders	**21,277**	**306**	**545**	**7,231**	**7,955**	**1,622**	**3,618**
- Brokers and agents	**16,656**	**2,097**	**1,019**	**933**	**4,392**	**4,046**	**4,169**
- Due from related parties	**4,957**	**4,327**	--	**51**	**172**	**365**	**42**
- Receivable from reinsurers	**4,270**	**1,801**	--	--	**21**	--	**2,448**
31 December 2020	**47,160**	**8,531**	**1,564**	**8,215**	**12,540**	**6,033**	**10,277**
Premium and reinsurance receivables							
- Policyholders	15,494	664	1,177	7,274	1,756	1,330	3,293
- Brokers and agents	16,193	2,260	2,297	773	3,136	3,097	4,630
- Due from related parties	9,815	3,707	3,393	2,715	--	--	--
- Receivable from reinsurers	12,635	7,797	--	19	--	2,104	2,715
31 December 2019	54,137	14,428	6,867	10,781	4,892	6,531	10,638

The Company classifies balances as "past due and impaired" on case by case basis and an impairment adjustment is recorded in the statement of income. Unimpaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is the normal practice of the Company to not obtain collateral over premiums receivable. These balances are therefore unsecured. The credit quality of these financial assets that are neither past due nor impaired can be assessed by reference to respective policyholders' credit history, where there are minimal account defaults and vast majority of the receivables have been fully recovered in the past.

The Company does not have a formal internal credit ratings assessment process. Amounts which are neither past due nor impaired, in respect of premium receivable balances, are from individuals and unrated corporates.

8. PREMIUMS AND REINSURERS' RECEIVABLE (continued)

Premiums and reinsurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies outside Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. As at 31 December 2020, no individual or corporate accounts is for more than 17% of the premiums receivable (31 December 2019: 23%). In addition, the five largest customers accounts amounts to 57% of the premiums receivable as at 31 December 2020 (31 December 2019: 59%).

9. TECHNICAL RESERVES

9.1 NET OUTSTANDING CLAIMS AND RESERVES

Net outstanding claims and reserves comprise of the following:

	Insurance operations	
SR'000	**December 31, 2020**	December 31, 2019
Outstanding claims	**92,192**	109,275
Less: Realizable value of salvage and subrogation	**(18,096)**	(26,960)
Outstanding claims reserve	**74,096**	82,315
Claims incurred but not reported	**26,047**	36,575
Other technical reserves	**5,568**	4,787
	105,711	123,677
Less:		
- Reinsurers' share of outstanding claims	**(60,296)**	(50,799)
- Reinsurers' share of claims Incurred but not reported	**(3,386)**	(9,178)
	(63,682)	(59,977)
Net outstanding claims and reserves	**42,029**	63,700

9.2 MOVEMENT IN UNEARNED PREMIUMS

Movement in unearned premiums comprise of the following

	Year ended December 31, 2020		
SR'000	Gross	Reinsurance	Net
Balance as at the beginning of the year	**73,610**	**(41,006)**	**32,604**
Premium written during the year	**191,170**	***(137,580)**	**53,590**
Premium earned during the year	**(203,848)**	**136,345**	**(67,503)**
Balance as at the end of the year	**60,932**	**(42,241)**	**18,691**

* This amount includes SR 127.7 million for reinsurance premium ceded abroad, SR 4.7 million for reinsurance premium ceded locally and SR 4.9 million for excess of loss expenses ceded abroad and, SR 0.3 million ceded locally.

9. TECHNICAL RESERVES (Continued)

9.2 MOVEMENT IN UNEARNED PREMIUMS *(Continued)*

	Year ended December 31, 2019		
SR'000	Gross	Reinsurance	Net
Balance as at the beginning of the year	112,473	(56,537)	55,936
Premium written during the year	219,941	*(117,532)	102,409
Premium earned during the year	(258,804)	133,063	(125,741)
Balance as at the end of the year	73,610	(41,006)	32,604

* This amount includes SR 111.0 million for reinsurance premium ceded abroad, SR 2.2 million for reinsurance premium ceded locally and SR 4.2 million for excess of loss expenses ceded abroad and, SR 0.2 million ceded locally.

9.3 DEFERRED POLICY ACQUISITION COSTS

SR'000	*2020*	*2019*
Balance at 1 January	**4,159**	4,631
Cost incurred during the year	**13,458**	17,588
Amortised during the year	**(15,090)**	(18,060)
Balance at 31 December	**2,527**	4,159

9.4 UNEARNED REINSURANCE COMMISSION

SR'000	*2020*	*2019*
Balance at 1 January	**4,360**	3,366
Commission received during the year	**20,134**	13,665
Commission earned during the year	**(17,326)**	(12,671)
Balance at 31 December	**7,168**	4,360

10. ACCUMULATED SURPLUS

SR'000	*2020*	*2019*
Balance at January 1	**9,852**	10,263
Total income attributed to the insurance operations during the year	--	1,728
Surplus paid to policy holders	**(1,448)**	(2,139)
Balance at 31 December	**8,404**	9,852

11. STATUTORY DEPOSIT

In compliance with Insurance Implementing Regulations of SAMA, the Company deposited 10% of its paid up capital, amounting to SR 40 million (31 December 2019: SR 40 million) in a bank designated by SAMA. The received return on investment of statutory deposit as at 31 December 2020 amounts to SR 5.3m (31 December 2019: SR 4.2 m) and has been disclosed in assets as "Accrued commission income on statutory deposit" and the corresponding amount is shown in the liabilities as "Accrued commission income payable to SAMA" as this deposit cannot be withdrawn without SAMA's consent.

12. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

SR'000	*Furniture and fixtures*	*Office equipment*	*Motor vehicles*	*Intangible Assets*	*Total 2020*	*Total 2019*
Cost:						
Balance at 1 January	**3,507**	**8,393**	**315**	**1,618**	**13,833**	11,822
Additions during the year	**76**	**1,187**	**--**	**3,118**	**4,381**	2,011
Balance at 31 December	**3,583**	**9,580**	**315**	**4,736**	**18,214**	13,833
Accumulated depreciation / amortization:						
Balance at 1 January	**(3,394)**	**(7,361)**	**(315)**	**(57)**	**(11,127)**	(10,281)
Charge for the year (note 18)	**(25)**	**(970)**	**--**	**(650)**	**(1,645)**	(846)
Balance at 31 December	**(3,419)**	**(8,331)**	**(315)**	**(707)**	**(12,772)**	(11,127)
Net book value:						
At 31 December 2020	**164**	**1,249**	**--**	**4,029**	**5,442**	
At 31 December 2019	113	1,032	--	1,561		2,706

13. ACCRUED EXPENSES AND OTHER LIABILITIES

SR'000	*Insurance operations 2020*	*Shareholders' operations 2020*	*Total 2020*	*Insurance operations 2019*	*Shareholders' operations 2019*	*Total 2019*
Accrued salaries and benefits	**3,258**	**--**	**3,258**	4,223	--	4,223
Accrued supervision fees	**269**	**--**	**269**	259	--	259
Board of Directors' remuneration	**--**	**630**	**630**	--	630	630
Accrued withholding tax	**8,179**	**--**	**8,179**	12,007	--	12,007
Provision for levy on insurance polices	**2,856**	**--**	**2,856**	2,856	--	2,856
Accrued IT related services	**3,327**	**--**	**3,327**	1,744	--	1,744
Accrued legal and professional fees	**2,763**	**--**	**2,763**	790	--	790
Outsourced service charges payable	**10,383**	**--**	**10,383**	8,769	--	8,769
Training and recruitments	**48**	**--**	**48**	--	--	--
Hotels and travelling	**100**	**--**	**100**	50	--	50
Value Added Tax payable	**666**	**--**	**666**	180	--	180
Others	**1,499**	**3,901**	**5,400**	328	4,057	4,385
	33,348	**4,531**	**37,879**	31,206	4,687	35,893

14. CLAIMS DEVELOPMENT

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims. During each year, the estimate of ultimate claim cost for respective year presented net of payments. Claims triangulation analysis (gross and net) by accident year spanning a number of financial years is set out as below.

2020 – Gross Basis

Accident Year	*2015& earlier*	*2016*	*2017*	*2018*	*2019*	*2020*	*TOTAL*
Estimate of ultimate claim cost:							
At the end of accident year	260,206	102,701	87,591	61,228	74,307	61,226	647,259
One year later	202,418	81,803	71,985	53,192	61,483	--	470,881
Two years later	178,531	50,616	59,596	50,182	--	--	338,925
Three years later	188,951	45,996	57,917	--	--	--	292,864
Four years later	182,670	42,047	--	--	--	--	224,717
Five years later and after	177,239	--	--	--	--	--	177,239
Current estimate of cumulative claims	177,239	42,047	57,917	50,182	61,483	61,226	450,094
Cumulative paid claims	166,754	35,529	53,274	42,975	45,851	--	344,383
Liability recognised in statement of financial position	10,485	6,518	4,643	7,207	15,632	61,226	105,711

2020 – Net Basis

Accident Year	*2015& earlier*	*2016*	*2017*	*2018*	*2019*	*2020*	*TOTAL*
Estimate of ultimate claim cost:							
At the end of accident year	103,089	64,501	42,587	36,782	37,903	21,962	306,824
One year later	88,356	57,430	38,007	36,725	30,086	--	250,604
Two years later	73,307	37,835	34,127	35,356	--	--	180,625
Three years later	73,500	33,598	34,891	--	--	--	141,989
Four years later	63,195	29,917	--	--	--	--	93,112
Five years later and after	57,315	--	--	--	--	--	57,315
Current estimate of cumulative claims	57,315	29,917	34,891	35,356	30,086	21,962	209,527
Cumulative paid claims	55,539	23,668	32,365	32,491	23,435	--	167,498
Liability recognised in statement of financial position	1,776	6,249	2,526	2,865	6,651	21,962	42,029

14. CLAIMS DEVELOPMENT (Continued)

2019– Gross basis

Accident Year	*2014& earlier*	*2015*	*2016*	*2017*	*2018*	*2019*	*TOTAL*
Estimate of ultimate claim cost:							
At the end of accident year	468,600	189,703	102,701	87,591	61,228	74,307	984,130
One year later	428,186	130,995	81,803	71,985	53,192	--	766,161
Two years later	429,105	110,278	50,616	59,596	--	--	649,595
Three years later	425,936	118,856	45,995	--	--	--	590,787
Four years later	427,778	115,767	--	--	--	--	543,545
Five years later and after	424,555	--	--	--	--	--	424,555
Current estimate of cumulative claims	424,555	115,767	45,995	59,596	53,192	74,307	773,412
Cumulative paid claims	417,439	106,332	35,215	53,568	37,181	--	649,735
Liability recognised in statement of financial position	7,116	9,435	10,780	6,028	16,011	74,307	123,677

2019– Net basis

Accident Year	*2014& earlier*	*2015*	*2016*	*2017*	*2018*	*2019*	*TOTAL*
Estimate of ultimate claim cost:							
At the end of accident year	73,347	86,578	64,501	42,587	36,782	37,903	341,698
One year later	49,342	67,486	57,430	38,008	36,725	--	248,991
Two years later	53,821	55,129	37,835	34,127	--	--	180,912
Three years later	48,578	53,551	33,598	--	--	--	135,727
Four years later	52,780	46,217	--	--	--	--	98,997
Five years later and after	49,777	--	--	--	--	--	49,777
Current estimate of cumulative claims	49,777	46,217	33,598	34,127	36,725	37,903	238,347
Cumulative paid claims	47,091	41,980	23,370	32,811	29,395	--	174,647
Liability recognised in statement of financial position	2,686	4,237	10,228	1,316	7,330	37,903	63,700

15. ZAKAT AND INCOME TAX

Status of assessments

The Company's zakat and tax calculations and corresponding accruals and payment of zakat and tax are based on the ownership percentages which are 74.97% for zakat and 25.03% for the tax. The Company has submitted its zakat and tax returns up to the years ended 31 December 2019 and obtained the required certificates and acknowledgements.

GAZT has raised final assessments for the period / years ended 2009 to 2013 with additional Zakat and withholding tax (WHT) liabilities amounting to SR 11.2 million and SR 8.9 million (together with 1% delay fine for each month) respectively. The Tax Violations and Disputes Resolution Committee (TVDRC) of the General Secretariat of Tax Committees (GSTC) has issued its decision on the above years accepting certain points and reducing the zakat liability to SR 7.1 million and no change in WHT liability. The Company has submitted an appeal to Tax Violations and Disputes Appellate Committee (TVDAC) against TVDRC's decision. TVDAC's decision is awaited. In respect of the assessment for the year 2014, the GAZT has issued a revised assessment with an additional zakat liability of SR 1.98 million. The Company has registered the case with General Secretariat of Tax Committees [GSTC] and submitted an appeal against GAZT's review points. GSTC's review is awaited. The GAZT has issued final assessments for the years 2015 through 2018 with additional zakat liability of SR 21.1 million. The Company has submitted an appeal against the GAZT's assessment and GAZT's review is awaited.

15. ZAKAT AND INCOME TAX (Continued)

The zakat and tax charge for the year ended are as follows:

SR'000	December 31, 2020	December 31, 2019
Zakat charge for the year (*Note 15a)*	7,477	7,486
Income tax charge for the year (*Note 15c*)	125	597
Deferred tax (income) / expense charge for the year (*Note 15f*)	(8)	557
	117	1,154
	7,594	8,640

a) Zakat charge for the year

The Company's zakat and tax calculations and corresponding accruals and payments of zakat and tax are based on the ownership percentages which are 74.97% for zakat and 25.03% for the tax. The Company has submitted its zakat and tax returns up to the year ended 31 December 2019 and obtained the required certificates and acknowledgements.

The zakat charge is based on the following:

SR'000	December 31, 2020	December 31, 2019
Share capital	400,000	400,000
Reserves and provisions	(12,208)	(13,781)
Book value of long term assets	(5,442)	(2,670)
Adjusted net profit for the year	4,543	15,892
Zakat base	386,893	399,441
Saudi shareholders' share of zakat base	290,034	299,441
Zakat charge	7,477	7,486

The differences between the financial and the zakatable results are mainly due to provisions which are not included in the calculation of zakatable income.

b) Movement in the provision for zakat for the year

The movement in the provision for zakat for the year is as follows:

SR'000	2020	2019
Balance at 1 January	42,741	35,911
Provided during the year	7,477	7,486
Payments made during the year	(358)	(656)
Balance at 31 December	49,860	42,741

15. ZAKAT AND INCOME TAX (Continued)

c) Movement in the provision for income tax for the year

The movement in the provision for income tax for the year is as follows:

SR'000	2020	2019
Balance at 1 January	**1,526**	2,242
Provided during the year	**125**	597
Payments made during the year	**(595)**	(1,313)
Balance at 31 December	**1,056**	1,526

d) Movement in the provision for zakat and income tax for the year

The movement in the provision for zakat and income tax for the year is as follows:

SR'000	2020	2019
Balance at 1 January	**44,267**	38,153
Provided during the year	**7,602**	8,083
Payments made during the year	**(953)**	(1,969)
Balance at 31 December	**50,916**	44,267

e) Deferred tax asset

SR'000	2020	2019
Opening deferred tax asset	**1,064**	**1,621**
Deferred tax income / (expense)	**8**	**(557)**
Closing deferred tax asset	**1,072**	**1,064**

SR'000	December 31, 2020	December 31, 2019
Opening zakat, income tax liability and deferred tax Asset	**43,203**	36,532
Charge / (reversal) for the period		
Current charge for zakat for the year	**7,477**	7,486
Current charge for income tax for the year	**125**	597
Deferred tax (income) / expense for the year	**(8)**	557
Settled during the period	**(953)**	(1,969)
Closing zakat, income tax liability and deferred tax Asset	**49,844**	43,203

16. SHARE CAPITAL

The authorized and paid up share capital of the Company is SR 400 million divided into 40 million shares of SR 10 each (31 December 2019: SR 400 million divided into 40 million shares of SR 10 each).

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

	December 31, 2020	
	No. of Shares	**Authorized, issued and paid up capital**
	'000	**SR'000**
Royal & Sun Alliance	**20,028**	**200,280**
Riyad Bank	**7,968**	**79,680**
Others	**12,004**	**120,040**
	40,000	**400,000**

	December 31, 2019	
	No. of Shares	Authorized, issued and paid up capital
	'000	SR'000
Royal & Sun Alliance	20,028	200,280
Riyadh Bank	7,968	79,680
Others	12,004	120,040
	40,000	400,000

17. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company is required to establish a statutory reserve by appropriating 20% of net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution. No appropriation has been made because the Company has losses for this year.

18. GENERAL AND ADMINISTRATIVE EXPENSES

	2020			*2019*		
SR'000	***Insurance operations SR***	***Shareholders' operations SR***	***Total SR***	*Insurance Operations SR*	*Shareholders' operations SR*	***Total SR***
Salaries and benefits	**34,100**		**34,100**	36,881	325	37,206
End of service benefits	**2,017**		**2,017**	2,293	--	2,293
Remuneration of the Board of Directors (note 20)	**--**	**630**	**630**	--	630	630
Technical service charges (note 20)	**6,919**	**--**	**6,919**	6,547	--	6,547
Rent	**963**	**--**	**963**	992	--	992
Depreciation	**995**	**--**	**995**	789	--	789
Amortization	**650**	**--**	**650**	57	--	57
Legal and professional fees	**4,603**	**--**	**4,603**	1,631	--	1,631
Business travel and transport	**505**	**--**	**505**	585	--	585
IT related services	**7,049**	**--**	**7,049**	5,654	--	5,654
Utilities	**509**	**--**	**509**	353	--	353
Stationery	**250**	**--**	**250**	188	--	188
Others	**1,148**	**825**	**1,973**	1,209	539	1,748
	59,708	**1,455**	**61,163**	57,179	1,494	58,673

19. COMMITMENTS AND CONTINGENCIES

The Company's commitments and contingencies are as follows:

SR'000	December 31, 2020	December 31, 2019
Letters of guarantee	700	700
Commitments for the rents	151	346
Total	851	1,046

The Company is subject to legal proceedings in the ordinary course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management believes that such proceedings (including litigations) will not have a material effect on its results and financial position. The Company did not have any significant outstanding legal proceedings as at the reporting date.

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 year and the related balances:

Entities controlled, jointly controlled or significantly influenced by related parties	Transactions for the year ended	
	2020	2019
	SR' 000	
Gross premiums written	67,420	94,481
Gross claims paid	41,327	49,169
Brokerage commission paid	4,833	4,758
Reinsurance premium ceded	42,752	27,688
Reinsurance share of gross claim paid	2,970	2,805
Reinsurance commission income	16,947	11,323
Investment income on term deposits	3,179	6,032
Technical service charges	6,919	6,547
Brand fees	30	30
Operational expenses paid on behalf of affiliates and reinsurance placements	979	831
Operational expenses paid by affiliates on behalf of Company	(2,291)	(2,267)
Key management personnel and Board members		
Gross written premiums	4	32
Remuneration and meeting fee	630	630

Entities controlled, jointly controlled or significantly influenced by related parties	Balance receivable / (payable) as at	
	2020	2019
	SR'000	
Bank balances	2,237	1,008
Term deposits	142,810	171,523
Statutory deposit	45,297	44,151
Accrued interest receivable	254	2,974
Premium receivable	4,957	9,815
Reinsurance balance payable	(15,912)	(6,405)
Accrued expenses and other liabilities	(10,253)	(9,692)
Reinsurance share of gross outstanding claims	6,908	2,914
Gross outstanding claim	(53,028)	(53,351)
Due from related parties	734	69
Due to related parties	(3,763)	(1,788)

20. RELATED PARTY TRANSACTIONS AND BALANCES

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

	December 31, 2020	December 31, 2019
	SR'000	
Salaries and other allowances	**6,956**	7,373
End of service indemnities	**403**	378
	7,359	7,751

21. OPERATING SEGMENTS

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

Segment assets and liabilities comprise operating assets and liabilities.

Segment assets do not include (in respect of insurance operations) property and equipment, Term deposits, Investments, cash and cash equivalents, prepaid expenses, other assets, premiums and reinsurance balances receivable, net. Accordingly, these are included in unallocated assets and are managed and reported to the chief operating decision maker on a centralized basis.

Segment liabilities do not include (in respect of insurance operations) employees' end of service benefits, reinsurance balances payable, accrued and other liabilities, account payables, due to related parties, zakat and income tax, accrued commission, income payable to SAMA and due from insurance operations. Accordingly these are included in unallocated liabilities and are managed and reported to the chief operating decision maker on a centralized basis.

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

21. OPERATING SEGMENTS (Continued)

The segment information provided to the Company's Board of Directors for the reportable segments for the Company's total assets and liabilities at December 31, 2020 and December 31, 2019, its total revenues, expenses, and net income for the the year ended, are as follows:

As at December 31, 2020

Operating segments	Insurance operations								Shareholders' operations	Total
	Property	Motor	Engineering	Medical	Marine	Group life	Others	Total - Insurance operations		
	SR'000									
Assets										
Reinsurers' share of unearned premiums	31,333	–	4,490	–	3,093	526	2,799	42,241	–	42,241
Reinsurers' share of outstanding claims	10,204	2,082	1,427	10	2,767	41,526	2,280	60,296	–	60,296
Reinsurers' share of claims Incurred but not reported	116	–	319	(502)	(182)	3,635	–	3,386	–	3,386
Deferred policy acquisition costs	830	701	276	–	354	127	239	2,527	–	2,527
Unallocated assets	–	–	–	–	–	–	–	266,428	464,575	731,003
Total assets	42,483	2,783	6,512	(492)	6,032	45,814	5,318	374,878	464,575	839,453
Liabilities and equity										
Outstanding claim reserve	10,978	(1,103)	1,889	62	4,451	54,414	3,405	74,096	–	74,096
Claims incurred but not reported	159	21,083	449	(11)	(291)	4,634	24	26,047	–	26,047
Other technical reserves	2,063	2,630	–	–	783	92	–	5,568	–	5,568
Unearned premiums	34,766	10,438	4,956	–	3,651	868	6,253	60,932	–	60,932
Unearned reinsurance commission	5,090	–	1,142	–	987	–	(51)	7,168	–	7,168
Unallocated liabilities								201,067	464,575	665,642
Total Liabilities, Insurance operations' surplus and equity	53,056	33,048	8,436	51	9,581	60,008	9,631	374,878	464,575	839,453

21. OPERATING SEGMENTS (Continued)

As at December 31, 2019

Operating segments	Insurance operations									
	Property	Motor	Engineering	Medical	Marine	Group life	Others	Total - Insurance operations	Shareholders' operations	Total
	SR'000									
Assets										
Reinsurers' share of unearned premiums	31,320	--	3,621	678	1,772	501	3,114	41,006	--	41,006
Reinsurers' share of outstanding claims	9,072	2,082	1,959	1	2,834	32,629	2,222	50,799	--	50,799
Reinsurers' share of claims Incurred but not reported	27	--	101	3,115	331	5,255	349	9,178	--	9,178
Deferred policy acquisition costs	869	2,295	214	--	341	109	331	4,159	--	4,159
Unallocated assets	--	--	--	--	--	--	--	317,253	461,490	778,743
Total assets	41,288	4,377	5,895	3,794	5,278	38,494	6,016	422,395	461,490	883,885
Liabilities and equity										
Outstanding claims	10,903	17,080	2,842	52	5,271	42,872	3,295	82,315	--	82,315
Claims incurred but not reported	18	25,375	172	3,763	79	6,796	372	36,575	--	36,575
Other technical reserves	1,161	3,434	--	9	183	--	--	4,787	--	4,787
Unearned premiums	32,525	26,799	4,027	967	2,227	811	6,254	73,610	--	73,610
Unearned reinsurance commission	2,797	--	905	--	687	1	(30)	4,360	--	4,360
Unallocated liabilities	--	--	--	--	--	--	--	220,748	461,490	682,238
Total Liabilities, Insurance operations' surplus and equity	47,404	72,688	7,946	4,791	8,447	50,480	9,891	422,395	461,490	883,885

21. OPERATING SEGMENTS (Continued)

	For the year ended December 31, 2020 - (SR '000')							
Operating segments	Property	Motor	Engineering	Medical	Marine	Group Life	Others	Total
REVENUES								
Gross premiums written	76,176	22,165	15,158	162	14,093	50,464	12,952	191,170
Reinsurance premiums ceded	(67,200)	–	(12,725)	–	(11,595)	(34,034)	(6,812)	(132,366)
Excess of loss premium	(1,865)	(1,242)	(366)	-	(642)	(750)	(349)	(5,214)
Net premiums written	7,111	20,923	2,067	162	1,856	15,680	5,791	53,590
Changes in unearned premiums, net	(2,228)	16,361	(60)	289	(103)	(32)	(314)	13,913
Net premiums earned	4,883	37,284	2,007	451	1,753	15,648	5,477	67,503
Reinsurance commissions	9,676	–	2,475	–	5,088	–	87	17,326
TOTAL REVENUES	14,559	37,284	4,482	451	6,841	15,648	5,564	84,829
UNDERWRITING COSTS AND EXPENSES								
Gross claims paid	(4,253)	(34,652)	(227)	(8,375)	(1,725)	(29,625)	307	(78,550)
Reinsurers' share of claims paid	3,523	–	216	7,435	1,298	22,623	(794)	34,301
Net claims paid	(730)	(34,652)	(11)	(940)	(427)	(7,002)	(487)	(44,249)
Changes in outstanding claims, IBNR & technical reserves	102	23,279	362	165	10	(2,195)	(52)	21,671
Net claims incurred	(628)	(11,373)	351	(775)	(417)	(9,197)	(539)	(22,578)
Policy acquisition costs	(4,109)	(3,408)	(1,067)	-	(1,308)	(4,463)	(735)	(15,090)
Other underwriting expenses								(1,378)
TOTAL UNDERWRITING COSTS AND EXPENSES								(39,046)
NET UNDERWRITING INCOME								45,783
OTHER OPERATING (EXPENSES)/ INCOME								
Reversal for doubtful debts								(1,078)
General and administrative expenses								(61,163)
Investment income on term deposits								6,752
Investment income								3,849
Other Income								7,305
TOTAL OTHER OPERATING EXPENSES								(44,335)
TOTAL INCOME FOR THE YEAR								1,448
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE INSURANCE OPERATIONS								–
TOTAL INCOME FOR THE YEAR ATTRIBUTED TO THE SHAREHOLDERS'								1,448

21. OPERATING SEGMENTS (Continued)

Operating segments	For the year ended December 31, 2019 - SR ('000')							
	Property	Motor	Engineering	Medical	Marine	Group Life	Others	Total
REVENUES								
Gross premiums written	65,908	74,692	13,451	2,885	11,952	38,261	12,792	219,941
Reinsurance premiums ceded	(63,600)	--	(11,254)	(1,624)	(8,533)	(22,144)	(6,014)	(113,169)
Excess of loss expenses	(733)	(1,765)	(434)	--	(508)	(691)	(232)	(4,363)
NET PREMIUMS WRITTEN	1,575	72,927	1,763	1,261	2,911	15,426	6,546	102,409
Changes in unearned premiums, net	8,025	11,173	351	2,881	1,044	85	(227)	23,332
NET PREMIUMS EARNED	9,600	84,100	2,114	4,142	3,955	15,511	6,319	125,741
Reinsurance commissions	5,564	--	3,370	(24)	3,298	178	285	12,671
TOTAL REVENUES	15,164	84,100	5,484	4,118	7,253	15,689	6,604	138,412
UNDERWRITING COSTS AND EXPENSES								
Gross claims paid	(11,373)	(71,081)	(6,426)	(14,910)	(2,523)	(8,778)	(1,109)	(116,200)
Reinsurers' share of claims paid	10,583	--	6,179	12,277	1,830	6,522	77	37,468
Net claims paid	(790)	(71,081)	(247)	(2,633)	(693)	(2,256)	(1,032)	(78,732)
Changes in outstanding claims, IBNR & technical reserves	(450)	20,306	534	315	283	(4,774)	271	16,485
Net claims incurred	(1,240)	(50,775)	287	(2,318)	(410)	(7,030)	(761)	(62,247)
Policy acquisition costs	(3,621)	(7,857)	(1,420)	1	(550)	(4,085)	(528)	(18,060)
Other underwriting expenses								(1,119)
TOTAL UNDERWRITING COSTS AND EXPENSES								(81,426)
NET UNDERWRITING INCOME								56,986
OTHER OPERATING (EXPENSES)/ INCOME								
Reversal for doubtful debts								6,827
General and administrative expenses								(58,673)
Investment income on term deposits								12,591
Investment income								3,590
Other Income								4,066
TOTAL OTHER OPERATING EXPENSES								(31,599)
TOTAL INCOME FOR THE YEAR								25,387
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE INSURANCE OPERATIONS								(1,728)
TOTAL INCOME FOR THE YEAR ATTRIBUTED TO THE SHAREHOLDERS'								23,659

21. OPERATING SEGMENTS (Continued)

	For the year ended December 31, 2020 SAR'000				
Gross premiums written	**Medical**	**Motor**	**Property, General Accident & Others**	**Protection (Group Life) & Savings**	**Total**
Large	**162**	**3,586**	**90,985**	**55,259**	**149,992**
Medium	--	**7,824**	**15,247**	**306**	**23,377**
Micro	--	**(130)**	**103**	**11**	**(16)**
Small	--	**2,894**	**6,191**	**33**	**9,118**
Individual	--	**7,991**	**708**	--	**8,699**
	162	**22,165**	**113,234**	**55,609**	**191,170**

	For the year ended December 31, 2019 SAR'000				
Gross premiums written	Medical	Motor	Property, General Accident & Others	Protection (Group Life) & Savings	Total
Large	(3,147)	63,096	83,973	37,625	181,547
Medium	3,648	3,225	14,279	532	21,684
Micro	13	3	35	--	51
Small	2,363	1,167	4,637	104	8,271
Individual	8	7,201	1,179	--	8,388
	2,885	74,692	104,103	38,261	219,941

22. END OF SERVICE BENEFITS

The movement in provision for end-of-service benefits for the year ended 31 December 2020 as follows:

SR'000	2020	2019
Balance as 1 January	10,616	11,650
Current service cost	1,673	1,991
Interest cost	344	302
Amount recognized in profit or loss	2,017	2,293
Re-measurement gain recognized in other comprehensive income	(519)	(193)
Benefits paid during the year	(1,401)	(3,134)
Balance as 31 December	10,713	10,616

a) Re-measurement gain recognized in statement of changes in equity for the year ended 31 December 2020 as follows:

SR'000	2020	2019
Effect of experience adjustments	(519)	(193)
Re-measurement gain recognized in other comprehensive income	(519)	(193)

b) Net defined benefit as at year-end as follows:

SR'000	2020	2019
Present value of defined benefit obligation	10,713	10,616

c) Principal actuarial assumptions

The following were the principal actuarial assumptions:

Key actuarial assumptions	2020	2019
Discount rate used	3%	3%
Future growth in salary	3.5%	3.5%
Retirement Age	60 year	60 year

Discount rate used

This is the rate used to obtain the actuarial present value of the projected benefits. As per International Accounting Standard 19 "Employee Benefits", the rate used to discount post-employment benefit obligations shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The discount rate is derived with reference to the rates available in the market for the duration allowed as per the Company's investment policy. The Company currently considers bonds with a minimum credit rating of A as per Standard & Poor's or the equivalent from Moody's.

Salary increases

With regards to the past trend, it is assumed that the salaries would increase at a rate of 3.5% per annum compound in the long range. The valuation is sensitive to the gap between the interest and salary increase assumptions. Salary increments are assumed to be given on 1st of April every year.

Turnover

We assumed age-dependent withdrawal rates, with high rates for younger employees. It was assumed that there would be zero withdrawals after age 55 years.

22. END OF SERVICE BENEFITS (continued)

Sensitivity analysis

Reasonably possible changes as to one of the relevant actuarial assumptions, holding other assumptions constant, the amount of defined benefit obligations would have been:

SR'000	*2020 SR*	
	Increase	**Decrease**
Discount rate (0.5% movement)	**9,906**	**11,152**
Future salary growth (0. 5% movement)	**10,918**	**10,110**

SR'000	*2019 SR*	
	Increase	Decrease
Discount rate (0.5% movement)	10,012	11,279
Future salary growth (0. 5% movement)	11,038	10,223

d) Risks associated with defined benefit plans

Longevity risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual salary increases are higher than expectation and impacts the liability accordingly

23. RISK MANAGEMENT

Risk Governance

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

Risk management structure

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

Board of Directors

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

Senior management

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

23. RISK MANAGEMENT (Continued)

Audit Committee and Internal Audit Department

Risk management processes throughout the Company are audited annually by the Internal Audit Department which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Audit Department discusses the results of all assessments with senior management and reports its findings and recommendations directly to the Audit Committee.

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

a) **Insurance risk**

Insurance risk is the risk that actual claims payable to policy holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands. The Company underwrites mainly property, motor, casualty, engineering, medical and marine risks.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly property, engineering, motor, casualty, medical and marine classes. These classes of insurance except for long tail engineering policies are generally regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Sources of uncertainty in estimation of future probable claim payments

The key source of estimation uncertainty at the balance sheet date relates to the valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgement 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 balance sheet date the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of outstanding claims (including IBNR) are given under note 9.

a) **Insurance risk** *(Continued)*

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 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. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of balance sheet 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.

23. RISK MANAGEMENT (Continued)

Property

Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting therefrom are underwritten either on a replacement value or on a market value basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties and the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional as well as non-proportional treaties.

Engineering

The engineering business includes long term Erection All Risks (EAR) and Contractor All Risk (CAR) policies and annual policies for Machinery Break Down (MBD), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD. The long tail EAR/CAR policies cover various projects for the whole project period. Selection of the risks and proper underwriting are the criteria for this line of business. These are adequately covered under the Engineering proportional and non-proportional treaties.

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive polices for owner/drivers over 18 years of age. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 1 million (2019: SR 2 million).

Medical

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risks and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has reinsurance cover to limit the losses for any individual claim to SR 0.5 million (2019: SR 0.5 million).

Marine

For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargo.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim to SR 2 million (2019: SR 2 million).

Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in property and motor. The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location or by the same party. 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 evaluate 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 does not have any foreign operations, hence, all the insurance risks relate to policies written in Saudi Arabia.

23. RISK MANAGEMENT (Continued)

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. A hypothetical 10% change in the claims ratio would impact income annually in aggregate by:

	Income from insurance operations	
	2020	2019
	SR'000	
Impact of change in claim ratio by +10%		
Property	**63**	124
Motor	**1,137**	5,078
Engineering	**(35)**	(29)
Medical	**78**	232
Marine	**42**	41
Group Life	**920**	703
Others	**54**	76
	2,259	6,225
Impact of change in claim ratio by -10%		
Property	**(63)**	(124)
Motor	**(1,137)**	(5,078)
Engineering	**35**	29
Medical	**(78)**	(232)
Marine	**(42)**	(41)
Group Life	**(920)**	(703)
Others	**(54)**	(76)
	(2,259)	(6,225)

a) Claims management risk

Claims management risk may arise within the Company in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Company and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The Company's claims teams are focused on delivering quality, reliability and speed of service the policyholders. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

b) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the Company where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions. To manage reserving and ultimate reserves risk, the Company's actuarial team uses a range of recognized techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances. The objective of the Company's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business.

c) Reinsurance risk

In order to minimise its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for reinsurance purpose. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Reinsurance program is effected under treaty, facultative and excess of loss reinsurance contracts.

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

23. RISK MANAGEMENT (Continued)

c) Reinsurance risk (continued)

Reinsurance ceded contracts do not relieve the Company from its obligations to the policyholders and as a result the Company remains liable for a portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The credit exposure in this connection is SR 63.8 million (2019: SR 60.0 million).

d) Regulatory framework risk

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

e) 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 assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

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

- 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 from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's investment portfolio is managed by the management in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk on its financial assets as at 31 December 2020 is SR 324.7 million for Insurance Operations (31 December 2019: SR 374.5 million) and SR 397.1 million for Shareholders' Operations (31 December 2019: SR 388.9 million).

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

SR'000	2020 SR		2019 SR	
	Insurance Operations	Shareholders' Operations	Insurance Operations	Shareholders' Operations
Assets				
Cash in bank	**20,874**	**2,182**	14,012	907
Time deposits	**190,845**	**220,170**	248,869	182,896
Investments	--	**128,093**	--	155,927
Premiums and reinsurer' receivable	**47,160**	--	54,137	--
Reinsurers' share of outstanding claims	**60,296**	--	50,799	--
Reinsurers' share of claims incurred but not reported	**3,386**	--	9,178	--
Due from related parties	**734**	--	69	--
Other assets	**10,558**	**1,389**	5,567	5,062
Statutory deposit	--	**40,000**	--	40,000
Accrued commission income on statutory deposit	--	**5,297**	--	4,151
	333,853	**397,131**	382,631	388,943

23. RISK MANAGEMENT (Continued)

e) Credit risk (continued)

Concentration of credit risk

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

f) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligation and commitments associated with financial liabilities when they full due. The Company has a proper cash management system, where daily cash collection and payments are monitored and reconciled at the end of the day. At the time of investment, particular emphasis is focused on the selection of those companies which are actively traded. The Company manages this risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Company's assets in highly liquid financial assets.

Maturity table

The table below summarizes the maturity profile of the financial assets and liabilities of the Company based on remaining expected undiscounted contractual obligations:

	2020			2019		
SR'000	*Less than one year*	*More than one year*	*Total*	*Less than one year*	*More than one year*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*	*SR*
INSURANCE OPERATIONS' ASSETS						
Cash and cash equivalents	**20,874**	--	**20,874**	14,012	--	14,012
Term deposits	**190,845**	--	**190,845**	248,869	--	248,869
Investments	--	**1,923**	**1,923**	--	1,923	1,923
Premiums and insurance balances receivable, net	**36,052**	--	**36,052**	44,107	--	44,107
Due from related parties	**734**	--	**734**	69	--	69
Reinsurers' share of outstanding claims	**60,296**	--	**60,296**	50,799	--	50,799
Reinsurers' share of claims Incurred but not reported	**3,386**	--	**3,386**	9,178	--	9,178
Other assets	**10,558**	--	**10,558**	5,567	--	5,567
TOTAL INSURANCE OPERATIONS' ASSETS	**322,745**	**1,923**	**324,668**	372,601	1,923	374,524

23. RISK MANAGEMENT (continued)

f) Liquidity risk (Continued)

SR'000	2020 Less than one year SR	2020 More than one year SR	2020 Total SR	2019 Less than one year SR	2019 More than one year SR	2019 Total SR
SHAREHOLDERS' ASSETS						
Cash and cash equivalents	2,182	--	2,182	907	--	907
Term deposits	220,170	--	220,170	182,896	--	182,896
Investments	--	128,093	128,093	29,060	126,867	155,927
Other assets	1,389	--	1,389	5,062	--	5,062
Accrued commission income on statutory deposit	--	5,297	5,297	--	4,151	4,151
Statutory deposit	--	40,000	40,000	--	40,000	40,000
TOTAL SHAREHOLDERS' ASSETS	223,741	173,390	397,131	217,925	171,018	388,943
TOTAL ASSETS	546,486	175,313	721,799	590,526	172,941	763,467

SR'000	2020 Less than one year SR	2020 More than one year SR	2020 Total SR	2019 Less than one year SR	2019 More than one year SR	2019 Total SR
INSURANCE OPERATIONS' LIABILITIES						
Outstanding claims reserve	74,096	--	74,096	82,315	--	82,315
Claims incurred but not reported	26,047	--	26,047	36,575	--	36,575
Other technical reserves	5,568	--	5,568	4,787	--	4,787
Accounts payable	4,569	--	4,569	15,060	--	15,060
Reinsurance balances payable	74,048	--	74,048	81,420	--	81,420
Due to related parties	3,350	--	3,350	1,375	--	1,375
Accrued expenses and other liabilities	33,348	--	33,348	31,206	--	31,206
TOTAL INSURANCE OPERATIONS' LIABILITIES	221,026	--	221,026	252,738	--	252,738
SHAREHOLDERS' LIABILITIES						
Due to insurance operations	--	--	--	--	--	--
Due to related parties	413	--	413	413	--	413
Accrued and other liabilities	4,531	--	4,531	4,687	--	4,687
TOTAL SHAREHOLDERS' LIABILITIES	4,944	--	4,944	5,100	--	5,100

23. RISK MANAGEMENT (continued)

f) Liquidity risk (Continued)

The tables below summaries the maturity profile of the financial assets and financial liabilities of the Company based on residual maturity. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized insurance liabilities. Unearned premiums, reinsurance share of unearned premiums and deferred acquisition cost have been excluded from the analysis as they are not contractual obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

	2020				
SR'000	*On Demand*	*Up to 1 year*	*2-5 years*	*More than 5 years*	*Total*
INSURANCE OPERATIONS' ASSETS					
Cash and cash equivalents	20,874	--	--	--	20,874
Term deposits	--	190,845	--	--	190,845
Investments	--	--	--	1,923	1,923
Premiums and insurance balances receivable, net	--	36,052	--	--	36,052
Due from related parties	--	734	--	--	734
Due from shareholders' operations		--	--	--	--
Reinsurers' share of outstanding claims	--	60,296	--	--	60,296
Reinsurers' share of claims incurred but not reported	--	3,386	--	--	3,386
Other assets	--	10,558	--	--	10,558
TOTAL INSURANCE OPERATIONS' ASSETS	20,874	301,871	--	1,923	324,668
SHAREHOLDERS' ASSETS					
Cash and cash equivalents	2,182	--	--	--	2,182
Term deposits	--	220,170	--	--	220,170
Investments	--	--	128,093	--	128,093
Other assets	--	1,389	--	--	1,389
Accrued commission income on statutory deposit	--	--	--	5,297	5,297
Statutory deposit	--	--	--	40,000	40,000
TOTAL SHAREHOLDERS' ASSETS	2,182	221,559	128,093	45,297	397,131

	2020				
SR'000	*On Demand*	*Up to 1 Year*	*2-5 years*	*More than 5 years*	*Total*
INSURANCE OPERATIONS' LIABILITIES					
Outstanding claims reserve	--	74,096	--	--	74,096
Claims incurred but not reported	--	26,047	--	--	26,047
Other technical reserve	--	5,568	--	--	5,568
Accounts payables	--	4,569	--	--	4,569
Reinsurers' balances payable	--	74,048	--	--	74,048
Due to related parties	--	3,350	--	--	3,350
Accrued expenses and other liabilities	--	33,348	--	--	33,348
TOTAL INSURANCE OPERATIONS' LIABILITIES	--	221,026	--	--	221,026
SHAREHOLDERS' LIABILITIES					
Due to insurance operations	--	--	--	--	--
Due to a related parties	--	413	--	--	413
Accrued expenses and other liabilities	--	4,531	--	--	4,531
TOTAL SHAREHOLDERS' LIABILITIES	--	4,944	--	--	4,944

23. RISK MANAGEMENT (continued)

f) Liquidity risk (Continued)

	2019				
SR'000	*On Demand*	*Up to 1 Year*	*2-5 years*	*More than 5 years*	*Total*
INSURANCE OPERATIONS' ASSETS					
Cash and cash equivalents	14,012	--	--	--	14,012
Term deposits	--	248,869	--	--	248,869
Investments	--	--	--	1,923	1,923
Premiums and insurance balances receivable, net	--	44,107	--	--	44,107
Due from related parties	--	69	--	--	69
Reinsurers' share of outstanding claims	--	50,799	--	--	50,799
Reinsurers' share of claims incurred but not reported	--	9,178	--	--	9,178
Other assets	--	5,567	--	--	5,567
TOTAL INSURANCE OPERATIONS' ASSETS	14,012	358,589	--	1,923	374,524
SHAREHOLDERS' ASSETS					
Cash and cash equivalents	907	--	--	--	907
Term deposits	--	182,896	--	--	182,896
Investments	--	29,060	126,867	--	155,927
Other assets	--	5,062	--	--	5,062
Accrued commission income on statutory deposit	--	--	--	4,151	4,151
Statutory deposit	--	--	--	40,000	40,000
TOTAL SHAREHOLDERS' ASSETS	907	217,018	126,867	44,151	388,943

	2019				
SR'000	*On Demand*	*Up to 1 Year*	*2-5 years*	*More than 5 years*	*Total*
INSURANCE OPERATIONS' LIABILITIES					
Outstanding claims reserve	--	82,315	--	--	82,315
Claims incurred but not reported	--	36,575	--	--	36,575
Other technical reserve	--	4,787	--	--	4,787
Accounts payables	--	15,060	--	--	15,060
Reinsurers' balances payable	--	81,420	--	--	81,420
Due to related parties	--	1,375	--	--	1,375
Accrued expenses and other liabilities	--	31,206	--	--	31,206
TOTAL INSURANCE OPERATIONS' LIABILITIES	--	252,738	--	--	252,738
SHAREHOLDERS' LIABILITIES					
Due to insurance operations	--	--	--	--	--
Due to a related parties	--	413	--	--	413
Accrued expenses and other liabilities	--	4,687	--	--	4,687
TOTAL SHAREHOLDERS' LIABILITIES	--	5,100	--	--	5,100

To manage the liquidity risk arising from financial liabilities mentioned above, the Company holds liquid assets comprising cash and bank balances and investment securities for which there is an active market. These assets can be readily sold to meet liquidity requirements.

23. RISK MANAGEMENT (Continued)

g) *Foreign currency risk*

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

h) *Investment income rate risk*

Investment income rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market investment income rates. Floating rate instruments expose the Company to cash flow investment income risk, whereas fixed investment income rate instruments expose the Company to fair value interest risk. The Company is not exposed to investment income rate risk as rates are fixed.

i) *Market rate risk*

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

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

The sensitivity of the income on the assumed changes in the market prices of quoted available for sale investments on the statement of shareholders' comprehensive income is set out below:

	Change in market price	*Effect on statement of shareholders' comprehensive operations* *SR*
2020	+5%	**6,405**
	-5%	**(6,405)**
2019	+5%	7,796
	-5%	(7,796)

24. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulator's capital requirements of the market in which the Company operates while maximizing the return to stakeholders through the optimization of the equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital and reserves. The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In order to maintain or adjust the capital structure, the Company may issue right shares. As per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained, the Company maintains solvency margin equivalent to the highest of the three methods as per SAMA Implementing Regulations.

The Company has fully complied with the externally imposed capital requirements during the reported financial year.

25. SUPPLEMENTARY INFORMATION

A) STATEMENT OF FINANCIAL POSITION

	SR '000					
	December 31, 2020			December 31, 2019		
	Insurance operations	**Shareholders operations**	**Total**	Insurance operations	Shareholders operations	Total
ASSETS						
Cash and cash equivalents	**20,874**	**2,182**	**23,056**	14,012	907	14,919
Term deposits	**190,845**	**220,170**	**411,015**	248,869	182,896	431,765
Premiums and reinsurers' receivable, net	**36,052**	--	**36,052**	44,107	--	44,107
Reinsurers' share of unearned premiums	**42,241**	--	**42,241**	41,006	--	41,006
Reinsurers' share of outstanding claims	**60,296**	--	**60,296**	50,799	--	50,799
Reinsurers' share of claims Incurred but not reported	**3,386**	--	**3,386**	9,178	--	9,178
Deferred policy acquisition costs	**2,527**	--	**2,527**	4,159	--	4,159
Investments	**1,923**	**128,093**	**130,016**	1,923	155,927	157,850
Due from related parties	**734**	--	**734**	69	--	69
Prepaid expenses and other assets	**10,558**	**1,389**	**11,947**	5,567	5,062	10,629
Deferred tax asset	--	**1,072**	**1,072**	--	1,064	1,064
Property and equipment	**1,413**	--	**1,413**	1,145	--	1,145
Intangible assets	**4,029**	--	**4,029**	1,561	--	1,561
Statutory deposit	--	**40,000**	**40,000**	--	40,000	40,000
Accrued commission income on statutory deposit	--	**5,297**	**5,297**	--	4,151	4,151
TOTAL ASSETS IN THE STATEMENT OF FINANCIAL POSITION	**374,878**	**398,203**	**773,081**	422,395	390,007	812,402
ASSETS NOT INCLUDED IN THE STATEMENT OF FINANCIAL POSITION						
Due from insurance operations	--	**66,380**	**66,380**	--	71,483	71,483
TOTAL ASSETS	**374,878**	**464,583**	**839,461**	422,395	461,490	883,885

25. SUPPLEMENTARY INFORMATION (Continued)

A) STATEMENT OF FINANCIAL POSITION *(continued)*

	SR '000					
	December 31, 2020			December 31, 2019		
	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
LIABILITIES						
Outstanding claims reserve	74,096	--	74,096	82,315	--	82,315
Claims incurred but not reported	26,047	--	26,047	36,575	--	36,575
Other technical reserves	5,568	--	5,568	4,787	--	4,787
Accrued expenses and other liabilities	33,348	4,531	37,879	31,206	4,687	35,893
Reinsurers' balances payable	74,048	--	74,048	81,420	--	81,420
Unearned premiums	60,932	--	60,932	73,610	--	73,610
Accounts payables	4,569	--	4,569	15,060	--	15,060
Unearned reinsurance commission	7,168	--	7,168	4,360	--	4,360
Due to related parties	3,350	413	3,763	1,375	413	1,788
End-of-service benefits	10,713	--	10,713	10,616	--	10,616
Zakat and income tax	--	50,916	50,916	--	44,267	44,267
Accrued commission income payable to SAMA	--	5,297	5,297	--	4,151	4,151
Accumulated surplus	8,404	--	8,404	9,852	--	9,852
TOTAL LIABILITIES	308,243	61,157	369,400	351,176	53,518	404,694
EQUITY						
Share capital		400,000	400,000	--	400,000	400,000
Statutory reserve		1,161	1,161	--	1,161	1,161
(Accumulated losses) / retained earnings	--	(1,503)	(1,503)	--	4,643	4,643
Fair value reserve for available for sale investments	--	3,768	3,768	--	2,168	2,168
Actuarial reserve for employee benefits	255	--	255	(264)	--	(264)
TOTAL EQUITY	255	403,426	403,681	(264)	407,972	407,708
TOTAL LIABILITIES INSURANCE OPERATIONS' SURPLUS AND EQUITY IN THE STATEMENT OF FINANCIAL POSITION	308,498	464,583	773,081	350,912	461,490	812,402
LIABILITIES NOT INCLUDED IN THE STATEMENT OF FINANCIAL POSITION						
Due to insurance operations	66,380	--	66,380	71,483	--	71,483
TOTAL LIABILITIES INSURANCE OPERATIONS' SURPLUS AND EQUITY	374,878	464,583	839,461	422,395	461,490	883,885

25. SUPPLEMENTARY INFORMATION (Continued)

B) STATEMENT OF INCOME

	SR '000					
	For the year ended December					
	2020			2019		
	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
REVENUES						
Gross premiums written						
- Direct	190,508	--	190,508	219,034	--	219,034
- Reinsurance	662	--	662	907	--	907
	191,170	--	191,170	219,941	--	219,941
Reinsurance premiums ceded	(132,366)	--	(132,366)	(113,169)	--	(113,169)
Excess of loss premium	(5,214)	--	(5,214)	(4,363)	--	(4,363)
Net premiums written	53,590	--	53,590	102,409	--	102,409
Changes in unearned premiums	12,678	--	12,678	38,863	--	38,863
Changes in reinsurers' share of unearned premium	1,235	--	1,235	(15,531)	--	(15,531)
Net premiums earned	67,503	--	67,503	125,741	--	125,741
Reinsurance commissions	17,326	--	17,326	12,671	--	12,671
TOTAL REVENUES	84,829	--	84,829	138,412	--	138,412
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	(78,550)	--	(78,550)	(116,200)	--	(116,200)
Reinsurers' share of claims paid	34,301	--	34,301	37,468	--	37,468
Net claims and other benefits paid	(44,249)	--	(44,249)	(78,732)	--	(78,732)
Changes in outstanding claims	8,219	--	8,219	3,405	--	3,405
Changes in reinsurers' share of outstanding claims	9,497	--	9,497	6,444	--	6,444
Changes in IBNR, net	4,736	--	4,736	10,730	--	10,730
Other technical reserves	(781)	--	(781)	(4,094)	--	(4,094)
Net claims incurred	(22,578)	--	(22,578)	(62,247)	--	(62,247)
Policy acquisition costs	(15,090)	--	(15,090)	(18,060)	--	(18,060)
Other underwriting expenses	(1,378)	--	(1,378)	(1,119)	--	(1,119)
TOTAL UNDERWRITING COSTS AND EXPENSES	(39,046)	--	(39,046)	(81,426)	--	(81,426)
NET UNDERWRITING INCOME	45,783	--	45,783	56,986	--	56,986

25. SUPPLEMENTARY INFORMATION (Continued)

B) STATEMENT OF INCOME *(Continued)*

	SR '000					
	For the year ended December					
	2020			2019		
	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
OTHER OPERATING (EXPENSES)/ INCOME						
(Allowance) / reversal for doubtful debts	(1,078)	--	(1,078)	6,827	--	6,827
General and administrative expenses	(59,708)	(1,455)	(61,163)	(57,179)	(1,494)	(58,673)
Investment income on term deposits	3,582	3,170	6,752	6,580	6,011	12,591
Investment income on bonds and sukuks	--	3,849	3,849	--	3,590	3,590
Other income	7,305	--	7,305	4,066	--	4,066
TOTAL OTHER OPERATING (EXPENSES)/ INCOME	(49,899)	5,564	(44,335)	(39,706)	8,107	(31,599)
TOTAL INCOME FOR THE YEAR	(4,116)	5,564	1,448	17,280	8,107	25,387
Total income for the year attributed to the insurance operations	--	--	--	(1,728)	--	(1,728)
Shareholders' absorption of deficit/ (Surplus transferred to Shareholders)	4,116	(4,116)	--	(15,552)	15,552	--
TOTAL INCOME BEFORE ZAKAT AND INCOME TAX FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS	--	1,448	1,448	--	23,659	23,659
ZAKAT CHARGE FOR THE YEAR	--	(7,477)	(7,477)	--	(7,486)	(7,486)
TAX CHARGE FOR THE YEAR	--	(117)	(117)	--	(1,154)	(1,154)
		(6,146)	(6,146)		15,019	15,019
Earnings per share (Expressed in SR per share)						
Basic and diluted earnings per share		(0.15)	(0.15)	--	0.38	0.38

C) STATEMENT OF COMPREHENSIVE INCOME

	SR '000					
	For the year ended December					
	2020			2019		
	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
Total income for the year	--	(6,146)	(6,146)	1,728	15,019	16,747
Other comprehensive loss						
Items that will not be reclassified to statement of income in subsequent periods						
Change in fair value of available for sale investments		1,600	1,600	--	3,837	3,837
-Items that will not be reclassified to statement of income in subsequent periods						
Remeasurement gain on end-of-service benefits	--	519	519	--	193	193
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	--	(4,027)	(4,027)	1,728	19,049	20,777
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO INSURANCE OPERATIONS	--	--	--	(1,728)	--	(1,728)
NET COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS	--	(4,027)	(4,027)	--	19,049	19,049

25. SUPPLEMENTARY INFORMATION (Continued)

D) STATEMENT OF CASH FLOWS

	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
	2020			2019		
CASH FLOWS FROM OPERATING ACTIVITIES						
Net profit for the year	–	1,448	1,448	1,728	23,659	25,387
Adjustments for non-cash items:						
Depreciation of property and equipment	995	–	995	789	–	789
Amortization of intangible assets	650	–	650	57		57
Amortization of investments	–	334	334	–	74	74
(Reversal)/Allowance for provisions for doubtful debts	1,078	–	1,078	(6,827)	–	(6,827)
Provision for end-of-service benefits	2,017	–	2,017	2,293	–	2,293
Changes in operating assets and liabilities:						
Premiums and reinsurers' receivable	6,977	–	6,977	33,588	–	33,588
Reinsurers' share of unearned premiums	(1,235)	–	(1,235)	15,531	–	15,531
Reinsurers' share of outstanding claims	(9,497)	–	(9,497)	(6,444)	–	(6,444)
Reinsurers' share of claims Incurred but not reported	5,792	–	5,792	(948)	–	(948)
Deferred policy acquisition costs	1,632	–	1,632	472	–	472
Due from related parties	(665)	–	(665)	561	–	561
Prepaid expenses and other assets	(4,991)	3,673	(1,318)	(2,567)	(945)	(3,512)
Statutory deposits	–	(1,146)	(1,146)	–	(1,092)	(1,092)
Accounts payables	(10,491)	–	(10,491)	6,589	–	6,589
Accrued expenses and other liabilities	2,142	(156)	1,986	(277)	386	109
Reinsurers' balances payable	(7,372)	–	(7,372)	28,636	–	28,636
Unearned premiums	(12,678)	–	(12,678)	(38,863)	–	(38,863)
Unearned reinsurance commission	2,808	–	2,808	994	–	994
Outstanding claims	(8,219)	–	(8,219)	(3,405)	–	(3,405)
Zakat and Tax paid	–	(953)	(953)	–	(1,969)	(1,969)
Claims incurred but not reported	(10,528)	–	(10,528)	(9,782)	–	(9,782)
Other technical reserves	781	–	781	4,094	–	4,094
Accrued commission income payable to SAMA	–	1,146	1,146	–	1,092	1,092
Due to related parties	1,975	–	1,975	743	–	743
	(38,829)	4,346	(34,483)	26,962	21,205	48,167
End-of-service benefits paid	(1,401)	–	(1,401)	(3,134)	–	(3,134)
Surplus paid to policy holders	(1,448)	–	(1,448)	(2,139)	–	(2,139)
Net cash generated from operating activities	(41,678)	4,346	(37,332)	21,689	21,205	42,894
CASH FLOWS FROM INVESTING						
Additions in investments	–	29,100	29,100	–	(61,105)	(61,105)
(Additions)/disposals in term deposits	58,024	(37,274)	20,750	(37,347)	16,812	(20,535)
Additions in intangible assets	(3,117)	–	(3,117)	(1,618)	–	(1,618)
Additions in property and equipment	(1,264)	–	(1,264)	(393)	–	(393)
Net cash generated (used in)/from investing activities	53,643	(8,174)	45,469	(39,358)	(44,293)	(83,651)
Net change in cash and cash equivalents	11,965	(3,828)	8,137	(17,669)	(23,088)	(40,757)
Cash and cash equivalents, beginning of the year	13,312	907	14,219	12,175	42,801	54,976
Due from/ (to) insurance operations	(5,103)	5,103	–	18,806	(18,806)	–
Cash and cash equivalents, end of the year	20,174	2,182	22,356	13,312	907	14,219

26. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to current period presentation.

27. IMPACT OF COVID 19 OUTBREAK AND SUBSEQUENT EVENTS

The outbreak of novel coronavirus (COVID-19) since early 2020, its spread across mainland China and then globally including the Kingdom of Saudi Arabia and the declaration of this pandemic by the World Health Organization has resulted globally in governmental authorities imposing quarantines and travel restrictions of varying scope; has led to significant disruptions in the retail, travel and hospitality industries, and in global trade. It has resulted in decreased economic activity and lowered estimates for future economic growth and has caused global financial markets to experience significant volatility. The Company has considered the following while assessing the impact of COVID-19 outbreak:

- **Financial assets**

The Company has performed an assessment in accordance with its accounting policy due to the Covid-19 pandemic to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. These include factors such as, significant financial difficulties of issuers or debtors, default or delinquency in payments, probability that the issuer or debtor will enter bankruptcy or other financial reorganization, etc. In case of equities classified under available-for-sale, the Company has performed an assessment to determine whether there is a significant decline in the fair value of financial assets below their cost. Based on these assessments, the Company's management believes that the Covid-19 pandemic has had no material effects on Company's reported results for the year ended 31 December 2020. The Company's management continues to monitor the situation closely.

- **Credit risk management**

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

- Foods
- Airlines
- Freight companies
- Hotels
- Retail
- Construction
- Entertainment
- Tourism

- **Liquidity Risk**

The Company is aware of the need to keep a close focus on liquidity management during this period and has enhanced its monitoring of current liquidity needs as well as the pandemic in its entirety. The Company regularly reviews and updates the liquidity forecast based on the individual liquidity balance as well as the continued development of external economic factors.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statement have been approved by the Board of Directors on 03 March 2021, corresponding to 19 Rajab 1442H.