WATANIYA INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the year ended December 31, 2019

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INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF WATANIYA INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

Opinion

We have audited the financial statements of Wataniya Insurance Company – a Saudi Joint Stock Company (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the related statement of income, statement of comprehensive income, statement of changes in shareholders' equity and the statement of cash flows for the year then ended and the summary of significant accounting policies and other explanatory notes from 1 to 32.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter is provided in that context:

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for Outstanding Claims – Gross *The Company's gross provision for reported claims and incurred but not reported claims (IBNR) as stated in note 7, amounted to SR 712.6 million (2018: SR 358.2 million).* The provision for reported claims by policyholders recorded by the Company comprises of the total value of individual outstanding claims estimated by internal or external loss adjusters when a claim has been initiated. These estimates are reassessed during the various stages of the claim processing cycle and are revised based on changes in specific circumstances pertaining to each claim. The IBNR recorded by the Company represents an estimate of the liability for a claim-generating event that has taken place during the year but has not yet been reported to the Company as at the year-end. IBNR is calculated by an external actuary appointed by management. The calculations are, primarily, based on the computations performed after considering historical claim trends, empirical data and assumptions where a small change in these assumptions could lead to material impact on the estimated amounts. Due to uncertainties inherent in the estimation of the provisioning, delays in reported losses to the Company, litigations arising in the ordinary course of business, together with the potential for unforeseen adverse developments, ultimate amount paid may vary materially from the amount estimated at the reporting date. Consequently, we determined provision for reported claims by policyholders and IBNR as a key audit matter. Please refer to notes 3(c) for the accounting policy adopted by the Company and note 2d(i) for the significant accounting judgements, estimates and assumptions involved in the initial recognition and subsequent measurement of claims. Also, refer note 7 for movement in outstanding claims and IBNR.	In order to assess the status and likely outcome of the matter including any potential adjustments, we performed the below procedures. For reported claims by policyholders, we: • tested controls over the initiation, review and approval of the claim process across the different lines of business including the claim settlement process. • evaluated the provision for a selected sample of reported claims by policyholder and recorded by management by reviewing the loss adjusters' reports, internal policies for reserves and other assumptions made by management. • performed a substantive analytical review on the movements in the provision for reported claims by policyholders during the year. • tested the adequacy and completeness of the disclosures on the provision for reported claims by policyholders For IBNR, we: • evaluated the objectivity, independence and expertise of the actuarial valuator appointed by management. • tested the data by selecting sample, used by external actuary to the actuarial exhibits and verified that the data on which the estimate is based is accurate and complete. • involved our internal specialist to test the computation and evaluate the methodology and assumptions used by the actuary by comparing generally accepted industry practices. • tested the adequacy and completeness of the disclosures on the IBNR.

INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF WATANIYA INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY) (CONTINUED)

Other Information included in the Company's 2019 Annual Report

Management is responsible for the other information. The other information consists of the information included in the Company's 2019 annual report, other than 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 do not and will not express any form of assurance conclusion thereon.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF FINANCIAL STATEMENTS
TO THE SHAREHOLDERS OF WATANIYA INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY) (CONTINUED)

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain jointly responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current 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.

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance with the requirements of the Regulations for Companies, the Cooperative Insurance Companies Control Law and the Company's By-Laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young & Co.
(Certified Public Accountants)

Hussain Saleh Asiri
Certified Public Accountant
Licence No. 414

for Moore
El Sayed El Ayouty & Co.
(Certified Public Accountants)

Mohamed El Ayouty
Certified Public Accountant
License No. 211

19 March 2020
Corresponding to 24 Rajab 1441 H
Jeddah, Kingdom of Saudi Arabia

شركة ارنست ويونغ - محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

السيد العيوطي وشركاه
محاسبون ومراجعون قانونيون
ترخيص رقم ٣٥
CERTIFIED PUBLIC ACCOUNTANTS
License No. 35
EL SAYED EL AYOUTY & CO.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of financial position
As at December 31, 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
ASSETS			
Cash and cash equivalents	4	**354,707**	324,060
Premiums receivable – net	5	**153,813**	192,465
Due from reinsurers – net	6	**139,910**	13,240
Reinsurers' share of unearned premiums	7	**104,944**	104,039
Reinsurers' share of outstanding claims	7	**531,601**	159,448
Reinsurers' share of claims incurred but not reported	7	**57,091**	78,880
Deferred policy acquisition costs	7	**23,771**	24,279
Investments	8	**112,568**	106,927
Prepaid expenses and other assets	9	**18,780**	21,629
Property and equipment	10	**11,268**	9,976
Intangible assets	11	**35,963**	20,211
Statutory deposit	12	**20,000**	20,000
Accrued income on statutory deposit	12	**1,275**	848
TOTAL ASSETS		**1,565,691**	1,076,002
LIABILITIES			
Policyholders payable	13	**153,385**	29,938
Accrued expenses and other liabilities	14	**53,422**	56,663
Due to reinsurers, agents, brokers and third-party administrators	15	**76,899**	68,418
Unearned premiums	7	**259,887**	253,354
Unearned reinsurance commission	7	**25,328**	29,443
Outstanding claims	7	**610,423**	244,263
Claims incurred but not reported	7	**102,179**	114,013
Premium deficiency reserve	7	**10,845**	23,221
Additional unexpired risk reserve	7	**399**	385
Unallocated loss adjustment expenses	7	**5,014**	3,507
Surplus distribution payable		**2,512**	5,069
Zakat and income tax payable	21	**5,853**	7,305
Accrued income on statutory deposit	12	**1,275**	848
TOTAL LIABILITIES		**1,307,421**	836,427
SHAREHOLDERS' EQUITY			
Share capital	22	**200,000**	200,000
Statutory reserve	23	**13,787**	10,099
Retained earnings		**44,483**	29,476
TOTAL SHAREHOLDERS' EQUITY		**258,270**	239,575
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,565,691**	1,076,002
COMMITMENTS AND CONTINGENCIES	31	**13,470**	1,900

S.F. Abbas

The accompanying notes 1 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of Income
For the year ended December 31, 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
REVENUES			
Gross premium written	7 & 18	**735,044**	712,324
Reinsurance premiums ceded	24	**(306,595)**	(283,649)
Excess of loss expenses		**(12,743)**	(8,006)
Net premiums written		**415,706**	420,669
Changes in unearned premiums, net		**(5,628)**	(47,606)
Net premiums earned		**410,078**	373,063
Reinsurance commissions	7.4	**76,039**	72,924
Other underwriting income		**319**	406
TOTAL REVENUES		**486,436**	446,393
COST AND EXPENSES			
Gross claims paid and loss adjustment expenses		**541,208**	298,609
Reinsurers' share of claims paid		**(229,070)**	(82,804)
Net claims paid		**312,138**	215,805
Changes in outstanding claims, net		**(5,993)**	38,370
Changes in incurred but not reported claims, net		**9,955**	(6,609)
Net claims incurred		**316,100**	247,566
Reversal of reinsurance reserves		-	(3,597)
Premium deficiency reserve		**(12,376)**	23,221
Additional unexpired risk reserve		**14**	385
Unallocated loss adjustment expenses		**1,507**	3,507
Policy acquisition costs	7.3	**65,015**	65,318
TOTAL UNDERWRITING COST AND EXPENSES		**370,260**	336,400
NET UNDERWRITING INCOME		**116,176**	109,993
OTHER OPERATING (EXPENSES) / INCOME			
Allowance for impairment of doubtful debts		**(7,473)**	(7,900)
General and administrative expenses	26	**(110,329)**	(95,272)
Commission income on deposits	20	**7,411**	5,085
Unrealized gain on investments	8.1 & 8.3	**5,357**	1,773
Other income	27	**15,153**	9,107
TOTAL OTHER OPERATING EXPENSES, net		**(89,881)**	(87,207)
Net income before allocation		**26,295**	22,786
Net income attributed to the policyholders	28(e)	**(2,512)**	(2,353)
Net income for the year attributable to the shareholders before zakat and income tax		**23,783**	20,433
Zakat	21.2	**(4,161)**	(4,853)
Income tax	21.2	**(1,184)**	(2,020)
NET INCOME FOR THE YEAR		**18,438**	13,560
Earnings per share (expressed in SAR per share)	22	**0.92**	0.68

The accompanying notes 1 to 32 form an integral part of these financial statements.

S. F. Abbas

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of Comprehensive Income
For the year ended December 31, 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	**2019**	2018
NET INCOME FOR THE YEAR		**18,438**	13,560
Other comprehensive income/(loss)			
Items that will not be reclassified to statement of income in subsequent years			
Actuarial losses on defined benefit obligations	14.2 & 14.3	**(927)**	(1,364)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**17,511**	12,196

S. F. Abbas

The accompanying notes 1 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of Changes in Shareholders' Equity
For the year ended December 31, 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

For the year ended December 31, 2019

	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance at the beginning of the year		**200,000**	**10,099**	**29,476**	**239,575**
Total comprehensive income for the year attributable to shareholders					
Net income for the year attributable to shareholders		-	-	**18,438**	**18,438**
Actuarial losses on defined benefit obligations		-	-	**(927)**	**(927)**
Total comprehensive income for the year attributable to shareholders		-	-	**17,511**	**17,511**
Transfer to statutory reserve	23	-	**3,688**	**(3,688)**	-
Income tax recoverable from foreign shareholders	, 20.2 & 21.2	-	-	**1,184**	**1,184**
Balance at end of the year		**200,000**	**13,787**	**44,483**	**258,270**

For the year ended December 31, 2018 (Restated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance at the beginning of the year		200,000	6,012	19,347	225,359
Total comprehensive income for the year attributable to shareholders					
Net income for the year attributable to shareholders - previously reported		-	-	20,433	20,433
Effect of restatement (note 3.2)		-	-	(6,873)	(6,873)
Net income for the year attributable to shareholders – (restated)		-	-	13,560	13,560
Actuarial losses on defined benefit obligations		-	-	(1,364)	(1,364)
Total comprehensive income for the year attributable to shareholders		-	-	12,196	12,196
Transfer to statutory reserve	23	-	4,087	(4,087)	-
Income tax recoverable from foreign shareholders	20.2 & 21.2	-	-	2,020	2,020
Balance at end of the year		200,000	10,099	29,476	239,575

S. F. Abbas

The accompanying notes 1 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of Cash Flows
For the year ended December 31, 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year attributable to the shareholders before Zakat and income tax		**23,783**	20,433
Adjustments for non-cash items:			
Income attributable to the policyholders		**2,512**	2,353
Depreciation and amortisation of property, equipment and intangibles	10,11 & 26	**3,953**	2,504
Allowance for impairment of doubtful receivables, reinsurers' receivables, salvage and subrogation recoveries		**7,473**	7,900
Unrealized gain on investments	8.1 & 8.3	**(5,357)**	(1,773)
		32,364	31,417
Changes in operating assets and liabilities:			
Premiums receivable		**30,566**	(88,338)
Due from reinsurers		**(126,731)**	(8,704)
Reinsurers' share of unearned premiums		**(905)**	5,546
Reinsurers' share of outstanding claims		**(372,153)**	(125,594)
Reinsurers' share of claims incurred but not reported		**21,789**	8,272
Deferred policy acquisition costs		**508**	3,768
Prepaid expenses and other assets		**2,687**	(4,363)
Policyholders payable		**123,447**	17,028
Accrued expenses and other liabilities		**(4,161)**	15,917
Due to reinsurers, agents, brokers and third-party administrators		**8,481**	23,041
Unearned premiums		**6,533**	42,060
Unearned reinsurance commission		**(4,115)**	(1,761)
Outstanding claims		**366,160**	163,964
Claims incurred but not reported		**(11,834)**	(14,881)
Premium deficiency reserve		**(12,376)**	23,221
Additional unexpired risk reserve		**14**	385
Other technical reserves		**-**	(3,597)
Unallocated loss adjusted expenses		**1,507**	3,507
Surplus paid to policyholders		**(5,069)**	(9,509)
Zakat and income tax paid, net of recovery		**(4,784)**	(4,559)
Net cash generated from operating activities		**51,928**	76,820

S. F. Abbas

The accompanying notes 1 to 32 form an integral part of these financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
CASH FLOW USED IN INVESTING ACTIVITIES			
Additions to property, equipment and intangible assets	10 & 11	**(20,997)**	(22,319)
Additions to investments	8.3	**(284)**	-
Net cash used in investing activities		**(21,281)**	(22,319)
Net change in cash and cash equivalents		**30,647**	54,501
Cash and cash equivalents, beginning of the year		**324,060**	269,559
Cash and cash equivalents, end of the year	4	**354,707**	324,060
SUPPLEMENTAL SCHEDULE OF NON-CASH INFORMATION			
Income tax receivable from foreign shareholders adjusted against prepaid expenses and other assets	9 & 20.2 & 21.2	**1,184**	2,020
Actuarial losses on defined benefit obligations adjusted against accrued expenses and other liabilities	14.1 & 14.2 & 14.3	**927**	1,364

S. F Abbas

The accompanying notes 1 to 32 form an integral part of these financial statements.

1 General

Wataniya Insurance Company (the "Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia under Commercial Registration No. 4030200981 dated 1 Jumada II 1431H (corresponding to May 15, 2010) and Industry's Resolution number 158/K dated Jumad-ul-Awal 12, 1431H (corresponding to April 26, 2010). The Registered Office address of the Company is Juffali Building, Madina Road, Jeddah, Saudi Arabia.

The Company is licensed to conduct insurance business in Saudi Arabia under Cooperative insurance principles in accordance with Royal Decree No M/53 dated Shawwal 21, 1430H (corresponding to October 10, 2009) pursuant to Council of Ministers' Resolution No. 330 dated Shawwal 16,1430H (corresponding to October 5, 2009). The Company was listed on the Saudi Arabian stock market (Tadawul) on June 6, 2010.

The objectives of the Company are to provide general insurance and related services in accordance with its by-laws and applicable regulations in Saudi Arabia.

2 Basis of preparation

(a) Basis of presentation and measurement

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia (KSA), and other standards and pronouncements that are endorsed by Saudi organization for Certified Public Accountants ('SOCPA") (referred to as "IFRS as endorsed in KSA").

The Company has updated its accounting policy to account for zakat and income taxes in the statement of income based on the instructions issued by SAMA on 23 July 2019 to insurance companies in the Kingdom of Saudi Arabia. This aligns with the IFRS as endorsed in KSA. Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The financial statements have been prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of investment held as fair value through statement of income (FVSI). The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: Investments, Deferred policy acquisition costs, Property and Equipment, Intangible assets, Outstanding claims and Technical reserves. All other financial statement line items would generally be classified as current unless stated otherwise.

As required by the Saudi Arabian Insurance Regulations "the Implementation Regulations", the Company maintains separate books of accounts for "Insurance Operations" and "Shareholders' Operations". Accordingly, assets, liabilities, revenues and expenses attributable to either operation are recorded in the respective accounts. Note 28 to these annual financial statements provides the statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations, separately.

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

(b) Functional and presentation currency

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

2 Basis of preparation (continued)

(c) Fiscal year

The Company follows a fiscal year ending December 31.

(d) Critical accounting judgments estimates and assumptions

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

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

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

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

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

The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Actuary had also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

ii) Impairment of financial assets

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. A year of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

iii) Impairment of receivables

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

iv) Fair value of financial instruments

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

2 Basis of preparation (continued)

(d) Critical accounting judgments estimates and assumptions (continued)

iv) Fair value of financial instruments (continued)

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

3 Significant accounting policies

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

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

3.1 The Company has adopted the following amendments, interpretations and revisions to existing standards, which were issued by the IASB:

Standard / Amendments	***Description***
IFRIC 23	*Uncertainty over Income Tax Treatments*
IAS 28	*Long term interests in associates and joint ventures*
IAS 19	*Plan amendments, curtailments or settlements*
IFRS 3,11 and IAS 12, 23	*Annual Improvements to IFRS 2015 - 2017 cycle.*

The adoption of the above amendments and interpretations did not have any significant impact on these financial statements.

3.2 The Company has adopted the following new standard issued:

IFRS 16 - Leases

The Company adopted IFRS16 'Leases' the standard replaces the existing guidance on leases, including IAS 17 'Leases', IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases Incentives" and SIC 27 "Evaluating the Substance of Transaction in the Legal Form of a Leases".

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and finance lessees to account for all the leases under a single on-balance sheet model similar to the accounting for finance lease under IAS 17. The standard includes two recognition exemption for lease of low value assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the special commission expense on the lease liability and the depreciation expense on the right-of-use asset.

Presently IFRS 16 has no impact on these financial statements as the Company does not have long term leases.

(All amounts in Saudi Riyals thousands unless otherwise stated)

3 Significant accounting policies (continued)

3.2 The Company has adopted the following new standard issued (continued)

Zakat and Income tax

As mentioned under the note 2, the basis of preparation of the financial statements has changed as a result of the issuance on latest instructions from SAMA dated 23 July 2019. Previously, zakat and income tax were recognized in the statements of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instruction issued by SAMA dated 23 July 2019, the Zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively (see note 3) and the effects of the above change are disclosed in note 3 to the financial statements. The change has resulted in reduction of reported income of the Company for the year ended December 31, 2018 by SR 6.8 million. The Change has had no impact on the statement of cashflows for the year ended December 31, 2018.

For the year ended December 31, 2018:

Account	***Financial statement impacted***	***As previously reported for year ended 2018***	***Effect of restatement***	***As restated for the year ended 2018***
Zakat	Statement of income	-	**(4,853)**	**(4,853)**
Income tax	Statement of income	-	**(2,020)**	**(2,020)**
Net income for the year	Statement of income	**20,433**	**(6,873)**	**13,560**
Earnings per share for the year (expressed in SR per share)	Statement of income	**1.02**	**(0.34)**	**0.68**
Zakat	Statement of changes in shareholders' equity	**(4,853)**	**4,853**	-
Income tax charge	Statement of changes in shareholders' equity	**(2,020)**	**2,020**	-
Total comprehensive income for the year	Statement of changes in shareholders' equity	**19,069**	**(6,873)**	**12,196**

The financial impact of adoption of accounting policy for deferred tax is not material to the financial statements, therefore prior year amounts for such impact have not been restated. As required under IAS 8 "Accounting policies, changes in accounting estimates and errors", the balances as of 1 January 2018 were not presented in the statement of financial position as change in the accounting policy has not resulted in restatement of the amounts relating to year ended December 31, 2017.

Income tax:

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

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

Adjustments arising from the final income tax assessments are recorded in the year in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current year's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

3 Significant accounting policies (continued)

3.2 The Company has adopted the following new standard issued (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Company applies significant judgement in identifying uncertainties over income tax treatments.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions. The Company determined, based on its tax compliance study, that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Company.

Deferred income tax:
Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available, and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

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

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

3.3 Standards issued but not yet effective

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

Standard/ Interpretation	***Description***	***Effective from periods beginning on or after the following date***
IFRS 9	*Financial Instruments*	*See note below*
Amendments to IFRS 3	*Definition of business*	*1 January 2020*
Amendments to IAS 1 & IAS 8	*Definition of material*	*1 January 2020*
IFRS 17	*Insurance Contracts*	*1 January 2022*

3 Significant accounting policies (continued)

3.3 Standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments

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

a) Classification and measurement

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

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.

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 statement of income.

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 statement of income.

b) Impairment

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

c) Hedge accounting

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

3 Significant accounting policies (continued)

3.3 Standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments (continued)

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, 2021. The IASB is proposing to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to January 1, 2022. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; 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 detailed assessment beginning January 1, 2017: (1) The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and (2) the total carrying amount of the company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard. Disclosures related to financial assets required during the deferral period are included in the Company's financial statements.

Impact assessment

As at December 31, 2019, the Company has total financial assets and insurance related assets amounting to SR 670 million (2018: SR 551 million) and SR 717 million (2018: 367 million), respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SR 670 million (2018: SR 551 million). Investments are carried currently at fair value through statement of income at SR 110 million (2018: SR 105 million). Credit risk exposure, concentration of credit risk and credit quality of the company's receivables portfolio are mentioned in notes 5 and 6. The Company financial assets have low credit risk as at December 31, 2019 and 2018. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9. However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

3 Significant accounting policies (continued)

3.3 Standards issued but not yet effective (continued)

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:

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

a) the fulfilment cash flows (FCF), which comprises:

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

b) the Contractual Service Margin (CSM). The CSM represents the unearned profit for a group of insurance contracts and will be recognized as the entity provides services in the future. The CSM cannot be negative at inception; any net negative amount of the fulfilment cash flows at inception will be recorded in profit or loss immediately.

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

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

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

3 Significant accounting policies (continued)

3.3 Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

2) The Variable Fee Approach (VFA):

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

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

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

Effective date
The IASB issued an Exposure Draft Amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting. The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4, is currently January 1, 2021. Under the current exposure draft, it is proposed to amend the IFRS 17 effective date to reporting periods beginning on or after January 1, 2022. This is a deferral of 1 year compared to the previous date of January 1, 2021. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intend to apply the standard on its effective date.

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

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

Impact 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 areas of Gaps are as follows:

3 Significant accounting policies (continued)

3.3 Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

Impact area	Summary of impact
Financial impact	Not yet fully assessed by the Company.
Data impact	The Company believes that the data impact is not likely to be significant as a major proportion of the company's business would qualify for measurement under the premium allocation approach.
IT systems	With respect to IT-system, the Company has at present short listed a vendor to provide the necessary technical support to ensure an effective implementation of IFRS 17. The current accounting chart of accounts is under review for amendments to comply with IFRS 17 requirements. In addition, new disclosures will need to be developed.
Process impact	The process impact is under evaluation, but no significant process changes are anticipated. However, should the Company shift its focus to majority long term business, the process impact would be significant.
Impact on reinsurance arrangements	The Company's reinsurance arrangements under the proportional treaties currently are under testing to determine the suitable measurement approach.
Impact on policies & control's frameworks	The Company is in the process of hiring external consultants to modify their current policies control framework, to be more compliant towards the requirements of IFRS 17.
Human resources	The Company needs to recruit suitably qualified personnel who have a comprehensive understanding of the IFRS 17.

The Company has started with their implementation process and have set up a proper team, supervised by a steering committee.

The significant accounting policies used in preparing these financial statements are set out below:

a) Insurance contracts

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future 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 that are at least 10% more than the benefits payable if the insured event did not occur.

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

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover). For property insurance contracts, the main risks are fire, business interruption and burglary.

3 Significant accounting policies (continued)

a) Insurance contracts (continued)

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. In Saudi Arabia, it is compulsory for all vehicles to have minimum third party cover. The Company also issues comprehensive motor policies. Such motor policies cover damages to vehicles due to storm, tempest, flood, fire, theft and personal accident.

Accident insurance includes money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types (a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs. (b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

Extended Warranty insurance commences when the manufacturer warranty expires and covers all electrical and mechanical damages occurring to the vehicles, as covered in the original manufacturer warranty.

Term Life insurance is a policy that pays a pre-determined amount of money called "sum insured" at the time of the insured's death. It covers the insured for a period of time. At the expiration of the policy term no refunds or returns are allowed.

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

b) Revenue recognition

Recognition of premium and commission revenue

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

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

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

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

Commission income

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

3. Significant accounting policies (continued)

c) Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

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

d) Salvage and subrogation reimbursement

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

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

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

e) Reinsurance contracts held

Reinsurance is distributed between treaty, facultative and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 3(b) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income as incurred. For details please refer 3(m).

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

f) Deferred policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognized as an expense when incurred. Amortization is recorded in the "Policy acquisition costs" in the statement of income.

3. Significant accounting policies (continued)

f) Deferred policy acquisition costs (continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization year and are treated as a change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated, and this may also require additional impairment write-offs in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test at each reporting date.

g) Liability adequacy test

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

h) Receivables

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded as “Allowance for impairment of doubtful debts” in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 5 and 6 fall under the scope of IFRS 4 “Insurance contracts”

i) Investments

Available-for-sale investments

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

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

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the related statement of comprehensive income, as impairment charges.

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

For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

3. Significant accounting policies (continued)

i) Investments (continued)

Reclassification:

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

Held as FVSI

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

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

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

Reclassification:

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

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

- If the financial asset would not have met the definition of loans and receivables, and then it may be reclassified out of the trading category only in ‘rare circumstances.

j) De-recognition of financial instruments

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

3. Significant accounting policies (continued)

k) Offsetting

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

l) Trade date accounting

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

m) Impairment of financial assets

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

Evidence of impairment may include:

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

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

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

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

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

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

3. Significant accounting policies (continued)

m) Impairment of financial assets (continued)

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

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

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

n) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred. Land is not depreciated. The cost of other items of property and equipment is depreciated on the straight-line method to allocate the cost over estimated useful lives, as follows:

	Years
Furniture and fixtures	5
Office equipment	2-3
Motor Vehicles	4

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

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

o) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets are not capitalized, and the related expenditure is reflected in the statement of profit or loss and other comprehensive income in the period in which the expenditure is incurred. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Further, capital work in progress is not amortized.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

3. Significant accounting policies (continued)

o) Intangible assets (continued)

The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss and other comprehensive income when the asset is derecognized. Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit ("CGU") level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

The estimated useful lives for the current year are as follows:

	Years
Computer software	10 - 15

The amortization method, useful life and residual value are reviewed at each reporting date and the changes are adjusted, if appropriate.

p) Leases

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

q) Impairment of non-financial assets

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

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

r) Employees' end-of-service benefits

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

s) Provisions, accrued expenses and other liabilities

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

t) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and term deposits that have original maturity periods not exceeding three months from the date of acquisition.

3. Significant accounting policies (continued)

u) Cash flow statement

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

v) Foreign currencies

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

w) Operating segments

A segment is a distinguishable component of the Company that is engaged in providing products or services (an operating segment), which is subject to risk and rewards that are different from those of other segments.

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

- Marine provides coverage against losses and liability related to marine vessels and marine cargo.
- Property provides coverage against fire insurance, and any other insurance included under this class of insurance.
- Motor provides coverage against losses and liability related to motor vehicles.
- Engineering provides coverage for builder's risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance.
- Accident provides coverage against money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability provide general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.
- Extended warranty provides coverage against damages to motor vehicles after the manufacturer warranty expires.
- Term life provides coverage against the insured's death.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

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

x) Statutory reserve

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

3. Significant accounting policies (continued)

y) Fair values

The fair value of financial assets is based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flow using commission for items with similar terms and risk characteristics.

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

4 Cash and cash equivalents

	2019	2018
Cash in hand	**28**	28
Bank balances	**32,804**	35,282
Deposits with original maturity of less than 3 months	**321,875**	288,750
	354,707	324,060

The bank balances and deposits are with a bank which is a related party, registered in Saudi Arabia and are denominated in Saudi Riyals and US Dollars. The deposits have an original maturity of less than three months and yield income at rates up to 2% per annum (2018: up to 2% per annum).

5 Premiums receivables - net

	2019	2018
Receivable from policyholders	**187,651**	218,217
Impairment allowance for doubtful receivables	**(33,838)**	(25,752)
Premiums receivables – net	**153,813**	192,465

Movement in impairment allowance for doubtful receivables during the year was as follows:

	2019	2018
January 1	**25,752**	17,361
Provision for the year	**8,086**	8,391
December 31	**33,838**	25,752

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

	Total	**------------------ Past due but not impaired ---------------**			
		Less than 90 days	**90 to 180 days**	**181 to 360 days**	**More than 360 days**
December 31, 2019	**153,813**	**76,201**	**40,909**	**31,309**	**5,394**
December 31, 2018	192,465	115,164	46,641	27,921	2,739

(All amounts in Saudi Riyals thousands unless otherwise stated)

5 Premiums receivables – net (continued)

Receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia. The Company's terms of business generally require amounts to be paid at the date of the transaction.

Five largest customers account for 20% (2018: Five accounted for 24%) of outstanding premiums receivable as at December 31, 2019.

Management considers its external customers to be individual policyholders. One customer (2018: one customer) of the Company accounts for more than 20% of the gross written premiums for the year ended December 31, 2019 (2018: 18%). The total premiums attributable to the said customer was Saudi Riyals 145 million for the year (2018: Saudi Riyals 126 million), included mainly in the motor segment.

6 Due from reinsurers - net

These represent net claims due from reinsurers under facultative deals and treaty arrangements. One reinsurance broker represents 68% (2018: Three represents: 59%) of the total amount due from reinsurers.

	2019	2018
Reinsurers	**141,410**	14,679
Allowance for doubtful reinsurers receivables	**(1,500)**	(1,439)
	139,910	13,240

Movement in allowance for doubtful reinsurers receivables is as follows:

	2019	2018
January 1	**1,439**	3,083
Charge/(reversals)	**61**	(1,644)
December 31	**1,500**	1,439

As at December 31, the ageing of unimpaired reinsurers balances is as follows:

	Total	**------------------ Past due but not impaired ---------------**			
		Less than 90 days	**90 to 180 days**	**181 to 360 days**	**More than 360 days**
December 31, 2019	**139,910**	**131,255**	**5,273**	**3,141**	**241**
December 31, 2018	13,240	12,991	249	-	-

7 Technical reserves

7.1 Unearned premiums and net outstanding claims and reserves

	2019	2018
a) Unearned premiums		
Gross premium written	**735,044**	712,324
Gross unearned premiums at beginning of the year	**253,354**	211,294
	988,398	923,618
Gross unearned premiums at end of the year	**(259,887)**	(253,354)
Gross premium earned	**728,511**	670,264
Reinsurance premium ceded	**(319,338)**	(291,655)
Reinsurance share of unearned premiums at beginning of the year	**(104,039)**	(109,585)
	(423,377)	(401,240)
Reinsurance share of unearned premiums at end of the year	**104,944**	104,039
Insurance premium ceded to reinsurers	**(318,433)**	(297,201)
Net earned premium	**410,078**	373,063

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 Technical reserves (continued)

7.1 Unearned premiums and net outstanding claims and reserves (continued)

b) Net outstanding claims and reserves comprise of the following:

	2019	2018
Outstanding claims	**610,423**	244,263
Claims incurred but not reported	**102,179**	114,013
Premium deficiency reserve	**10,845**	23,221
Additional unexpired risk reserve	**399**	385
Unallocated loss adjustment expenses	**5,014**	3,507
	728,860	385,389
Less:		
Reinsurers' share of outstanding claims	**(531,601)**	(159,448)
Reinsurers' share of claims incurred but not reported	**(57,091)**	(78,880)
	(588,692)	(238,328)
Net outstanding claims and reserves	**140,168**	147,061

7.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	For the year ended December 31, 2019		
	Gross	**Reinsurance**	**Net**
Balance at beginning of the year	**253,354**	**104,039**	**149,315**
Premium written during the year	**735,044**	**319,338**	**415,706**
Premium earned during the year	**(728,511)**	**(318,433)**	**(410,078)**
Balance at end of the year	**259,887**	**104,944**	**154,943**

	For year ended December 31, 2018		
	Gross	Reinsurance	Net
Balance at beginning of the year	211,294	109,585	101,709
Premium written during the year	712,324	291,655	420,669
Premium earned during the year	(670,264)	(297,201)	(373,063)
Balance at end of the year	253,354	104,039	149,315

7.3 Movement in deferred policy acquisition costs

Movement in deferred policy acquisition costs comprise of the following:

	2019	2018
Balance as at the beginning of the year	**24,279**	28,047
Costs accrued	**64,507**	61,550
Costs charged	**(65,015)**	(65,318)
Balance as at the end of the year	**23,771**	24,279

7.4 Movement in unearned reinsurance commission

Movement in unearned reinsurance commission comprise of the following:

	2019	2018
Balance at the beginning of the year	**29,443**	31,204
Commission accrued	**71,924**	71,163
Commission earned	**(76,039)**	(72,924)
Balance at the end of the year	**25,328**	29,443

(All amounts in Saudi Riyals thousands unless otherwise stated)

8 Investments

	Note	2019	2018
Fair value through statement of income investments (FVSI)	8.1	**110,332**	105,004
Available-for-sale investment	8.2	**1,923**	1,923
Investment in equity shares	8.3	**313**	-
		112,568	106,927

8.1 Fair value through statement of income

Movement is as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Balance as at beginning of the year	**105,004**	103,231
Changes in fair value of investments	**5,328**	1,773
Balance as at end of the year	**110,332**	105,004

The analysis of the composition of investments is as follows:

	2019	2018
Cash and cash equivalents	**2,348**	706
Equity	**2,917**	3,752
Murabaha placements	**35,700**	28,400
Mutual funds	**39,342**	38,305
Sukuks	**30,025**	33,841
Total Investments	**110,332**	105,004

8.2 Available-for-sale investment

This represents the Company's 3.85% (December 31, 2018: 3.85%) holding in Najm for Insurance Services Company, a Saudi Closed Joint Stock Company. These shares are un-quoted and are carried at cost.

8.3 Investment in equity shares

This represents Company's investment in Saudi Arabian Oil Co. These represent 8,870 shares at a market price of SR 35.25 per share at December 31, 2019.

	2019	2018
Additions during the year	**284**	-
Change in fair value of investment	**29**	-
Balance as at the end of the year	**313**	-

9 Prepaid expenses and other assets

	2019	2018
Prepayments and other assets	**6,499**	2,884
Staff receivables	**4,230**	2,795
Salvage and subrogation recoveries (see 9.1 below)	**2,028**	7,036
Advance income tax paid	**-**	1,543
Others	**6,023**	7,371
	18,780	21,629

(All amounts in Saudi Riyals thousands unless otherwise stated)

9 Prepaid expenses and other assets (continued)

9.1 These represent receivables from salvage and subrogation recoveries from third parties:

	2019	2018
Salvage and subrogation recoveries	**2,507**	8,189
Less: impairment allowance for salvage and subrogation recoveries	**(479)**	(1,153)
	2,028	7,036

10 Property and equipment

	Furniture and fixtures	**Office Equipment**	**Motor Vehicles**	**Total 2019**
Cost:				
January 1	5,707	15,430	599	21,736
Additions	3,543	705	-	4,248
December 31	9,250	16,135	599	25,984
Accumulated depreciation:				
January 1	1,237	10,185	338	11,760
Charge for the year	829	2,016	111	2,956
December 31	2,066	12,201	449	14,716
Net book value				
December 31, 2019	**7,184**	**3,934**	**150**	**11,268**

	Furniture and fixtures	Office equipment	Motor Vehicles	Total 2018
Cost:				
January 1	1,304	9,200	599	11,103
Additions	4,403	6,230	-	10,633
December 31	5,707	15,430	599	21,736
Accumulated depreciation:				
January 1	723	8,313	220	9,256
Charge for the year	514	1,872	118	2,504
December 31	1,237	10,185	338	11,760
Net book value				
December 31, 2018	4,470	5,245	261	9,976

(All amounts in Saudi Riyals thousands unless otherwise stated)

11 Intangible assets

These compromise software license fees and other related development costs.

	Software license cost	**Capital work in progress**	**Total 2019**
Cost:			
January 1	-	20,211	20,211
Additions	-	16,749	16,749
Transfers	33,279	(33,279)	-
December 31	33,279	3,681	36,960
Accumulated amortization:			
Charge for the year	997	-	997
December 31	997	-	997
Net book value			
December 31, 2019	**32,282**	**3,681**	**35,963**

	Software license cost	Capital work in progress	Total 2018
Cost:			
January 1	-	8,525	8,525
Additions	-	11,686	11,686
December 31	-	20,211	20,211
Net book value			
December 31, 2018	-	20,211	20,211

12 Statutory Deposit

In compliance with Article 58 of the Implementing Regulations of the SAMA, the Company deposited 10% of its share capital, amounting to Saudi Riyals 20 million in a bank designated by SAMA. The statutory deposit is maintained with a reputed bank which is also a related party. The Company cannot withdraw this deposit without SAMA's approval. Commission accruing on this deposit is payable to SAMA.

In accordance with instructions received from the SAMA vide their circular dated March 1, 2016, the Company disclosed the commission due on the statutory deposit as an asset and a liability in these financial statements.

13 Policyholders payable

Due to policyholders represent claims and surplus due to certain policyholders. One policyholder's (2018: One policyholders) balance comprises 81% (2018: 13%) of the outstanding balance due to policyholders' balance as at December 31, 2019.

14 Accrued expenses and other liabilities

	2019	2018
Accrued expenses	**17,929**	26,155
Value added tax payable	**2,074**	3,054
Provision for reinsurance's withholding tax	**1,800**	2,220
Payable to garages and workshops	**12,565**	9,835
End-of-service benefits (14.1)	**12,077**	9,684
Commission payable	**1,512**	1,641
SAMA supervision fee	**616**	505
Other liabilities	**4,849**	3,569
	53,422	56,663

(All amounts in Saudi Riyals thousands unless otherwise stated)

14 Accrued expenses and other liabilities (continued)

14.1 Employee end of service benefits

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

14.2 Movement of defined benefit obligation

	2019	2018
Opening balance	**9,684**	7,137
Charge to statement of income	**2,254**	1,737
Charge to statement of other comprehensive income	**927**	1,364
Payment of benefits during the year	**(788)**	(554)
Closing balance	**12,077**	9,684

14.3 Reconciliation of present value of defined benefit obligation

	2019	2018
Opening balance	**9,684**	7,137
Current service costs	**1,896**	1,521
Financial costs	**358**	216
Actuarial loss from experience adjustments	**927**	1,364
Payment of benefits during the year	**(788)**	(554)
Closing balance	**12,077**	9,684

14.4 Principal actuarial assumptions

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

	2019	2018
Valuation discount rate	**3.10%**	3.85%
Expected rate of increase in salary level across different age bands	**3.10%**	4.35%

14.5 Sensitivity analysis

	2019	2018
Current	**12,077**	9,684
Valuation discount rate		
- Increase by 0.5%	**11,403**	9,144
- Decrease by 0.5%	**12,823**	10,283
Expected rate of increase in salary level across different age bands		
- Increase by 0.5%	**12,816**	10,277
- Decrease by 0.5%	**11,403**	9,144

The average duration of the defined benefit plan obligation at the end of the reporting period is 3.51 years (2018: 3.51 years).

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 Due to reinsurers, agents, brokers and third-party administrators

	2019	2018
Reinsurers	**50,178**	41,456
Agents and brokers	**24,908**	25,012
Third party administrator	**1,813**	1,950
	76,899	68,418

16 Claims development table

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the years beginning from year 2014 onwards whose claim experience has not been fully developed.

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

Accident year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
At the end of accident year	158,442	144,547	179,177	188,065	217,764	1,008,371	
One year later	203,514	210,024	255,094	249,690	334,198	-	
Two years later	210,688	216,220	263,488	366,872	-	-	
Three years later	215,187	220,230	266,956	-	-	-	
Four years later	217,479	224,849	-	-	-	-	
Five years later	218,004	-	-	-	-	-	
Ultimate paid claims (estimated)	218,004	224,849	266,956	366,872	334,198	1,008,371	2,419,250
Cumulative paid claims	(217,666)	(221,480)	(264,405)	(259,329)	(312,449)	(431,872)	(1,707,201)
	338	3,369	2,551	107,543	21,749	576,499	712,049
Liability in respect of years prior to 2014	-	-	-	-	-	-	553
Gross outstanding claims including IBNR							**712,602**

17 Fair values of financial instruments

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

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

17 Fair values of financial instruments (continued)

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.

As at December 31, 2019 and December 31, 2018, all financial instruments which are fair valued are Level 3 instruments except for investment in sukuks and equity amounting to SR 30.03 million (2018: SR 33.84 million) and SR 3.2 million (2018: SR 3.75 million) which are Level 1 investments. The Company ascertains the Level 3 fair values based on a valuation technique which is primarily derived by net assets value of the respective investee at the year end. There are no transfers between Level 1, Level 2 and Level 3 during the year.

Available-for-sale investment is carried at cost as its fair value cannot be measured reliably.

18 Gross premiums written

For the year ended December 31, 2019

	Corporate					
Classes	***Very Small***	***Small***	***Medium***	***Large***	***Individual***	***Total***
Medical	-	-	-	-	-	-
Property & Accident	14,526	38,102	112,653	100,714	5,991	271,986
Motor	13,007	60,731	97,527	196,652	22,290	390,207
Protection & Savings (Term life)	1,137	2,242	10,030	59,442	-	72,851
Total	**28,670**	**101,075**	**220,210**	**356,808**	**28,281**	**735,044**

For the year ended December 31, 2018

	Corporate					
Classes	*Very Small*	*Small*	*Medium*	*Large*	*Individual*	*Total*
Medical	-	-	-	-	-	-
Property & Accident	22,114	65,177	119,667	199,079	18,749	424,786
Motor	3,777	16,262	112,986	98,524	4,402	235,951
Protection & Savings (Term life)	9	2,070	11,752	37,710	46	51,587
Total	25,900	83,509	244,405	335,313	23,197	712,324

19 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 (CODM) in order to allocate resources to the segments and to assess its performance.

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2018.

Segment assets do not include cash and cash equivalents, premiums receivables, investments, due from reinsurers, prepaid expenses and other assets, property and equipment, statutory deposit and accrued income on statutory deposit. Accordingly, they are included in unallocated assets. Segment liabilities do not include policyholders payable, accrued expenses and other liabilities, due to reinsurers, agents, brokers and third-party administrators, surplus distribution payable, zakat and income tax, and accrued income on statutory deposit. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities are not reported to CODM under related segments and are monitored on a centralized basis.

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

19 Operating segments (continued)

	Marine	Property	Motor	Engineering	Accident & liability	Extended warranty	Term life	Total
For the year ended December 31, 2019								
Revenues								
Gross premiums written	56,410	106,868	390,207	54,334	32,121	22,253	72,851	**735,044**
Reinsurance premiums ceded	(43,419)	(95,310)	(9,764)	(50,740)	(22,821)	(22,253)	(62,288)	**(306,595)**
Excess of loss expenses	(2,290)	(3,609)	(5,425)	(1,000)	(300)	-	(119)	**(12,743)**
Net premiums written	10,701	7,949	375,018	2,594	9,000	-	10,444	**415,706**
Change in unearned premiums, net	(687)	(319)	(3,333)	(433)	(760)	-	(96)	**(5,628)**
Net premiums earned	10,014	7,630	371,685	2,161	8,240	-	10,348	**410,078**
Reinsurance commissions	9,859	19,038	2,906	9,877	5,832	10,469	18,058	**76,039**
Other underwriting income	84	71	100	25	29	-	10	**319**
Total revenues	19,957	26,739	374,691	12,063	14,101	10,469	28,416	**486,436**
Cost and expenses								
Gross claims paid and loss adjustment expenses	135,004	26,023	315,191	13,306	3,600	5,384	42,700	**541,208**
Reinsurer's share of claims paid	(131,960)	(23,757)	(17,148)	(12,438)	(2,851)	(5,384)	(35,532)	**(229,070)**
Net claims paid	3,044	2,266	298,043	868	749	-	7,168	**312,138**
Changes in outstanding claims, net	1,925	391	(11,358)	1,868	1,128	-	53	**(5,993)**
Changes in incurred but not reported claims, net	(1,281)	71	12,476	(496)	(291)	-	(524)	**9,955**
Net claims incurred	3,688	2,728	299,161	2,240	1,586	-	6,697 -	**316,100**
Premium deficiency reserve	(16)	(1,721)	(9,820)	(819)	-	-	-	**(12,376)**
Additional unexpired risk reserve	-	-	-	14	-	-	-	**14**
Unallocated loss adjusted expenses	(636)	(117)	2,467	(98)	143	-	(252)	**1,507**
Policy acquisition costs	5,814	9,415	23,101	5,393	3,230	8,645	9,417	**65,015**
Total underwriting cost and expenses	8,850	10,305	314,909	6,730	4,959	8,645	15,862	**370,260**
Net underwriting income	11,107	16,434	59,782	5,333	9,142	1,824	12,554	**116,176**
Other operating (expenses) / income								
Allowance for impairment of doubtful debts								**(7,473)**
General and administration expenses								**(110,329)**
Commission income on deposits								**7,411**
Unrealized gain on investments								**5,357**
Other income								**15,153**
Total other operating expenses								**(89,881)**
Net income before allocation								**26,295**
Net income attributed to the policyholders								**(2,512)**
Net income for the year attributable to the shareholders, before zakat and income tax								**23,783**
Zakat								**(4,161)**
Income tax								**(1,184)**
Net income for the year								**18,438**

(All amounts in Saudi Riyals thousands unless otherwise stated)

19 Operating segments (continued)

	Marine	Property	Motor	Engineer-ing	Accident & liability	Extended warranty	Term life	Total *(Restated)*
For the year ended December 31, 2018								
Revenues								
Gross premiums written	37,172	103,137	424,786	41,553	32,940	21,149	51,587	712,324
Reinsurance premiums ceded	(26,749)	(95,024)	(31,941)	(38,385)	(24,723)	(21,149)	(45,678)	(283,649)
Excess of loss expenses	(1,053)	(2,185)	(3,902)	(721)	(66)	-	(79)	(8,006)
Net premiums written	9,370	5,928	388,943	2,447	8,151	-	5,830	420,669
Change in unearned premiums, net	(603)	159	(49,989)	1,900	425	-	502	(47,606)
Net premiums earned	8,767	6,087	338,954	4,347	8,576	-	6,332	373,063
Reinsurance commissions	7,007	20,382	5,392	7,445	5,699	12,860	14,139	72,924
Other underwriting income	96	38	220	20	26	-	6	406
Total revenues	15,870	26,507	344,566	11,812	14,301	12,860	20,477	446,393
Cost and expenses								
Gross claims paid and loss adjustment expenses	8,495	4,781	229,591	15,356	4,564	6,753	29,069	298,609
Reinsurer's share of claims paid	(6,742)	(4,161)	(22,493)	(14,753)	(2,704)	(6,753)	(25,198)	(82,804)
Net claims paid	1,753	620	207,098	603	1,860	-	3,871	215,805
Changes in outstanding claims	557	321	36,030	1,434	(586)	-	614	38,370
Changes in incurred but not reported claims, net	429	(1,393)	(6,301)	(69)	667	-	58	(6,609)
Net claims incurred	2,739	(452)	236,827	1,968	1,941	-	4,543	247,566
Reversal of reinsurance reserves	-	(2,451)	(1,146)	-	-	-	-	(3,597)
Premium deficiency reserve	15	1,721	20,665	820	-	-	-	23,221
Additional unexpired risk reserve	-	-	-	385	-	-	-	385
Unallocated loss adjustment expenses	853	271	1,112	305	345	-	621	3,507
Policy acquisition costs	3,833	9,783	26,949	4,085	3,431	10,723	6,514	65,318
Total underwriting cost and expenses	7,440	8,872	284,407	7,563	5,717	10,723	11,678	336,400
Net underwriting income	8,430	17,635	60,159	4,249	8,584	2,137	8,799	109,993
Other operating (expenses) / income								
Allowance for impairment of doubtful debts								(7,900)
General and administration expenses								(95,272)
Commission income on deposits								5,085
Unrealized gain on investments								1,773
Other income								9,107
Total other operating expenses								(87,207)
Net income before allocation								22,786
Net income attributed to the policyholders								(2,353)
Net income for the year attributable to the shareholders, before zakat and income tax								20,433
Zakat								(4,853)
Income tax								(2,020)
Net income for the year								13,560

(All amounts in Saudi Riyals thousands unless otherwise stated)

19 Operating segments (continued)

	Marine	**Property**	**Motor**	**Engineer-ing**	**Accident & liability**	**Extended warranty**	**Term life**	**Total**
As at December 31, 2019								
Assets								
Reinsurers' share of unearned premiums	14,294	25,476	3,670	20,131	11,466	22,905	7,002	**104,944**
Reinsurers' share of outstanding claims	9,516	9,528	3,311	390,830	111,073	37	7,306	**531,601**
Reinsurers' share of claims incurred but not reported	3,854	2,068	1,729	25,599	11,784	-	12,057	**57,091**
Deferred policy acquisition costs	2,107	3,039	7,878	2,809	1,215	5,678	1,045	**23,771**
Unallocated assets								**848,284**
Total assets								**1,565,691**
Liabilities								
Unearned premiums	17,503	28,425	146,691	21,708	14,261	22,905	8,394	**259,887**
Unearned reinsurance commission	3,510	4,823	551	4,721	1,886	7,845	1,992	**25,328**
Outstanding claims	12,906	10,786	71,119	394,481	112,845	37	8,249	**610,423**
Claims incurred but not reported	4,568	2,313	40,651	26,191	14,146	-	14,310	**102,179**
Premium deficiency reserve	-	-	10,845	-	-	-	-	**10,845**
Additional unexpired risk reserve	-	-	-	399	-	-	-	**399**
Unallocated loss adjustment expenses	219	154	3,577	208	487	-	369	**5,014**
Unallocated liabilities								**293,346**
Total liabilities								**1,307,421**

	Marine	Property	Motor	Engineer-ing	Accident & Liability	Extended Warranty	Term life	Total
As at December 31, 2018								
Assets								
Reinsurers' share of unearned premiums	6,033	25,280	11,346	14,895	13,720	21,794	10,971	104,039
Reinsurers' share of outstanding claims	4,637	7,094	7,390	31,282	105,588	8	3,449	159,448
Reinsurers' share of claims incurred but not reported	12,840	1,409	3,566	13,776	31,839	-	15,450	78,880
Deferred policy acquisition costs	1,201	2,928	7,229	1,730	785	8,896	1,510	24,279
Unallocated assets								709,356
Total assets								1,076,002
Liabilities								
Unearned premiums	8,556	27,910	151,034	16,039	15,753	21,794	12,268	253,354
Unearned reinsurance commission	2,130	5,416	1,986	3,311	2,299	10,804	3,497	29,443
Outstanding claims	6,103	7,960	86,555	33,065	106,233	8	4,339	244,263
Claims incurred but not reported	14,835	1,583	30,012	14,864	34,492	-	18,227	114,013
Premium deficiency reserve	15	1,721	20,665	820	-	-	-	23,221
Additional unexpired risk reserve	-	-	-	385	-	-	-	385
Unallocated loss adjustment expenses	853	271	1,112	305	345	-	621	3,507
Unallocated liabilities								168,241
Total liabilities								836,427

(All amounts in Saudi Riyals thousands unless otherwise stated)

20 Related party transactions and balances

20.1 Related party transactions

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The Company in the normal course of business carries out transactions with its related parties. The transactions with related parties are made on terms equivalent to those related parties and the transactions are approved by the Board of Directors.

The significant transactions with related parties and the related amounts are as follows:

Related Party	**Nature of Transactions**	**For the year ended December 31, 2019**	For the year ended December 31, 2018
Board Members	Fees and related expenses	**1,601**	1,568
Key management personnel	- Remuneration and related expenses	**11,000**	11,064
	- Loans and advances	**602**	687
Shareholders' and related parties (common ownership)	- Insurance premiums written	**64,253**	71,394
	- Claims paid and payable	**15,647**	27,270
	- Facultative premiums ceded	**2,650**	3,859
	- Facultative commission received	**568**	1,042
	- Facultative claims recovered	**1,177**	1,828
	- Expenses incurred	**6,231**	4,818
	- Commission income on deposits	**7,411**	5,085

20.2 Related party balances

	2019	2018
Premiums receivable	**8,913**	11,067
Claims payable	**5,809**	-
Cash and cash equivalents with a shareholder	**354,679**	324,032
Amounts due from/(to) a shareholder for facultative transactions	**39**	(52)
Advances due from key management personnel	**602**	450
Income tax receivable from foreign shareholders	**1,184**	2,020
Statutory deposit with a shareholder	**20,000**	20,000
Accrued income on statutory deposit	**1,275**	848

(All amounts in Saudi Riyals thousands unless otherwise stated)

21 Zakat and income tax

21.1 Components of zakat base

Significant components of zakat base of the Company attributable to the Saudi shareholders, which are subject to adjustment under zakat and income tax regulations, are shareholders' equity at the beginning of the year, adjusted net income and certain other items. Zakat base has been computed based on the Company's understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations, and the assessments to be raised by the General Authority of Zakat and Tax ("GAZT") could be different from the declaration filed by the Company.

21.2 Provision for zakat and income tax

	2019	2018
Opening balance	**7,305**	7,205
Charge for zakat	**4,161**	4,853
Charge for income tax	**1,184**	2,020
Payments of zakat	**(4,784)**	(4,559)
Payment of income tax	**(292)**	(2,056)
Reduction in tax recoverable	**(185)**	(158)
Other charges	**7**	-
Tax paid in advance	**(1,543)**	-
Closing balance	**5,853**	7,305

Zakat is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to Saudi shareholders.

Provision for income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company, less allowances for foreign shareholders' share in the losses carry forwarded from previous year calculated in accordance with the guidelines provided in the income tax regulations. Income tax paid is recovered from foreign shareholders.

The shareholding percentage subject to zakat and income tax is as follows:

	2019	2018
	%	%
Zakat	**74.44**	74.44
Income tax	**25.56**	25.56

Status of assessments

The Company has filed its tax returns with the General Authority of Zakat and Tax ("GAZT") from inception up to 2017.

The Company's tax and zakat position has been finalized up to the years ended December 31, 2012.

The tax returns filed for the years from 2013 to 2017 are currently being reviewed by the GAZT. The tax return for 2013 is deemed to be finalized as no queries has been received from the GAZT and the statutory time limit of 5 years is over.

The Company has received the final assessment for 2018 for zakat and income tax, the assessment has raised additional tax and Zakat liability for SR 174 thousand. Management has accepted this assessment and has accrued for this amount in these financial statements.

In addition to above, the Company has also received an assessment for the 2018 withholding tax liability in which the GAZT has imposed additional taxes, including penalties, of SR 11.37 million. Management believes that the assessment raised is without merit and has appealed against this assessment.

(All amounts in Saudi Riyals thousands unless otherwise stated)

22 Share capital and earnings per share

The authorized, issued and paid up capital of the Company is SAR 200 million divided into 20 million shares of SR 10 each (December 31, 2018: SAR 200 million divided into 20 million shares of SR 10 each).

Earnings per share for the year have been calculated by dividing the net income for the year attributable to the shareholders by the weighted average number of ordinary shares at the statement of financial position date. Diluted earnings per share is not applicable to the Company.

23 Statutory reserve

As required by Saudi Arabian Insurance Regulations, 20% of the net income for the year has to be set aside from net income for the year as a statutory reserve until this amounts to 100% of the paid-up share capital. Accordingly, during the year, the Company has transferred SR 3.688 million, (2018: SR 4.087 million) to the statutory reserve. This reserve is not available for distribution.

24 Reinsurance premiums ceded

	For the year ended December 31, 2019	For the year ended December 31, 2018
Local Companies	**14,779**	13,253
Local Brokers	**228,891**	181,963
International	**62,925**	88,433
	306,595	283,649

25 Capital management

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

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

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

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

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

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at December 31, 2019 consists of paid-up share capital of SAR 200 million, statutory reserves of SAR 13.787 million and retained earnings of SAR 44.483 million (December 31, 2018: paid-up share capital of SAR 200 million, statutory reserves of SAR 10.099 million and retained earnings of SAR 29.476 million), in the statement of financial position.

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

26 General and administration expenses

	Note	**2019**	2018
Salaries and benefits		**69,301**	55,458
Depreciation and amortization	10 & 11	**3,953**	2,504
Office expenses		**5,220**	5,165
Information technology		**9,407**	4,329
Legal and professional fees		**8,439**	5,595
Regulatory fees		**3,940**	6,497
Directors' expenses	20	**1,601**	1,568
Taxes paid		**2,735**	1,792
Provision for uncollectible taxes		**-**	4,407
Others		**5,733**	7,957
Total		**110,329**	95,272

27 Other income

	2019	2018
Profit commission	**6,095**	6,857
Share of surplus from Al Manafeth (Note 27.1)	**2,215**	1,850
Miscellaneous	**6,843**	400
	15,153	9,107

27.1 This represents the Company's share in the surplus arising from the Al Manafeth Third Party Liability Insurance Fund (the Fund). The Company with twenty-four other insurance companies operating in the Kingdom of Saudi Arabia, entered into an agreement with 'The Company for Cooperative Insurance' (CCI) effective from January 1, 2015 for three years, for participating in the insurance of foreign vehicles entering Saudi Arabia through all its borders except from the Kingdom of Bahrain. As per the agreement CCI will receive 4.25 percent of Fund's gross written premiums to cover the related indirect expense along with 15 percent management fee of the net results of the Fund's portfolio. The remaining results after the aforesaid distribution is due to be shared equally by the CCI and above mentioned twenty five insurance companies including the Company. The agreement is renewed for the year 2019.

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 Supplementary information

As required by the Implementing Regulations, the statement of financial position, statement of income and statement of cash flows separately for insurance operations and shareholders operations are as follows:

a) Statement of financial position

	December 31, 2019			December 31, 2018		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
ASSETS						
Cash and cash equivalents	**292,354**	**62,353**	**354,707**	259,233	64,827	324,060
Premiums receivable – net	**153,813**	**-**	**153,813**	192,465	-	192,465
Due from reinsurers – net	**139,910**	**-**	**139,910**	13,240	-	13,240
Reinsurers' share of unearned premiums	**104,944**	**-**	**104,944**	104,039	-	104,039
Reinsurers' share of outstanding claims	**531,601**	**-**	**531,601**	159,448	-	159,448
Reinsurers' share of claims Incurred but not reported	**57,091**	**-**	**57,091**	78,880	-	78,880
Deferred policy acquisition costs	**23,771**	**-**	**23,771**	24,279	-	24,279
Investments	**-**	**112,568**	**112,568**	-	106,927	106,927
Prepaid expenses and other assets	**16,689**	**2,091**	**18,780**	16,054	5,575	21,629
Due from insurance operations	**-**	**20,054**	**20,054**	-	19,902	19,902
Property and equipment	**-**	**11,268**	**11,268**	-	9,976	9,976
Intangible assets	**-**	**35,963**	**35,963**	-	20,211	20,211
Statutory deposit	**-**	**20,000**	**20,000**	-	20,000	20,000
Accrued income on statutory deposit	**-**	**1,275**	**1,275**	-	848	848
TOTAL OPERATIONS' ASSETS	**1,320,173**	**265,572**	**1,585,745**	847,638	248,266	1,095,904
Less: Inter-operations eliminations	**-**	**(20,054)**	**(20,054)**	-	(19,902)	(19,902)
TOTAL ASSETS AS PER STATEMENT OF FINANCIAL POSITION	**1,320,173**	**245,518**	**1,565,691**	847,638	228,364	1,076,002

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 Supplementary information (continued)

a) Statement of financial position (continued)

	December 31, 2019			December 31, 2018		
	Insurance operations	**Share holders' operations**	**Total**	Insurance operations	Share holders' operations	Total
LIABILITIES						
Policyholders claims payable	**153,385**	-	**153,385**	29,938	-	29,938
Accrued expenses and other liabilities	**53,248**	**174**	**53,422**	56,125	538	56,663
Due to shareholder operations	**20,054**	-	**20,054**	19,902	-	19,902
Due to reinsurers, agents, brokers and third-party administrator	**76,899**	-	**76,899**	68,418	-	68,418
Unearned premiums	**259,887**	-	**259,887**	253,354	-	253,354
Unearned reinsurance commission	**25,328**	-	**25,328**	29,443	-	29,443
Outstanding claims	**610,423**	-	**610,423**	244,263	-	244,263
Claims incurred but not reported	**102,179**	-	**102,179**	114,013	-	114,013
Premium deficiency reserve	**10,845**	-	**10,845**	23,221	-	23,221
Additional unexpired risk reserve	**399**	-	**399**	385	-	385
Unallocated loss adjustment expenses	**5,014**	-	**5,014**	3,507	-	3,507
Surplus distribution payable	**2,512**	-	**2,512**	5,069	-	5,069
Zakat and income tax payable	**-**	**5,853**	**5,853**	-	7,305	7,305
Accrued income on statutory deposit	**-**	**1,275**	**1,275**	-	848	848
TOTAL OPERATIONS' LIABILITIES	**1,320,173**	**7,302**	**1,327,475**	847,638	8,691	856,329
Less: Inter-operations eliminations	**(20,054)**	**-**	**(20,054)**	(19,902)	-	(19,902)
TOTAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION	**1,300,119**	**7,302**	**1,307,421**	827,736	8,691	836,427
SHAREHOLDERS' EQUITY						
Share capital	**-**	**200,000**	**200,000**	-	200,000	200,000
Statutory reserve	**-**	**13,787**	**13,787**	-	10,099	10,099
Retained earnings	**-**	**44,483**	**44,483**	-	29,476	29,476
TOTAL SHAREHOLDERS' EQUITY	**-**	**258,270**	**258,270**	-	239,575	239,575
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,300,119**	**265,572**	**1,565,691**	827,736	248,266	1,076,002

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 Supplementary information (continued)

b) Statement of income

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Insurance operations	**Share holders' operations**	**Total**	Insurance operations	Share holders' operations	Total
REVENUES						
Gross premiums written	**735,044**	-	**735,044**	712,324	-	712,324
Reinsurance premiums ceded	**(306,595)**	-	**(306,595)**	(283,649)	-	(283,649)
Excess of loss expenses	**(12,743)**	-	**(12,743)**	(8,006)	-	(8,006)
Net premiums written	**415,706**	-	**415,706**	420,669	-	420,669
Changes in unearned premiums, net	**(5,628)**	-	**(5,628)**	(47,606)	-	(47,606)
Net premiums earned	**410,078**	-	**410,078**	373,063	-	373,063
Reinsurance commissions	**76,039**	-	**76,039**	72,924	-	72,924
Other underwriting income	**319**	-	**319**	406	-	406
TOTAL REVENUES	**486,436**	-	**486,436**	446,393	-	446,393
COST AND EXPENSES						
Gross claims paid and loss adjustment expenses	**541,208**	-	**541,208**	298,609	-	298,609
Reinsurers' share of claims paid	**(229,070)**	-	**(229,070)**	(82,804)	-	(82,804)
Net claims paid	**312,138**	-	**312,138**	215,805	-	215,805
Changes in outstanding claims, net	**(5,993)**	-	**(5,993)**	38,370	-	38,370
Changes in incurred but not reported, net	**9,955**	-	**9,955**	(6,609)	-	(6,609)
Net claims incurred	**316,100**	-	**316,100**	247,566	-	247,566
Reversal of reinsurance reserves	**-**	-	**-**	(3,597)	-	(3,597)
Premium deficiency reserve	**(12,376)**	-	**(12,376)**	23,221	-	23,221
Additional unexpired risk reserve	**14**	-	**14**	385	-	385
Unallocated loss adjustment expenses	**1,507**	-	**1,507**	3,507	-	3,507
Policy acquisition costs	**65,015**	-	**65,015**	65,318	-	65,318
TOTAL UNDERWRITING COSTS AND EXPENSES	**370,260**	-	**370,260**	336,400	-	336,400
NET UNDERWRITING INCOME	**116,176**	-	**116,176**	109,993	-	109,993

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 Supplementary information (continued)

b) Statement of income (continued)

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Insurance operations	**Share holders' operations**	**Total**	Insurance operations	Share holders' operations	Total
OTHER OPERATING (EXPENSES) / INCOME						
Allowance for impairment for doubtful debts	**(7,473)**	**-**	**(7,473)**	(7,900)	-	(7,900)
General and administrative expenses	**(104,644)**	**(5,685)**	**(110,329)**	(91,223)	(4,049)	(95,272)
Commission income on deposits	**5,910**	**1,501**	**7,411**	3,956	1,129	5,085
Unrealized gain on investments	**-**	**5,357**	**5,357**	-	1,773	1,773
Other income	**15,153**	**-**	**15,153**	8,707	400	9,107
TOTAL OTHER OPERATING EXPENSES	**(91,054)**	**1,173**	**(89,881)**	(86,460)	(747)	(87,207)
NET SURPLUS FROM INSURANCE OPERATIONS	**25,122**	**-**	**25,122**	23,533	-	23,533
Surplus to Shareholders operations (note e)	**(22,610)**	**22,610**	**-**	(21,180)	21,180	-
Profit before zakat and income tax	**2,512**	**23,783**	**26,295**	2,353	20,433	22,786
Zakat	**-**	**(4,161)**	**(4,161)**	-	(4,853)	(4,853)
Income tax	**-**	**(1,184)**	**(1,184)**	-	(2,020)	(2,020)
Net income for the year	**2,512**	**18,438**	**20,950**	2,353	13,560	15,913
Earnings per share (Expressed in SAR per share)	**-**	**0.92**	**-**	-	0.68	-

c) Statement of comprehensive income

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Insurance operations	**Share holders' operations**	**Total**	Insurance operations	Share holders' operations	Total
Net income for the year	**2,512**	**18,438**	**20,950**	2,353	13,560	15,913
Other comprehensive income						
Items that will not be reclassified to statements of income in subsequent years						
Actuarial losses on defined benefit obligation	**-**	**(927)**	**(927)**	-	(1,364)	(1,364)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,512**	**17,511**	**20,023**	2,353	12,196	14,549
Less: Net income attributable to insurance operations			**(2,512)**			(2,353)
			17,511			12,196

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 Supplementary information (continued)

d) Statement of cash flow

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Insurance operations	**Share holders' operations**	**Total**	Insurance operations	Share holders' operations	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income for the year before Zakat and income tax	**2,512**	**23,783**	**26,295**	2,353	20,433	22,786
Adjustments for non-cash items:						
Depreciation and amortisation of property and equipment and intangible assets	**-**	**3,953**	**3,953**	-	2,504	2,504
Shareholder share of surplus from insurance operations	**22,610**	**(22,610)**	**-**	21,180	(21,180)	-
Allowance for impairment of doubtful receivables	**7,473**	**-**	**7,473**	7,900	-	7,900
Unrealized gain on investments	**-**	**(5,357)**	**(5,357)**	-	(1,773)	(1,773)
	32,595	**(231)**	**32,364**	31,433	(16)	31,417
Changes in operating assets and liabilities:						
Premiums receivable	**30,566**	**-**	**30,566**	(88,338)	-	(88,338)
Due from reinsurers	**(126,731)**	**-**	**(126,731)**	(8,704)	-	(8,704)
Reinsurers' share of unearned premiums	**(905)**	**-**	**(905)**	5,546	-	5,546
Reinsurers' share of outstanding claims	**(372,153)**	**-**	**(372,153)**	(125,594)	-	(125,594)
Reinsurers' share of claims Incurred but not reported	**21,789**	**-**	**21,789**	8,272	-	8,272
Deferred policy acquisition costs	**508**	**-**	**508**	3,768	-	3,768
Prepaid expenses and other assets	**39**	**2,648**	**2,687**	(7,518)	3,155	(4,363)
Policyholders claims payable	**123,447**	**-**	**123,447**	17,028	-	17,028
Accrued and other liabilities	**(3,804)**	**(357)**	**(4,161)**	16,407	(490)	15,917
Due to reinsurers, agents, brokers and third-party administrators	**8,481**	**-**	**8,481**	23,041	-	23,041
Unearned premiums	**6,533**	**-**	**6,533**	42,060	-	42,060
Unearned reinsurance commission	**(4,115)**	**-**	**(4,115)**	(1,761)	-	(1,761)
Outstanding claims	**366,160**	**-**	**366,160**	163,964	-	163,964
Claims incurred but not reported	**(11,834)**	**-**	**(11,834)**	(14,881)	-	(14,881)
Premium deficiency reserve	**(12,376)**	**-**	**(12,376)**	23,221	-	23,221
Additional unexpired risk reserve	**14**	**-**	**14**	385	-	385
Due to shareholder operations	**(21,531)**	**21,531**	**-**	(45,404)	45,404	-
Other technical reserves	**-**	**-**	**-**	(3,597)	-	(3,597)
Unallocated loss adjustment expenses	**1,507**	**-**	**1,507**	3,507	-	3,507
Surplus paid to policyholders	**(5,069)**	**-**	**(5,069)**	(9,509)	-	(9,509)
Zakat and income tax paid net of recovery	**-**	**(4,784)**	**(4,784)**	-	(4,559)	(4,559)
Net cash generated from operating activities	**33,121**	**18,807**	**51,928**	33,326	43,494	76,820

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 Supplementary information (continued)

d) Statement of cash flows (continued)

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Insurance operations	**Share holders' operations**	**Total**	Insurance operations	Share holders' operations	Total
CASH FLOWS USED IN INVESTING ACTIVITIES						
Additions to property and equipment and intangible assets	**-**	**(20,997)**	**(20,997)**	-	(22,319)	(22,319)
Addition to investment	**-**	**(284)**	**(284)**	-	-	-
Net cash used in investing activities	**-**	**(21,281)**	**(21,281)**	-	(22,319)	(22,319)
Net change in cash and cash equivalents	**33,121**	**(2,474)**	**30,647**	33,326	21,175	54,501
Cash and cash equivalents, beginning of the year	**259,233**	**64,827**	**324,060**	225,907	43,652	269,559
Cash and cash equivalents, end of the year	**292,354**	**62,353**	**354,707**	259,233	64,827	324,060
SUPPLEMENTAL SCHEDULE OF NON-CASH INFORMATION						
Income tax receivable from foreign shareholders adjusted against prepaid expenses and other assets	**-**	**1,184**	**1,184**	-	2,020	2,020
Actuarial loses on defined benefit obligations adjusted against accrued expenses and other liabilities	**-**	**927**	**927**	-	1,364	1,364

e) As required by the Implementing Regulations and the by-laws of the Company, surplus arising from the Insurance Operations is distributed as follows:

Transfer to Shareholders' operations	90%
Transfer to Policyholders payable	10%
	100%

In case of deficit arising from insurance operations, the entire deficit is allocated and transferred to shareholders' operations.

(All amounts in Saudi Riyals thousands unless otherwise stated)

29 Risk management

(a) Insurance risk

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

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risks through the measures described above. The Company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 10% of shareholders' equity on a gross basis and 2% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 5% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

2019	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims
Marine	**7%**	**2%**	**2%**	**4%**
Property	**11%**	**2%**	**2%**	**2%**
Motor	**56%**	**92%**	**12%**	**86%**
Engineering	**8%**	**1%**	**65%**	**5%**
Accident and liability	**6%**	**2%**	**18%**	**2%**
Extended warranty	**9%**	**-**	**-**	**-**
Term Life	**3%**	**1%**	**1%**	**1%**
Total	**100%**	**100%**	**100%**	**100%**

(All amounts in Saudi Riyals thousands unless otherwise stated)

29 Risk management (continued)

(a) Insurance risk (continued)

Frequency and severity of claims (continued)

2018	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims
Marine	3%	2%	3%	2%
Property	11%	2%	3%	1%
Motor	60%	93%	35%	93%
Engineering	6%	1%	14%	2%
Accident and liability	6%	1%	43%	1%
Extended warranty	9%	-	-	-
Term Life	5%	1%	2%	1%
Total	100%	100%	100%	100%

Concentration of insurance risk

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

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

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

Sources of uncertainty in estimation of future claim payments:

The key source of estimation uncertainty at the statement of financial position date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one–off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

29 Risk management (continued)

(a) Insurance risk (continued)

Concentration of insurance risk (continued)

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

Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. For details please refer note 2(d)(i).

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

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

29 Risk management (continued)

(b) Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year-end 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.

(c) Reinsurance risk

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

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

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

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

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

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

(d) Market Risk

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

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

29 Risk management (continued)

(d) Market Risk (continued)

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

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management assesses that there is minimal risk of significant losses due to exchange rate fluctuations and, consequently, the Company does not hedge its foreign currency exposure.

Commission Rate Risk

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

An increase or decrease of 100 basis points in interest yields would result in a change in the profit for the year of SAR 3.9 million (2018: SAR 3.5 million).

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

	Less than 1 year	**More than 1 year**	**Non-commission bearing**	**Total**
2019	**361,733**	**26,000**	**99,542**	**487,275**
2018	317,150	33,841	99,996	450,987

Other Price Risk

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

The Company's investments amounting to SAR 72.60 million (2018: SAR 106.9 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

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

	Fair value change	**Effect on Company's profit**
December 31, 2019	+ / - 10%	+ / - 7,260
December 31, 2018	+ / - 10 %	+/- 10,500

(All amounts in Saudi Riyals thousands unless otherwise stated)

29 Risk management (continued)

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

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

	2019	2018
Financial assets		
Cash and cash equivalents	**354,707**	324,060
Premiums receivable, net	**153,813**	192,465
Due from reinsurers, net	**139,910**	13,240
Reinsurers' share of outstanding claims	**531,601**	159,448
Investments, net of equity investments and mutual funds	**68,073**	62,947
Statutory deposit	**20,000**	20,000
Commission on statutory deposit	**1,275**	848
	1,269,379	773,008

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

		Non-investment grade		
2019	***Investment grade***	***Satisfactory***	***Past due but not impaired***	***Total***
Cash and cash equivalents	**354,707**	**-**	**-**	**354,707**
Premiums receivable, net	**-**	**76,201**	**77,612**	**153,813**
Due from reinsurers, net	**-**	**131,255**	**8,655**	**139,910**
Reinsurers' share of outstanding claims	**-**	**531,601**	**-**	**531,601**
Investments, net of equity and mutual funds	**68,073**	**-**	**-**	**68,073**
Statutory deposit	**20,000**	**-**	**-**	**20,000**
Commission on statutory deposit	**1,275**	**-**	**-**	**1,275**
December 31, 2019	**444,055**	**739,057**	**86,267**	**1,269,379**

		Non-investment grade		
2018	*Investment grade*	*Satisfactory*	*Past due but not impaired*	*Total*
Cash and cash equivalents	324,060	-	-	324,060
Premiums receivable, net	-	115,164	77,301	192,465
Due from reinsurers, net	-	12,991	249	13,240
Reinsurers' share of outstanding claims	-	159,448	-	159,448
Investments, net of equity and mutual funds	62,947	-	-	62,947
Statutory deposit	20,000	-	-	20,000
Commission on statutory deposit	848	-	-	848
December 31, 2018	407,855	287,603	77,550	773,008

(All amounts in Saudi Riyals thousands unless otherwise stated)

29 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. All of the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified, and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

(f) Liquidity Risk

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

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

The Company's catastrophe excess–of–loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

The table below summarizes the maturities of the Company's undiscounted contractual obligations relating to financial liabilities as of December 31:

Financial liabilities	**Less than 12 months**	**More than 12 months**	**Total**
Outstanding claims	**235,423**	**375,000**	**610,423**
Due to reinsurers, agents, brokers and third-party administrators	**76,899**	**-**	**76,899**
Policyholder claims payable	**153,385**	**-**	**153,385**
Accrued expenses and other liabilities	**41,345**	**12,077**	**53,422**
Commission due on statutory deposit	**-**	**1,275**	**1,275**
December 31, 2019	**507,052**	**388,352**	**895,404**

Financial liabilities	Less than 12 months	More than 12 months	Total
Outstanding claims	244,263	-	244,263
Due to reinsurers, agents, brokers and third-party administrators	68,418	-	68,418
Policyholder claims payable	29,938	-	29,938
Accrued expenses and other liabilities	46,978	9,684	56,662
Commission due on statutory deposit	-	848	848
December 31, 2018	389,597	10,532	400,129

29 Risk management (continued)

(f) Liquidity Risk (continued)

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

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

- Fair value through income statement investments include investments in mutual funds and Murhaba deposits and are held for cash management purposes and expected to be matured/ settled within 12 months from the balance sheet date.
- Murabaha deposits classified as 'cash and cash equivalents' are deposits placed with high credit rating financial institutions with maturity of less than three months from the date of placement.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims mainly pertain to property and casualty segment and are generally realized within 6 to 9 months based on settlement of claims.

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

- Reinsurers' balances payable are settled on a periodic basis as per terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to be settled within 12 months in accordance with statutory timelines for payment. Property and casualty policies due to the inherent nature are generally settled within 12 months from the date of receipt of loss adjustor report.
- The claims payable, accrued expenses and other liabilities are expected to settle within a year of 12 months from the year end date except for end of services benefits.
- Surplus distribution payable is to be settled within 6 months of annual general meeting in which financial statements are approved.

(g) Operational Risk

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

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

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

30 Comparative figures

Certain of the comparative figures have been reclassified and regrouped to conform to the current year presentation.

31 Commitments and Contingencies

The Company's bankers have issued payment guarantees of SR 2.1 million (2018: SR 1.9 million) to its suppliers on behalf of the Company. Also see note 21.2.

32 Approval of the financial statements

These financial statements have been approved by the Board of Directors on 12 March 2020.