

**WATANIYA INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**WATANIYA INSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**FINANCIAL STATEMENTS**  
**For the year ended December 31, 2020**

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## **INDEPENDENT AUDITORS' REPORT 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, 2020, and the related statement of income, statement of comprehensive income, statement of changes in shareholders’ equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi organization for Certified Public Accountants (“SOCPA”) (referred to as “IFRS as endorsed in the Kingdom of Saudi Arabia”).

### **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:



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

**Key Audit Matters (continued)**

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Valuation of ultimate claim liability arising from insurance contracts</b></p> <p>As at December 31, 2020, gross outstanding claims and reserves including claims incurred but not reported (IBNR) and premium deficiency reserve (PDR) as stated in note 8, amounted to SAR 756.4 million.</p> <p>The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs. Further, individual outstanding claims are 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.</p> <p>The Company principally uses an external actuary (“management’s expert”) to provide them with the estimate of such liabilities. A range of methods were used to determine these provisions which were based on number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>Due to the estimation uncertainty and subjectivity involved in the assessment of valuation of ultimate claim liabilities arising from insurance contracts, we have considered this as a key audit matter.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Understood, evaluated and tested key controls around the claims handling and provision setting processes;</li> <li>• Performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves;</li> <li>• Evaluated the competence, capabilities and objectivity of the management's expert based on their professional qualifications and experience and assessed their independence;</li> <li>• Obtained sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, and tested on sample basis, the accuracy of underlying claims data utilized by the management's expert in estimating the IBNR by comparing it to the accounting and other records;</li> </ul>

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

**Key Audit Matters (continued)**

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Valuation of ultimate claim liability arising from insurance contracts (continued)</b></p> <p>Refer notes 3(c) to the financial statements for the accounting policy adopted by the Company and note 2e(i) for the significant accounting judgements, estimates and assumptions involved in the initial recognition and subsequent measurement of insurance contract liabilities. Also, refer note 8 for movement in outstanding claims, IBNR and PDR.</p>	<ul style="list-style-type: none"> <li>• Challenged management's methods and assumptions, through assistance of our internal actuarial expert to understand and evaluate the Company's actuarial practices and provisions established and gained comfort over the actuarial report issued by management's expert, by performing the following:               <ul style="list-style-type: none"> <li>(i) Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;</li> <li>(ii) Assessed key actuarial assumptions including claims ratios and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and</li> <li>(iii) Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivity analysis performed.</li> </ul> </li> <li>• Assessed the adequacy and appropriateness of the related disclosures in the financial statements.</li> </ul>



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

**Other Information**

Management is responsible for the other information. The other information consists of the information included in the Company's 2020 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 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 Kingdom of Saudi Arabia, the applicable requirements of the Regulations for Companies, the Company's By-laws and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance i.e. the Board of Directors of the Company is 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:

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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



Hussain Saleh Asiri  
Certified Public Accountant  
Licence No. 414

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WATANIYA INSURANCE COMPANY  
(A Saudi Joint Stock Company)  
Statement of financial position  
As at December 31, 2020  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2020	2019
<b>ASSETS</b>			
Cash and cash equivalents	4	80,733	354,707
Short-term deposits	5	242,250	-
Premiums receivable – net	6	194,538	153,813
Due from reinsurers – net	7	44,039	139,910
Reinsurers' share of unearned premiums	8	129,371	104,944
Reinsurers' share of outstanding claims	8	559,837	531,601
Reinsurers' share of claims incurred but not reported	8	52,863	57,091
Deferred policy acquisition costs	8	32,299	23,771
Investments	9	166,952	112,568
Prepaid expenses and other assets	10	19,893	18,780
Property and equipment	11	12,371	11,268
Intangible assets	12	38,113	35,963
Statutory deposit	13	20,000	20,000
Accrued income on statutory deposit	13	1,469	1,275
<b>TOTAL ASSETS</b>		<b>1,594,728</b>	<b>1,565,691</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Policyholders payable	14	22,681	153,385
Accrued expenses and other liabilities	15	68,699	53,422
Due to reinsurers, agents, brokers and third-party administrators	16	105,695	76,899
Unearned premiums	8	329,632	259,887
Unearned reinsurance commission	8	30,386	25,328
Outstanding claims	8	641,948	610,423
Claims incurred but not reported	8	101,491	102,179
Premium deficiency reserve	8	12,966	10,845
Additional unexpired risk reserve	8	203	399
Unallocated loss adjustment expenses	8	4,654	5,014
Surplus distribution payable	29(e)	2,468	2,512
Zakat and income tax payable	22	6,604	5,853
Accrued income on statutory deposit	13	1,469	1,275
<b>TOTAL LIABILITIES</b>		<b>1,328,896</b>	<b>1,307,421</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	23	200,000	200,000
Statutory reserve	24	15,354	13,787
Retained earnings		50,478	44,483
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>265,832</b>	<b>258,270</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,594,728</b>	<b>1,565,691</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	22.3, 32	<b>36,302</b>	<b>13,470</b>

  
Chief Financial Officer

  
Chief Executive Officer

  
Director

The accompanying notes 1 to 34 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, 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2020	2019
<b>REVENUES</b>			
Gross premiums written	8,19	785,881	735,044
Reinsurance premiums ceded	25	(308,159)	(306,595)
Excess of loss expenses		(14,742)	(12,743)
<b>Net premiums written</b>		<b>462,980</b>	<b>415,706</b>
Changes in unearned premiums, net		(45,318)	(5,628)
<b>Net premiums earned</b>		<b>417,662</b>	<b>410,078</b>
Reinsurance commissions	8.4	55,516	76,039
Other underwriting income		190	319
<b>TOTAL REVENUES</b>		<b>473,368</b>	<b>486,436</b>
<b>COST AND EXPENSES</b>			
Gross claims paid and loss adjustment expenses		344,154	541,208
Reinsurers' share of claims paid		(86,998)	(229,070)
<b>Net claims paid</b>		<b>257,156</b>	<b>312,138</b>
Changes in outstanding claims, net		3,289	(5,993)
Changes in claims incurred but not reported, net		3,540	9,955
<b>Net claims incurred</b>		<b>263,985</b>	<b>316,100</b>
Premium deficiency reserve		2,121	(12,376)
Additional unexpired risk reserve		(196)	14
Unallocated loss adjustment expenses		(360)	1,507
Policy acquisition costs	8.3	60,576	65,015
Other underwriting expenses		10,978	2,735
<b>TOTAL UNDERWRITING COST AND EXPENSES</b>		<b>337,104</b>	<b>372,995</b>
<b>NET UNDERWRITING INCOME</b>		<b>136,264</b>	<b>113,441</b>
<b>OTHER OPERATING (EXPENSES) / INCOME</b>			
Allowance for impairment of doubtful premium, reinsurers and other receivables		(10,398)	(7,473)
General and administrative expenses	27	(119,453)	(107,594)
Commission income on deposits	21	2,588	7,411
Commission income on short term deposits	21	128	-
Unrealized gain on investments	9.1	1,384	5,357
Other income	28	7,179	15,153
<b>TOTAL OTHER OPERATING EXPENSES, NET</b>		<b>(118,572)</b>	<b>(87,146)</b>
<b>Net income before allocation</b>		<b>17,692</b>	<b>26,295</b>
<b>Net income attributed to the policyholders</b>	29(e)	<b>(2,468)</b>	<b>(2,512)</b>
<b>Net income for the year attributable to the shareholders before zakat and income tax</b>		<b>15,224</b>	<b>23,783</b>
Zakat	22.2	(5,768)	(4,161)
Income tax	22.2	(1,618)	(1,184)
<b>NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS</b>		<b>7,838</b>	<b>18,438</b>
Earnings per share (expressed in SAR per share)	23	0.39	0.92

  
Chief Financial Officer

  
Chief Executive Officer

  
Director

The accompanying notes 1 to 34 form an integral part of these financial statements.

**WATANIYA INSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**Statement of comprehensive income**  
**For the year ended December 31, 2020**  
 (All amounts in Saudi Riyals thousands unless otherwise stated)

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	Note	<u>2020</u>	<u>2019</u>
<b>NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS</b>		7,838	18,438
<b>Other comprehensive loss</b>			
<i>Items that will not be reclassified to statement of income in subsequent years</i>			
Actuarial losses on defined benefit obligations	15.2,15.3	<u>(238)</u>	<u>(927)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS</b>		<u>7,600</u>	<u>17,511</u>

  
 Chief Financial Officer

  
 Chief Executive Officer

  
 Director

The accompanying notes 1 to 34 form an integral part of these financial statements.

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WATANIYA INSURANCE COMPANY  
(A Saudi Joint Stock Company)  
Statement of changes in shareholders' equity  
For the year ended December 31, 2020  
(All amounts in Saudi Riyals thousands unless otherwise stated)

For the year ended December 31, 2020

	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance at the beginning of the year		200,000	13,787	44,483	258,270
<b>Total comprehensive income for the year attributable to shareholders</b>					
Net income for the year attributable to shareholders		-	-	7,838	7,838
Actuarial losses on defined benefit obligations		-	-	(238)	(238)
<b>Total comprehensive income for the year attributable to shareholders</b>		-	-	7,600	7,600
Transfer to statutory reserve	24	-	1,567	(1,567)	-
Income tax adjustment		-	-	(38)	(38)
<b>Balance at end of the year</b>		<b>200,000</b>	<b>15,354</b>	<b>50,478</b>	<b>265,832</b>

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
<b>Total comprehensive income for the year attributable to shareholders</b>					
Net income for the year attributable to Shareholders		-	-	18,438	18,438
Actuarial losses on defined benefit obligations		-	-	(927)	(927)
<b>Total comprehensive income for the year attributable to shareholders</b>		-	-	17,511	17,511
Transfer to statutory reserve	24	-	3,688	(3,688)	-
Income tax recoverable from foreign shareholders	21.2	-	-	1,184	1,184
<b>Balance at end of the year</b>		<b>200,000</b>	<b>13,787</b>	<b>44,483</b>	<b>258,270</b>

  
Chief Financial Officer

  
Chief Executive Officer

  
Director

The accompanying notes 1 to 34 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, 2020**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

	Note	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year attributable to the shareholders before zakat and income tax		15,224	23,783
Adjustments for non-cash items:			
Income attributable to the policyholders		2,468	2,512
Depreciation and amortisation of property, equipment and intangibles	11, 12, 27	5,970	3,953
Allowance for impairment of doubtful receivables, reinsurers' receivables, salvage and subrogation recoveries	6, 10.2	10,398	7,473
Unrealized gain on investments	9.1	(1,384)	(5,357)
		<u>32,676</u>	<u>32,364</u>
<b>Changes in operating assets and liabilities:</b>			
Premiums receivable		(51,350)	30,566
Due from reinsurers		95,871	(126,731)
Reinsurers' share of unearned premiums		(24,427)	(905)
Reinsurers' share of outstanding claims		(28,236)	(372,153)
Reinsurers' share of claims incurred but not reported		4,228	21,789
Deferred policy acquisition costs		(8,528)	508
Prepaid expenses and other assets		(1,711)	2,687
Policyholders payable		(130,704)	123,447
Accrued expenses and other liabilities		15,039	(4,161)
Due to reinsurers, agents, brokers and third-party administrators		28,796	8,481
Unearned premiums		69,745	6,533
Unearned reinsurance commission		5,058	(4,115)
Outstanding claims		31,525	366,160
Claims incurred but not reported		(688)	(11,834)
Premium deficiency reserve		2,121	(12,376)
Additional unexpired risk reserve		(196)	14
Unallocated loss adjusted expenses		(360)	1,507
		<u>38,859</u>	<u>61,781</u>
Surplus paid to policyholders		(2,512)	(5,069)
Zakat and income tax paid, net of recovery		(5,848)	(4,784)
<b>Net cash generated from operating activities</b>		<u>30,499</u>	<u>51,928</u>

The accompanying notes 1 to 34 form an integral part of these financial statements.

**WATANIYA INSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**Statement of cash flows (continued)**  
**For the year ended December 31, 2020**  
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2020	2019
<b>CASH FLOW USED IN INVESTING ACTIVITIES</b>			
Additions to property and equipment	11	(4,340)	(4,248)
Additions to intangible assets	12	(4,883)	(16,749)
Placements in short-term deposits	5	(242,250)	-
Additions to investments		(53,000)	(284)
<b>Net cash used in investing activities</b>		<b>(304,473)</b>	<b>(21,281)</b>
Net change in cash and cash equivalents		(273,974)	30,647
Cash and cash equivalents, beginning of the year		354,707	324,060
<b>Cash and cash equivalents, end of the year</b>	4	<b>80,733</b>	<b>354,707</b>
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INFORMATION</b>			
Income tax receivable from foreign shareholders adjusted against prepaid expenses and other assets	21.2	359	1,184
Actuarial losses on defined benefit obligations adjusted against accrued expenses and other liabilities	15.2, 15.3	238	927

  
 Chief Financial Officer

  
 Chief Executive Officer

  
 Director

The accompanying notes 1 to 34 form an integral part of these financial statements.

**WATANIYA INSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**December 31, 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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**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 Ministry of Commerce 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 has obtained Saudi Central Bank ("SAMA") license number TMN/29/20106 valid up to Rajab 3, 1443H (corresponding to February 5, 2022). 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) Statement of compliance**

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").

**(b) Basis of presentation and measurement**

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) and measurement of employees defined benefit obligations at present value using projected credit unit method. 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 "SAMA Implementation Regulations", the Company maintains separate books of accounts for "Insurance Operations" and "Shareholders' Operations". SAMA Implementation Regulations require a clear segregation of assets, liabilities, income and expenses of the insurance and shareholders operations. Accordingly, assets, liabilities, revenues and expenses attributable to either operation are recorded in the respective accounts. Note 29 to these financial statements provides the statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations, separately.

In preparing the Company's financial statements in compliance with IFRS as endorsed in KSA, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Interoperation balances, transactions and unrealized gains and losses, if any, are eliminated in full during amalgamation. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances.

**(c) Functional and presentation currency**

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

**WATANIYA INSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements (continued)**  
**December 31, 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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**2 Basis of preparation (continued)**

**(d) Fiscal year**

The Company follows a fiscal year ending December 31.

**(e) 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. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

**ii) Impairment of available-for-sale 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 equity investments are based on quoted prices for marketable securities or estimated fair values based on the latest available net assets value of the mutual funds. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

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**2 Basis of preparation (continued)**

**(e) 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:

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

The Company has adopted the following amendments, interpretations and revisions to existing standards, which were issued by the IASB and are applicable from January 1, 2020:

<b>Standard / Amendments</b>	<b>Description</b>
<i>Amendments to IAS 1 and IAS 8</i>	<i>Definition of Material</i>
<i>Amendments to IFRS 3</i>	<i>Definition of a Business</i>
<i>Amendments to IFRS 7, IFRS 9 and IAS 39</i>	<i>Interest Rate Benchmark Reform</i>
<i>Conceptual Framework</i>	<i>Revised Conceptual Framework for Financial Reporting</i>
<i>Amendments to IFRS 16</i>	<i>Covid-19-related Rent Concessions</i>

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

**3.2 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.

<b>Standard/ Interpretation</b>	<b>Description</b>	<b>Effective from periods beginning on or after the following date</b>
<i>IFRS 9</i>	<i>Financial Instruments</i>	<i>See note below</i>
<i>Amendments to IAS 1</i>	<i>Classification of Liabilities as Current or Non-current</i>	<i>January 1, 2022</i>
<i>Amendments to IAS 16</i>	<i>Property, Plant and Equipment: Proceeds before intended use</i>	<i>January 1, 2022</i>
<i>Amendments to IFRS 3</i>	<i>Reference to the Conceptual Framework</i>	<i>January 1, 2022</i>
<i>Amendments to IAS 37</i>	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>	<i>January 1, 2022</i>
<i>Annual Improvements to IFRS Standards 2018–2020</i>	<i>Improvements relating to:</i>	<i>January 1, 2022</i>
	<i>- IFRS 9 Financial Instruments</i>	
	<i>- IFRS 16 Leases</i>	
	<i>- IFRS 1 First-time Adoption of IFRS</i>	
<i>Interest rate benchmark (IBOR) reform</i>	<i>Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16</i>	<i>January 1, 2021</i>
<i>IFRS 17</i>	<i>Insurance Contracts</i>	<i>January 1, 2023</i>

There are no other relevant IFRS or IFRS interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements except for IFRS 9 and IFRS 17 as explained below.



**3 Significant accounting policies (continued)**

**3.2 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.

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**3 Significant accounting policies (continued)**

**3.2 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 extended the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to January 1, 2023. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are 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, 2020, the Company has total financial assets and insurance related assets amounting to SAR 592 million (2019: SAR 678 million) and SAR 774 million (2019: SAR 717 million), respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SAR 592 million (2019: SAR 678 million). Investments are carried currently at fair value through statement of income at SAR 162 million (2019: SAR 110 million). Credit risk exposure, concentration of credit risk and credit quality of the company's receivables portfolio are mentioned in notes 6 and 7. The Company's financial assets have low credit risk as at December 31, 2020 and 2019. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9. However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

### **3 Significant accounting policies (continued)**

#### **3.2 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.

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**3 Significant accounting policies (continued)**

**3.2 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, 2023. This is a deferral of 2 years 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:

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**3 Significant accounting policies (continued)**

**3.2 Standards issued but not yet effective (continued)**

**IFRS 17 – Insurance contracts (continued)**

<b>Impact area</b>	<b>Summary of impact</b>
Financial impact	A limited financial impact review was done, as required by the SAMA, for under writing during the year 2018. The financial impact of applying requirements of IFRS 17 compared to IFRS 4 was not significant. A more detailed review is planned for the last quarter of 2021.
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	Oracle Financial Analyzer tool (OFSAA) has been procured by the Company to implement IFRS 17. Oracle Corporation has been awarded the contract to implement the OFSAA tool. Technical discussions between the Source core systems and the impacted systems have started. The impact analysis is in progress including the data benchmarking to comply IFRS 17 standards and reporting.
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 have been evaluated under the requirements of the IFRS 17 standard. The initial conclusion is that the reinsurance arrangements qualify for the PAA assessment. The initial conclusion is under constant review.
Impact on policies & control's frameworks	<p>The Company is in the process of updating Accounting and Finance Policies and Procedures to cover the new and additional requirement:</p> <ul style="list-style-type: none"> <li>• Unbundling</li> <li>• Level of aggregation</li> <li>• Measurement models</li> <li>• Risk Adjustment Methodologies</li> <li>• New presentation and disclosure requirement</li> </ul> <p>The revised manual will be followed by Finance function to ensure that financial statements are in conformity with IFRS 17 on the effective date..</p>
Human resources	<p>The Company has recruited several key personnel, including the Deputy CFO, Chief Technical Officer, who will play a key role in the IFRS 17 implementation. It has also developed a training plan and 3 training sessions have already been completed:</p> <ol style="list-style-type: none"> <li>1- IFRS 17 overview to all stake holders</li> <li>2- PAA Measurement Model</li> <li>3- GMM Measurement Model</li> </ol> <p>Remaining sessions are planned to be completed in 2021.</p>

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

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**3 Significant accounting policies (continued)**

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.

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.

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**3 Significant accounting policies (continued)**

**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 policies (construction and engineering) and marine cargo. Unearned premiums are calculated on a straight-line method over the insurance policy coverage except for:

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

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.

**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.

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**3 Significant accounting policies (continued)**

**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(a) 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.

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 6 and 7 fall under the scope of IFRS 4 "Insurance contracts".



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**3 Significant accounting policies (continued)**

**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.

**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. FVSI also includes investments managed by Fund manager under the discretionary portfolio of investments where all such investments are carried at fair value.

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.

### **3 Significant accounting policies (continued)**

#### **Held as FVSI (continued)**

##### **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.

#### **Held-to-maturity investments**

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

#### **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.

#### **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 marketplace.

#### **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

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**3 Significant accounting policies (continued)**

**m) Impairment of financial assets (continued)**

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

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.

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, if any. 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:

	<b>Years</b>
Furniture and fixtures	5-10
Office equipment	3
Motor vehicles	4
Computer hardware & software	2

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**3 Significant accounting policies (continued)**

**n) Property and equipment (continued)**

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" 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 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.

The amortization expense on intangible assets with finite lives is recognized in the statement of 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 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
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**

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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**3 Significant accounting policies (continued)**

**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) Defined benefit obligations**

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.

**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.

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**3 Significant accounting policies (continued)**

**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.

**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.

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**4 Cash and cash equivalents**

	<b>2020</b>	2019
Cash in hand	<b>26</b>	28
Bank balances	<b>67,707</b>	32,804
Deposits with original maturity of less than 3 months	<b>13,000</b>	321,875
	<b>80,733</b>	354,707

Except for balances amounting to SAR 0.33 million, 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 of 0.65% annum (2019: 1% to 2% per annum).

**5 Short-term deposits**

Short-term deposits with original maturity exceeding 3 months are held with the following:

	<b>2020</b>	2019
Commercial bank - related party (Note 21)	<b>192,250</b>	-
Other commercial bank	<b>50,000</b>	-
	<b>242,250</b>	-

These short-term deposits are placed with commercial banks, registered in Saudi Arabia and yield income at rates of 0.2 to 0.9% per annum (2019: Nil).

**6 Premiums receivable – net**

	<b>2020</b>	2019
Receivable from policyholders	<b>235,313</b>	187,651
Impairment allowance for doubtful receivables	<b>(40,775)</b>	(33,838)
Premiums receivable – net	<b>194,538</b>	153,813

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

	<b>2020</b>	2019
January 1	<b>33,838</b>	25,752
Provision for the year	<b>10,625</b>	8,086
Write-offs	<b>(3,688)</b>	-
December 31	<b>40,775</b>	33,838

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**6 Premiums receivable – net (continued)**

As at December 31, the ageing analysis of unimpaired net premiums receivable is as follows:

	<b>Total</b>	<b>Past due but not impaired</b>			
		<b>Less than 90 days</b>	<b>91 to 180 days</b>	<b>181 to 360 days</b>	<b>More than 360 days</b>
<b>December 31, 2020</b>	<b>194,538</b>	<b>115,901</b>	<b>34,585</b>	<b>36,557</b>	<b>7,495</b>
December 31, 2019	153,813	76,201	40,909	31,309	5,394

Premiums receivable 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 in accordance with credit terms agreed with the customers.

Five largest customers account for 21% (2019: Five accounted for 20%) of outstanding premiums receivable as at December 31, 2020.

Management considers its external customers to be individual policyholders. One customer of the Company accounts for 17% of the gross premiums written for the year ended December 31, 2020 (2019: 20%). The total premiums attributable to the said customer was Saudi Riyals 136 million for the year (2019: Saudi Riyals 145 million), included mainly in the motor segment. It is not the practice of the Company to obtain collateral over these balances, which are therefore, unsecured.

**7 Due from reinsurers – net**

These represent net claims due from reinsurers under facultative deals and treaty arrangements. These reinsurers are based inside and outside the Kingdom of Saudi Arabia and one reinsurance broker represents 30% (2019: One represents 68%) of the total amount due from reinsurers.

	<b>2020</b>	<b>2019</b>
Reinsurers	<b>45,039</b>	141,410
Impairment allowance for doubtful reinsurers receivables	<b>(1,000)</b>	(1,500)
	<b>44,039</b>	<b>139,910</b>

Movement in impairment allowance for doubtful reinsurers receivables is as follows:

	<b>2020</b>	<b>2019</b>
January 1	<b>1,500</b>	1,439
Charge for the year	-	61
Write-offs	<b>(500)</b>	-
December 31	<b>1,000</b>	<b>1,500</b>

As at December 31, the ageing analysis of unimpaired net reinsurers receivable is as follows:

	<b>Total</b>	<b>Past due but not impaired</b>			
		<b>Less than 90 days</b>	<b>91 to 180 days</b>	<b>181 to 360 days</b>	<b>More than 360 days</b>
<b>December 31, 2020</b>	<b>44,039</b>	<b>44,039</b>	-	-	-
December 31, 2019	139,910	131,255	5,273	3,141	241



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**8 Technical reserves**

**8.1 Net outstanding claims and reserves**

	2020	2019
Outstanding claims	641,948	610,423
Claims incurred but not reported	101,491	102,179
Premium deficiency reserve	12,966	10,845
Additional unexpired risk reserve	203	399
Unallocated loss adjustment expenses	4,654	5,014
	<u>761,262</u>	<u>728,860</u>
Less:		
Reinsurers' share of outstanding claims	(559,837)	(531,601)
Reinsurers' share of claims incurred but not reported	(52,863)	(57,091)
	<u>(612,700)</u>	<u>(588,692)</u>
Net outstanding claims and reserves	<u>148,562</u>	<u>140,168</u>

**8.2 Movement in unearned premiums**

Movement in unearned premiums comprise of the following:

	<u>For the year ended December 31, 2020</u>		
	Gross	Reinsurance	Net
Balance at beginning of the year	259,887	(104,944)	154,943
Premium written during the year	785,881	(322,901)	462,980
Premium earned during the year	(716,136)	298,474	(417,662)
Balance at end of the year	<u>329,632</u>	<u>(129,371)</u>	<u>200,261</u>
	<u>For year ended December 31, 2019</u>		
	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	<u>259,887</u>	<u>(104,944)</u>	<u>154,943</u>

**8.3 Movement in deferred policy acquisition costs**

Movement in deferred policy acquisition costs comprise of the following:

	2020	2019
Balance at beginning of the year	23,771	24,279
Costs accrued	69,104	64,507
Costs charged	(60,576)	(65,015)
Balance at end of the year	<u>32,299</u>	<u>23,771</u>

**8.4 Movement in unearned reinsurance commission**

Movement in unearned reinsurance commission comprise of the following:

	2020	2019
Balance at beginning of the year	25,328	29,443
Commission accrued	60,574	71,924
Commission earned	(55,516)	(76,039)
Balance at end of the year	<u>30,386</u>	<u>25,328</u>

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**9 Investments**

	Note	2020	2019
Fair value through statement of income investments (FVSI)	9.1	<b>162,029</b>	110,645
Held-to-maturity investment	9.2	<b>3,000</b>	-
Available-for-sale investment	9.3	<b>1,923</b>	1,923
		<b>166,952</b>	112,568

**9.1 Fair value through statement of income investments (FVSI)**

Movement is as follows:

	2020	2019
Balance at beginning of the year	<b>110,645</b>	105,004
Additions	<b>50,000</b>	284
Changes in fair value of investments	<b>1,384</b>	5,357
Balance at end of the year	<b>162,029</b>	110,645

The analysis of the composition of investments is as follows:

	2020	2019
Cash and cash equivalents	<b>445</b>	2,348
Equity	<b>16,250</b>	3,230
Murabaha placements	<b>77,200</b>	35,700
Mutual funds	<b>39,715</b>	39,342
Sukuks	<b>28,419</b>	30,025
Total investments	<b>162,029</b>	110,645

**9.2 Held to maturity investment**

This represents the Company's investment in Saudi Fransi Tier 1 Sukuks. These represent 3 Sukuks at a face value of SAR 1 million per Sukuk with a coupon rate of 4.50% per annum. These Sukuks have a maturity duration of 5 years commencing from November 30, 2020.

**9.3 Available-for-sale investment**

This represents the Company's 3.85% (December 31, 2019: 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. In the absence of reliable financial information, management believe that fair values cannot be ascertained reliably.

**9.4** All investments are from the shareholders' operations and are placed inside the Kingdom of Saudi Arabia.

**10 Prepaid expenses and other assets**

	Note	2020	2019
Deferred revenue expenditure	10.1	<b>6,757</b>	4,451
Staff receivables		<b>4,043</b>	4,230
Prepayments		<b>1,236</b>	2,048
Salvage and subrogation recoveries	10.2	<b>381</b>	2,028
Margin deposits		<b>2,240</b>	2,140
Others		<b>5,236</b>	3,883
		<b>19,893</b>	18,780

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**10 Prepaid expenses and other assets (continued)**

**10.1** This represents Minimum Deposit Premium relating to the Company's excess of loss treaties.

**10.2** These represent receivables from salvage and subrogation recoveries from third parties:

	<b>2020</b>	2019
Salvage and subrogation recoveries	<b>633</b>	2,507
Less: impairment allowance for salvage and subrogation recoveries	<b>(252)</b>	(479)
	<b>381</b>	2,028

**11 Property and equipment**

	<b>Furniture and fixtures</b>	<b>Office equipment</b>	<b>Motor vehicles</b>	<b>Computer hardware &amp; software</b>	<b>Total</b>
<b>2020</b>					
<b>Cost:</b>					
January 1	11,088	1,779	599	12,518	25,984
Additions	2,560	303	-	1,477	4,340
December 31	13,648	2,082	599	13,995	30,324
<b>Accumulated depreciation:</b>					
January 1	3,873	917	449	9,477	14,716
Charge for the year	1,156	255	114	1,712	3,237
December 31	5,029	1,172	563	11,189	17,953
<b>Net book value</b>					
<b>December 31, 2020</b>	<b>8,619</b>	<b>910</b>	<b>36</b>	<b>2,806</b>	<b>12,371</b>
	<b>Furniture and fixtures</b>	<b>Office equipment</b>	<b>Motor vehicles</b>	<b>Computer hardware &amp; software</b>	<b>Total</b>
<b>2019</b>					
<b>Cost:</b>					
January 1	7,505	1,688	599	11,944	21,736
Additions	3,583	91	-	574	4,248
December 31	11,088	1,779	599	12,518	25,984
<b>Accumulated depreciation:</b>					
January 1	3,039	685	338	7,698	11,760
Charge for the year	834	232	111	1,779	2,956
December 31	3,873	917	449	9,477	14,716
<b>Net book value</b>					
<b>December 31, 2019</b>	<b>7,215</b>	<b>862</b>	<b>150</b>	<b>3,041</b>	<b>11,268</b>

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**12 Intangible assets**

These compromise software license fees and other related development costs.

	<b>Software</b>	<b>Capital work in progress</b>	<b>Total</b>
<b>2020</b>			
<b>Cost:</b>			
January 1	33,279	3,681	36,960
Additions	2,592	2,291	4,883
Transfers	5,113	(5,113)	-
December 31	<u>40,984</u>	<u>859</u>	<u>41,843</u>
<b>Accumulated amortization:</b>			
January 1	997	-	997
Charge for the year	2,733	-	2,733
December 31	<u>3,730</u>	<u>-</u>	<u>3,730</u>
<b>Net book value</b>			
<b>December 31, 2020</b>	<b><u>37,254</u></b>	<b><u>859</u></b>	<b><u>38,113</u></b>
<b>2019</b>			
<b>Cost:</b>			
January 1	-	20,211	20,211
Additions	-	16,749	16,749
Transfers	33,279	(33,279)	-
December 31	<u>33,279</u>	<u>3,681</u>	<u>36,960</u>
<b>Accumulated amortization:</b>			
Charge for the year	997	-	997
December 31	<u>997</u>	<u>-</u>	<u>997</u>
<b>Net book value</b>			
<b>December 31, 2019</b>	<b><u>32,282</u></b>	<b><u>3,681</u></b>	<b><u>35,963</u></b>

**13 Statutory deposit**

In compliance with Article 58 of the Implementing Regulations issued by SAMA, the Company is required to maintain a deposit of not less than 10% of its share capital which is 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.

**14 Policyholders payable**

Policyholders payable represent claims and surplus due to certain policyholders. One policyholder's balance comprises 14% (2019: 81%) of the outstanding balance as at December 31, 2020.

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**15 Accrued expenses and other liabilities**

	<b>Note</b>	<b>2020</b>	2019
Accrued expenses		<b>22,810</b>	18,878
Employee end-of-service benefits	15.1	<b>13,859</b>	12,077
VAT payable		<b>10,258</b>	2,074
Provision for reinsurance's withholding tax		<b>5,546</b>	1,800
Payable to garages and workshops		<b>5,145</b>	12,565
SAMA supervision fee		<b>3,217</b>	616
Commission payable		<b>2,477</b>	1,512
Other liabilities		<b>5,387</b>	3,900
		<b>68,699</b>	53,422

**15.1 Employee end of service benefits**

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Defined benefit obligation's plans are unfunded plans and the benefit payment obligation are met when they fall due upon termination of employment.

**15.2 Movement of defined benefit obligations**

	<b>2020</b>	2019
Opening balance	<b>12,077</b>	9,684
Charge to statement of income	<b>2,891</b>	2,254
Charge to statement of other comprehensive income	<b>238</b>	927
Payment of benefits during the year	<b>(1,347)</b>	(788)
Closing balance	<b>13,859</b>	12,077

**15.3 Reconciliation of present value of defined benefit obligations**

	<b>2020</b>	2019
Opening balance	<b>12,077</b>	9,684
Current service costs	<b>2,538</b>	1,896
Financial costs	<b>353</b>	358
Actuarial loss from experience adjustments	<b>238</b>	927
Payment of benefits during the year	<b>(1,347)</b>	(788)
Closing balance	<b>13,859</b>	12,077

**15.4 Principal actuarial assumptions**

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

	<b>2020</b>	2019
Discount rate	<b>2.39%</b>	3.10%
Expected rate of increase in salary level across different age bands	<b>2.39%</b>	3.10%

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**15 Accrued expenses and other liabilities (continued)**

**15.5 Sensitivity analysis**

	<b>Impact on defined benefit obligations</b>	
	<b>2020</b>	2019
Discount rate		
- Increase by 0.5%	<b>(561)</b>	(674)
- Decrease by 0.5%	<b>613</b>	746
Expected rate of increase in salary level across different age bands		
- Increase by 0.5%	<b>610</b>	739
- Decrease by 0.5%	<b>(564)</b>	(674)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method (present value of defined benefit obligations calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

The average duration of the defined benefit plan obligation at the end of the reporting period is 8.3 years (2019: 3.51 years).

**15.6 Maturity analysis (Undiscounted)**

	<b>Less than a year</b>	<b>Between 1 - 2 years</b>	<b>Between 2 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>December 31, 2020</b>	<b>2,791</b>	<b>1,441</b>	<b>1,810</b>	<b>11,330</b>	<b>17,372</b>
December 31, 2019	2,457	823	2,267	10,640	16,187

**16 Due to reinsurers, agents, brokers and third-party administrators**

	<b>2020</b>	2019
Reinsurers	<b>78,676</b>	50,178
Agents and brokers	<b>26,477</b>	24,908
Third party administrator	<b>542</b>	1,813
	<b>105,695</b>	76,899

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**17 Claims development table**

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the years beginning from year 2015 onwards whose claim experience has not been fully developed.

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

<b>Accident year</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
At the end of accident year	144,547	179,177	188,065	217,764	431,872	446,938	
One year later	210,024	255,094	249,690	312,449	947,455	-	
Two years later	216,220	263,488	359,329	327,382	-	-	
Three years later	220,230	264,405	363,554	-	-	-	
Four years later	221,480	265,941	-	-	-	-	
Five years later	223,832	-	-	-	-	-	
Ultimate paid claims (estimated)	223,832	265,941	363,554	327,382	947,455	446,938	2,575,102
Cumulative paid claims	(221,841)	(265,259)	(260,556)	(319,855)	(522,064)	(242,845)	(1,832,420)
	1,991	682	102,998	7,527	425,391	204,093	742,682
Liability in respect of years prior to 2015	-	-	-	-	-	-	757
Gross outstanding claims including IBNR 2020							<u>743,439</u>
Gross outstanding claims including IBNR 2019							<u>712,602</u>

**18 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.

**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. 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.

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**18 Fair values of financial instruments (continued)**

The following table shows the carrying value and fair value of financial assets measured at fair value at December 31, 2020 and 2019:

December 31, 2020	Total	Fair value		
		Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>				
Equity	16,250	16,250	-	-
Mutual funds	39,715	-	-	39,715
Sukuks	28,419	28,419	-	-
Other investments	77,645	-	-	77,645
	<b>162,029</b>	<b>44,669</b>	-	<b>117,360</b>

  

December 31, 2019	Total	Fair value		
		Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>				
Equity	3,230	3,230	-	-
Mutual funds	39,342	-	-	39,342
Sukuks	30,025	30,025	-	-
Other investments	38,048	-	-	38,048
	<b>110,645</b>	<b>33,255</b>	-	<b>77,390</b>

Significant unobservable inputs used in the valuation of level 3 investments include the Fund administrator report based on NAV and assumptions about rates for other investments as confirmed by the discretionary portfolio manager.

Available-for-sale investment amounting to SAR 1.9 million (2019: SAR 1.9 million) is carried at cost as its fair value cannot be measured reliably.

**19 Gross premiums written**

For the year ended December 31, 2020

Classes	Corporate				Individual	Total
	Very Small	Small	Medium	Large		
Property & Accident	6,297	46,191	110,327	129,445	5,305	297,565
Motor	10,142	73,752	66,158	214,005	63,769	427,826
Protection & Savings (Term life)	139	2,675	8,187	49,489	-	60,490
<b>Total</b>	<b>16,578</b>	<b>122,618</b>	<b>184,672</b>	<b>392,939</b>	<b>69,074</b>	<b>785,881</b>

For the year ended December 31, 2019

Classes	Corporate				Individual	Total
	Very Small	Small	Medium	Large		
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
<b>Total</b>	<b>28,670</b>	<b>101,075</b>	<b>220,210</b>	<b>356,808</b>	<b>28,281</b>	<b>735,044</b>



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**20 Operating segments**

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the 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 CODM is measured in a manner consistent with that in the statement of income. 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, 2019.

Segment assets do not include cash and cash equivalents, short-term deposits, premiums receivables, investments, due from reinsurers, prepaid expenses and other assets, property and equipment, intangible assets, 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.

For management reporting purposes, the Company is organised into business units on the basis of products and services offered by the Company.

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

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**20 Operating segments (continued)**

	Marine	Property	Motor	Engineering	Accident & liability	Extended warranty	Term life	Total
<b>For the year ended December 31, 2020</b>								
<b>Revenues</b>								
Gross premiums written	43,222	123,282	427,826	59,011	48,807	23,243	60,490	<b>785,881</b>
Reinsurance premiums ceded	(31,813)	(112,083)	(6,164)	(54,815)	(40,467)	(23,243)	(39,574)	<b>(308,159)</b>
Excess of loss expenses	(3,335)	(2,887)	(6,915)	(1,425)	(180)	-	-	<b>(14,742)</b>
<b>Net premiums written</b>	<b>8,074</b>	<b>8,312</b>	<b>414,747</b>	<b>2,771</b>	<b>8,160</b>	<b>-</b>	<b>20,916</b>	<b>462,980</b>
Change in unearned premiums, net	657	(258)	(43,402)	(462)	660	-	(2,513)	<b>(45,318)</b>
<b>Net premiums earned</b>	<b>8,731</b>	<b>8,054</b>	<b>371,345</b>	<b>2,309</b>	<b>8,820</b>	<b>-</b>	<b>18,403</b>	<b>417,662</b>
Reinsurance commissions	9,402	19,357	1,280	11,549	6,620	2,654	4,654	<b>55,516</b>
Other underwriting income	80	20	41	11	28	-	10	<b>190</b>
<b>Total revenues</b>	<b>18,213</b>	<b>27,431</b>	<b>372,666</b>	<b>13,869</b>	<b>15,468</b>	<b>2,654</b>	<b>23,067</b>	<b>473,368</b>
<b>Cost and expenses</b>								
Gross claims paid and loss adjustment expenses	11,596	8,614	247,972	7,640	6,233	4,627	57,472	<b>344,154</b>
Reinsurer's share of claims paid	(8,598)	(8,022)	(6,410)	(7,005)	(4,999)	(4,627)	(47,337)	<b>(86,998)</b>
<b>Net claims paid</b>	<b>2,998</b>	<b>592</b>	<b>241,562</b>	<b>635</b>	<b>1,234</b>	<b>-</b>	<b>10,135</b>	<b>257,156</b>
Changes in outstanding claims, net	(1,315)	4,098	(78)	297	(166)	-	453	<b>3,289</b>
Changes in incurred but not reported claims, net	(383)	19	4,376	6	(413)	-	(65)	<b>3,540</b>
<b>Net claims incurred</b>	<b>1,300</b>	<b>4,709</b>	<b>245,860</b>	<b>938</b>	<b>655</b>	<b>-</b>	<b>10,523</b>	<b>263,985</b>
Premium deficiency reserve	-	-	2,121	-	-	-	-	<b>2,121</b>
Additional unexpired risk reserve	-	-	-	(196)	-	-	-	<b>(196)</b>
Unallocated loss adjusted expenses	198	421	(1,244)	317	83	-	(135)	<b>(360)</b>
Policy acquisition costs	5,180	10,809	25,151	6,148	3,990	1,917	7,381	<b>60,576</b>
Other underwriting expenses	755	1,996	5,869	1,076	660	288	334	<b>10,978</b>
<b>Total underwriting cost and expenses</b>	<b>7,433</b>	<b>17,935</b>	<b>277,757</b>	<b>8,283</b>	<b>5,388</b>	<b>2,205</b>	<b>18,103</b>	<b>337,104</b>
<b>Net underwriting income</b>	<b>10,780</b>	<b>9,496</b>	<b>94,909</b>	<b>5,586</b>	<b>10,080</b>	<b>449</b>	<b>4,964</b>	<b>136,264</b>
<b>Other operating (expenses) / income</b>								
Allowance for impairment of doubtful premium, reinsurers and other receivables								<b>(10,398)</b>
General and administration expenses								<b>(119,453)</b>
Commission income on deposits								<b>2,588</b>
Commission income on short term deposits								<b>128</b>
Unrealized gain on investments								<b>1,384</b>
Other income								<b>7,179</b>
Total other operating expenses, net								<b>(118,572)</b>
<b>Net income for the year before allocation</b>								<b>17,692</b>
Net income attributed to the policyholders								<b>(2,468)</b>
<b>Net income for the year attributable to the shareholders, before zakat and income tax</b>								<b>15,224</b>
Zakat								<b>(5,768)</b>
Income tax								<b>(1,618)</b>
<b>Net income for the year attributable to the shareholders</b>								<b>7,838</b>

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**20 Operating segments (continued)**

	Marine	Property	Motor	Engineer- ing	Accident & liability	Extended warranty	Term life	Total
For the year ended December 31, 2019								
<b>Revenues</b>								
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
<b>Cost and expenses</b>								
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	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 adjustment 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
Other underwriting expenses	525	890	69	579	263	304	105	2,735
Total underwriting cost and expenses	9,375	11,195	314,978	7,309	5,222	8,949	15,967	372,995
Net underwriting income	10,582	15,544	59,713	4,754	8,879	1,520	12,449	113,441
<b>Other operating (expenses) / income</b>								
Allowance for impairment of doubtful premium, reinsurers and other receivables								(7,473)
General and administration expenses								(107,594)
Commission income on deposits								7,411
Unrealized gain on investments								5,357
Other income								15,153
Total other operating expenses, net								(87,146)
Net income for the year								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 attributable to the shareholders								18,438

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**20 Operating segments (continued)**

	Marine	Property	Motor	Engineer- ing	Accident & liability	Extended warranty	Term life	Total
<b>As at December 31, 2020</b>								
<b>Assets</b>								
Reinsurers' share of unearned premiums	8,730	33,873	1,287	21,169	20,118	38,510	5,684	<b>129,371</b>
Reinsurers' share of outstanding claims	5,419	58,469	2,294	383,118	104,322	41	6,174	<b>559,837</b>
Reinsurers' share of claims incurred but not reported	2,447	8,590	2,188	22,694	8,195	-	8,749	<b>52,863</b>
Deferred policy acquisition costs	1,074	3,641	11,860	2,875	1,972	9,741	1,136	<b>32,299</b>
Unallocated assets								<b>820,358</b>
<b>Total assets</b>								<b>1,594,728</b>
<b>Liabilities</b>								
Unearned premiums	11,283	37,080	187,709	23,207	22,253	38,510	9,590	<b>329,632</b>
Unearned reinsurance commission	2,133	6,094	200	4,949	3,417	13,487	106	<b>30,386</b>
Outstanding claims	7,493	63,824	70,024	387,067	105,929	41	7,570	<b>641,948</b>
Claims incurred but not reported	2,778	8,854	45,486	23,292	10,144	-	10,937	<b>101,491</b>
Premium deficiency reserve	-	-	12,966	-	-	-	-	<b>12,966</b>
Additional unexpired risk reserve	-	-	-	203	-	-	-	<b>203</b>
Unallocated loss adjustment expenses	319	556	2,415	532	538	-	294	<b>4,654</b>
Unallocated liabilities								<b>207,616</b>
<b>Total liabilities</b>								<b>1,328,896</b>
<b>As at December 31, 2019</b>								
<b>Assets</b>								
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								<b>848,284</b>
<b>Total assets</b>								<b>1,565,691</b>
<b>Liabilities</b>								
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								<b>293,346</b>
<b>Total liabilities</b>								<b>1,307,421</b>

**WATANIYA INSURANCE COMPANY****(A Saudi Joint Stock Company)****Notes to the financial statements (continued)****December 31, 2020**

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**21 Related party transactions and balances****21.1 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 agreed with 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:

<b>Related party</b>	<b>Nature of transactions</b>	<b>For the year ended December 31, 2020</b>	<b>For the year ended December 31, 2019</b>
Board members	- Fees and related expenses	<b>1,450</b>	1,601
Key management personnel	- Remuneration and related expenses	<b>11,044</b>	11,000
	- Loans and advances	<b>652</b>	602
Shareholders' and related parties (common ownership)	- Gross premium written	<b>39,187</b>	64,253
	- Claims paid and payable	<b>11,649</b>	15,647
	- Facultative premiums ceded	<b>1,801</b>	2,650
	- Facultative commission received	<b>295</b>	568
	- Facultative claims recovered	<b>295</b>	1,177
	- Expenses incurred	<b>5,672</b>	6,231
	- Commission income on deposits	<b>2,588</b>	7,411
	- Commission income on short-term deposits	<b>90</b>	-

**21.2 Related party balances**

	<b>2020</b>	<b>2019</b>
Premiums receivable	<b>6,377</b>	8,913
Claims payable	<b>1,041</b>	5,809
Cash and cash equivalents with a shareholder	<b>80,379</b>	354,679
Short-term deposits with a shareholder	<b>192,250</b>	-
Amounts due (to)/from a shareholder for facultative transactions	<b>(174)</b>	39
Advances due from key management personnel	<b>627</b>	602
Income tax receivable from foreign shareholders	<b>359</b>	1,184
Statutory deposit placed with a shareholder	<b>20,000</b>	20,000
Accrued income on statutory deposit with a shareholder	<b>1,469</b>	1,275
Employee benefits payable to key management personnel	<b>3,312</b>	2,806

**22 Zakat and income tax****22.1 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.

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**22 Zakat and income tax (continued)**

**22.1 Components of zakat base (continued)**

	2020	2019
Shareholders' equity, at beginning of year	192,256	178,339
Provisions, at beginning of year	37,886	30,542
Adjusted net income for the year	22,073	19,770
Statutory deposit	(14,888)	(14,888)
Property, equipment and intangible assets, as adjusted	(37,580)	(35,159)
Others	(5,488)	476
Approximate zakat base	<u>194,259</u>	<u>179,080</u>

**22.2 Provision for zakat and income tax**

	Zakat	Income tax	Total
January 1, 2020	4,669	1,184	5,853
Provision for the current year	4,999	1,453	6,452
Adjustment for prior year	769	165	934
Payments during the year	(5,324)	(1,311)	(6,635)
December 31, 2020	<u>5,113</u>	<u>1,491</u>	<u>6,604</u>

	Zakat	Income tax	Total
January 1, 2019	5,285	2,020	7,305
Provision for the current year	4,161	1,184	5,345
Other adjustments	7	(185)	(178)
Payments during the year	(4,784)	(1,835)	(6,619)
December 31, 2019	<u>4,669</u>	<u>1,184</u>	<u>5,853</u>

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:

	2020	2019
	%	%
Zakat	74.44	74.44
Income tax	25.56	25.56

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**22 Zakat and income tax (continued)**

**22.3 Status of assessments**

The Company has filed its tax returns with the General Authority of Zakat and Tax ("GAZT") from inception up to 2019.

The Company's tax and zakat position has been finalized up to and including the year ended December 31, 2018, except for the assessment for withholding tax as explained below.

The tax return for 2013 is deemed to be finalized as no queries have 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, with an additional tax and zakat liability of SAR 175 thousand. Management has accepted this assessment and has paid this amount in the current year.

During the year, the Company has received the final assessment for the years 2014 to 2017 for zakat and income tax. The assessment has raised additional tax and zakat liability of SAR 934 thousand. Management has accepted this assessment and has paid this amount in the current year.

In addition to above, the Company had also received an assessment for the 2018 withholding tax liability during 2019 in which the GAZT had imposed additional taxes, including penalties, of SAR 11.37 million. Management believes that the assessment raised is without merit and has appealed against this assessment. The Company's initial appeal was rejected by the GAZT and has been escalated to the General Secretariat of Tax Committee (GSTC) online portal in order to assign the hearing session by the related Committee to discuss the Company's objection. Management of the Company believes that there is a high probability to waive the majority of this assessment and hence no additional liability has been recorded against this assessment.

**23 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 SAR 10 each (December 31, 2019: SAR 200 million divided into 20 million shares of SAR 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.

**24 Statutory reserve**

As required by the Implementing Regulations issued by SAMA, 20% of the net income for the year after adjusting accumulated losses, 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 SAR 1.57 million, (2019: SAR 3.69 million) to the statutory reserve. This reserve is not available for distribution to the shareholders until the liquidation of the Company.

**25 Reinsurance premiums ceded**

	2020	2019
Local companies	13,285	14,779
Local brokers	241,629	228,891
International	53,245	62,925
	<b>308,159</b>	<b>306,595</b>

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**26 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, 2020 consists of paid-up share capital of SAR 200 million, statutory reserve of SAR 15.35 million and retained earnings of SAR 50.48 million (December 31, 2019: paid-up share capital of SAR 200 million, statutory reserves of SAR 13.78 million and retained earnings of SAR 44.48 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.

**27 General and administration expenses**

	<b>Note</b>	<b>2020</b>	2019
Salaries and benefits		<b>72,755</b>	69,301
Information technology		<b>12,146</b>	9,407
Legal and professional fees		<b>8,555</b>	8,439
Depreciation and amortization	11, 12	<b>5,970</b>	3,953
Office expenses		<b>5,066</b>	5,220
Regulatory fees		<b>4,314</b>	3,940
Taxes accrued		<b>2,350</b>	-
Directors' expenses	21	<b>1,450</b>	1,601
Others		<b>6,847</b>	5,733
		<b>119,453</b>	107,594



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<b>28 Other income</b>	<b>2020</b>	2019
Profit commission	<b>3,751</b>	6,095
Share of surplus from Al Manafeth (Note 28.1)	<b>1,236</b>	2,215
Share of surplus from Umrah & Hajj scheme (Note 28.2)	<b>2,192</b>	-
Miscellaneous	-	6,843
	<b>7,179</b>	15,153

**28.1** 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, initially 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 years 2019 and 2020.

**28.2** This represents the Company's share in the surplus for general accident product arising from the Umrah scheme. The Company with twenty-seven 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, 2020. The compulsory Umrah product is offered by the ministry and approved by SAMA for insurance of pilgrims coming from outside of the Kingdom of Saudi Arabia except for citizens of the Gulf Cooperation Council countries. This covers general accidents and health benefits of the pilgrims entering the Kingdom of Saudi Arabia to perform Umrah. The agreement terms are for 4 years starting from January 1, 2020 and it is renewable for another four years subject to the terms and conditions of the agreement.

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**29 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, 2020			December 31, 2019		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
<b>ASSETS</b>						
Cash and cash equivalents	66,930	13,803	80,733	292,354	62,353	354,707
Short-term Deposits	242,250	-	242,250	-	-	-
Premiums receivable – net	194,538	-	194,538	153,813	-	153,813
Due from reinsurers – net	44,039	-	44,039	139,910	-	139,910
Reinsurers' share of unearned premiums	129,371	-	129,371	104,944	-	104,944
Reinsurers' share of outstanding claims	559,837	-	559,837	531,601	-	531,601
Reinsurers' share of claims incurred but not reported	52,863	-	52,863	57,091	-	57,091
Deferred policy acquisition costs	32,299	-	32,299	23,771	-	23,771
Investments	-	166,952	166,952	-	112,568	112,568
Prepaid expenses and other assets	19,522	371	19,893	16,689	2,091	18,780
Due from insurance operations	-	21,763	21,763	-	20,054	20,054
Property and equipment	-	12,371	12,371	-	11,268	11,268
Intangible assets	-	38,113	38,113	-	35,963	35,963
Statutory deposit	-	20,000	20,000	-	20,000	20,000
Accrued income on statutory deposit	-	1,469	1,469	-	1,275	1,275
<b>TOTAL OPERATIONS' ASSETS</b>	<b>1,341,649</b>	<b>274,842</b>	<b>1,616,491</b>	<b>1,320,173</b>	<b>265,572</b>	<b>1,585,745</b>
Less: Inter-operations eliminations	-	(21,763)	(21,763)	-	(20,054)	(20,054)
<b>TOTAL ASSETS AS PER STATEMENT OF FINANCIAL POSITION</b>	<b>1,341,649</b>	<b>253,079</b>	<b>1,594,728</b>	<b>1,320,173</b>	<b>245,518</b>	<b>1,565,691</b>

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**29 Supplementary information (continued)**

**a) Statement of financial position (continued)**

	December 31, 2020			December 31, 2019		
	Insurance operations	Share holders' operations	Total	Insurance operations	Share holders' operations	Total
<b>LIABILITIES</b>						
Policyholders payable	22,681	-	22,681	153,385	-	153,385
Accrued expenses and other liabilities	67,762	937	68,699	53,248	174	53,422
Due to shareholder operations	21,763	-	21,763	20,054	-	20,054
Due to reinsurers, agents, brokers and third-party administrator	105,695	-	105,695	76,899	-	76,899
Unearned premiums	329,632	-	329,632	259,887	-	259,887
Unearned reinsurance commission	30,386	-	30,386	25,328	-	25,328
Outstanding claims	641,948	-	641,948	610,423	-	610,423
Claims incurred but not reported	101,491	-	101,491	102,179	-	102,179
Premium deficiency reserve	12,966	-	12,966	10,845	-	10,845
Additional unexpired risk reserve	203	-	203	399	-	399
Unallocated loss adjustment expenses	4,654	-	4,654	5,014	-	5,014
Surplus distribution payable	2,468	-	2,468	2,512	-	2,512
Zakat and income tax payable	-	6,604	6,604	-	5,853	5,853
Accrued income on statutory deposit	-	1,469	1,469	-	1,275	1,275
<b>TOTAL OPERATIONS' LIABILITIES</b>	<b>1,341,649</b>	<b>9,010</b>	<b>1,350,659</b>	<b>1,320,173</b>	<b>7,302</b>	<b>1,327,475</b>
Less: Inter-operations eliminations	(21,763)	-	(21,763)	(20,054)	-	(20,054)
<b>TOTAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION</b>	<b>1,319,886</b>	<b>9,010</b>	<b>1,328,896</b>	<b>1,300,119</b>	<b>7,302</b>	<b>1,307,421</b>
<b>SHAREHOLDERS' EQUITY</b>						
Share capital	-	200,000	200,000	-	200,000	200,000
Statutory reserve	-	15,354	15,354	-	13,787	13,787
Retained earnings	-	50,478	50,478	-	44,483	44,483
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>265,832</b>	<b>265,832</b>	<b>-</b>	<b>258,270</b>	<b>258,270</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,319,886</b>	<b>274,842</b>	<b>1,594,728</b>	<b>1,300,119</b>	<b>265,572</b>	<b>1,565,691</b>

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**29 Supplementary information (continued)**

**b) Statement of income**

	For the year ended December 31, 2020			For the year ended December 31, 2019		
	Insurance operations	Share holders' operations	Total	Insurance operations	Share holders' operations	Total
<b>REVENUES</b>						
Gross premiums written	785,881	-	785,881	735,044	-	735,044
Reinsurance premiums ceded	(308,159)	-	(308,159)	(306,595)	-	(306,595)
Excess of loss expenses	(14,742)	-	(14,742)	(12,743)	-	(12,743)
<b>Net premiums written</b>	<b>462,980</b>	<b>-</b>	<b>462,980</b>	<b>415,706</b>	<b>-</b>	<b>415,706</b>
Changes in unearned premiums, net	(45,318)	-	(45,318)	(5,628)	-	(5,628)
<b>Net premiums earned</b>	<b>417,662</b>	<b>-</b>	<b>417,662</b>	<b>410,078</b>	<b>-</b>	<b>410,078</b>
Reinsurance commissions	55,516	-	55,516	76,039	-	76,039
Other underwriting income	190	-	190	319	-	319
<b>TOTAL REVENUES</b>	<b>473,368</b>	<b>-</b>	<b>473,368</b>	<b>486,436</b>	<b>-</b>	<b>486,436</b>
<b>COST AND EXPENSES</b>						
Gross claims paid and loss adjustment expenses	344,154	-	344,154	541,208	-	541,208
Reinsurers' share of claims paid	(86,998)	-	(86,998)	(229,070)	-	(229,070)
<b>Net claims paid</b>	<b>257,156</b>	<b>-</b>	<b>257,156</b>	<b>312,138</b>	<b>-</b>	<b>312,138</b>
Changes in outstanding claims, net	3,289	-	3,289	(5,993)	-	(5,993)
Changes in incurred but not reported, net	3,540	-	3,540	9,955	-	9,955
<b>Net claims incurred</b>	<b>263,985</b>	<b>-</b>	<b>263,985</b>	<b>316,100</b>	<b>-</b>	<b>316,100</b>
Premium deficiency reserve	2,121	-	2,121	(12,376)	-	(12,376)
Additional unexpired risk reserve	(196)	-	(196)	14	-	14
Unallocated loss adjustment expenses	(360)	-	(360)	1,507	-	1,507
Policy acquisition costs	60,576	-	60,576	65,015	-	65,015
Other underwriting expenses	10,978	-	10,978	2,735	-	2,735
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	<b>337,104</b>	<b>-</b>	<b>337,104</b>	<b>372,995</b>	<b>-</b>	<b>372,995</b>
<b>NET UNDERWRITING INCOME</b>	<b>136,264</b>	<b>-</b>	<b>136,264</b>	<b>113,441</b>	<b>-</b>	<b>113,441</b>

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**29 Supplementary information (continued)**

**b) Statement of income (continued)**

	For the year ended December 31, 2020			For the year ended December 31, 2019		
	Insurance operations	Share holders' operations	Total	Insurance operations	Share holders' operations	Total
<b>OTHER OPERATING (EXPENSES) / INCOME</b>						
Allowance for impairment of doubtful premiums, reinsurers and other receivables	(10,398)	-	(10,398)	(7,473)	-	(7,473)
General and administrative expenses	(110,626)	(8,827)	(119,453)	(101,909)	(5,685)	(107,594)
Commission income on deposits	2,137	451	2,588	5,910	1,501	7,411
Commission income on short term deposits	128	-	128	-	-	-
Unrealized gain on investments	-	1,384	1,384	-	5,357	5,357
Other income	7,179	-	7,179	15,153	-	15,153
<b>TOTAL OTHER OPERATING EXPENSES, NET</b>	<b>(111,580)</b>	<b>(6,992)</b>	<b>(118,572)</b>	<b>(88,319)</b>	<b>1,173</b>	<b>(87,146)</b>
<b>NET SURPLUS FROM INSURANCE OPERATIONS</b>	<b>24,684</b>	<b>(6,992)</b>	<b>17,692</b>	<b>25,122</b>	<b>1,173</b>	<b>26,295</b>
Surplus to Shareholders operations (note e)	(22,216)	22,216	-	(22,610)	22,610	-
<b>Profit before zakat and income tax</b>	<b>2,468</b>	<b>15,224</b>	<b>17,692</b>	<b>2,512</b>	<b>23,783</b>	<b>26,295</b>
Zakat	-	(5,768)	(5,768)	-	(4,161)	(4,161)
Income tax	-	(1,618)	(1,618)	-	(1,184)	(1,184)
<b>Net income for the year</b>	<b>2,468</b>	<b>7,838</b>	<b>10,306</b>	<b>2,512</b>	<b>18,438</b>	<b>20,950</b>
<b>Earnings per share (expressed in SAR per share)</b>	<b>-</b>	<b>0.39</b>	<b>-</b>	<b>-</b>	<b>0.92</b>	<b>-</b>

**c) Statement of comprehensive income**

	For the year ended December 31, 2020			For the year ended December 31, 2019		
	Insurance operations	Share holders' operations	Total	Insurance operations	Share holders' operations	Total
Net income for the year	2,468	7,838	10,306	2,512	18,438	20,950
<b>Other comprehensive loss</b>						
<i>Items that will not be reclassified to statements of income in subsequent years</i>						
Actuarial losses on defined benefit obligations	-	(238)	(238)	-	(927)	(927)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2,468</b>	<b>7,600</b>	<b>10,068</b>	<b>2,512</b>	<b>17,511</b>	<b>20,023</b>
<b>Less: Net income attributable to insurance operations</b>			<b>(2,468)</b>			<b>(2,512)</b>
			<b>7,600</b>			<b>17,511</b>

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**29 Supplementary information (continued)**

**d) Statement of cash flow**

	For the year ended December 31, 2020			For the year ended December 31, 2019		
	Insurance operations	Share holders' operations	Total	Insurance operations	Share holders' operations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net income for the period attributable to shareholders before zakat and income tax	-	15,224	15,224	-	23,783	23,783
Adjustments for non-cash items:						
Income attributable to insurance operations	2,468	-	2,468	2,512	-	2,512
Depreciation and amortisation of property and equipment and intangible assets	-	5,970	5,970	-	3,953	3,953
Shareholder share of surplus from insurance operations	22,216	(22,216)	-	22,610	(22,610)	-
Allowance for impairment of doubtful receivables, reinsurers' receivables, salvage and subrogation recoveries	10,398	-	10,398	7,473	-	7,473
Unrealized gain on investments	-	(1,384)	(1,384)	-	(5,357)	(5,357)
	<b>35,082</b>	<b>(2,406)</b>	<b>32,676</b>	<b>32,595</b>	<b>(231)</b>	<b>32,364</b>
<u>Changes in operating assets and liabilities:</u>						
Premiums receivable	(51,350)	-	(51,350)	30,566	-	30,566
Due from reinsurers	95,871	-	95,871	(126,731)	-	(126,731)
Reinsurers' share of unearned premiums	(24,427)	-	(24,427)	(905)	-	(905)
Reinsurers' share of outstanding claims	(28,236)	-	(28,236)	(372,153)	-	(372,153)
Reinsurers' share of claims incurred but not reported	4,228	-	4,228	21,789	-	21,789
Deferred policy acquisition costs	(8,528)	-	(8,528)	508	-	508
Prepaid expenses and other assets	(2,606)	895	(1,711)	39	2,648	2,687
Policyholders payable	(130,704)	-	(130,704)	123,447	-	123,447
Accrued and other liabilities	14,276	763	15,039	(3,804)	(357)	(4,161)
Due to reinsurers, agents, brokers and third-party administrators	28,796	-	28,796	8,481	-	8,481
Unearned premiums	69,745	-	69,745	6,533	-	6,533
Unearned reinsurance commission	5,058	-	5,058	(4,115)	-	(4,115)
Outstanding claims	31,525	-	31,525	366,160	-	366,160
Claims incurred but not reported	(688)	-	(688)	(11,834)	-	(11,834)
Premium deficiency reserve	2,121	-	2,121	(12,376)	-	(12,376)
Additional unexpired risk reserve	(196)	-	(196)	14	-	14
Due to shareholder operations	(20,269)	20,269	-	(21,531)	21,531	-
Unallocated loss adjustment expenses	(360)	-	(360)	1,507	-	1,507
	<b>19,338</b>	<b>19,521</b>	<b>38,859</b>	<b>38,190</b>	<b>23,591</b>	<b>61,781</b>
Surplus paid to policyholders	(2,512)	-	(2,512)	(5,069)	-	(5,069)
Zakat and income tax paid net of recovery	-	(5,848)	(5,848)	-	(4,784)	(4,784)
<b>Net cash generated from operating activities</b>	<b>16,826</b>	<b>13,673</b>	<b>30,499</b>	<b>33,121</b>	<b>18,807</b>	<b>51,928</b>

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**29 Supplementary information (continued)**

**d) Statement of cash flows (continued)**

	For the year ended December 31, 2020			For the year ended December 31, 2019		
	Insurance operations	Share holders' operations	Total	Insurance operations	Share holders' operations	Total
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>						
Additions to property and equipment	-	(4,340)	(4,340)	-	(4,248)	(4,248)
Additions intangible assets		(4,883)	(4,883)		(16,749)	(16,749)
Placements in short-term deposits	(242,250)	-	(242,250)	-	-	-
Additions to investments		(53,000)	(53,000)	-	(284)	(284)
<b>Net cash used in investing activities</b>	<b>(242,250)</b>	<b>(62,223)</b>	<b>(304,473)</b>	-	<b>(21,281)</b>	<b>(21,281)</b>
Net change in cash and cash equivalents	(225,424)	(48,550)	(273,974)	33,121	(2,474)	30,647
Cash and cash equivalents, beginning of the year	292,354	62,353	354,707	259,233	64,827	324,060
<b>Cash and cash equivalents, end of the year</b>	<b>66,930</b>	<b>13,803</b>	<b>80,733</b>	<b>292,354</b>	<b>62,353</b>	<b>354,707</b>

**SUPPLEMENTAL SCHEDULE OF NON-  
CASH INFORMATION**

Income tax receivable from foreign shareholders adjusted against prepaid expenses and other assets	-	359	359	-	1,184	1,184
Actuarial losses on defined benefit obligations adjusted against accrued expenses and other liabilities	-	238	238	-	927	927

**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%
	<u>100%</u>

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

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### **30 Risk management**

#### **Risk governance**

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

#### **Risk management structure:**

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

#### **Board of directors:**

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

#### **Audit committee and internal audit department:**

The internal audit department performs risk assessments with senior management annually. The internal audit department examines both adequacy of procedures and the Company's compliance with the procedures through regular audits. Audit findings and recommendations are reported directly to the Audit Committee.

#### **Senior management:**

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

#### **Risk management committee:**

The Board of Directors of the Company has constituted a Risk Management Committee, which oversees the risk management function of the Company and report to Board on a periodic basis. This committee operates under framework established by the Board of Directors.

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The risks faced by the Company and the manner in which these risks are mitigated by management are summarized below:

#### **30.1 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.



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**30 Risk management (continued)**

**30.1 Insurance risk (continued)**

**(a) 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. The table below sets out the concentration of the outstanding claims and unearned premiums (in percentage terms) by class of business at the statement of financial position date:

<u>2020</u>	<b>Gross unearned premiums</b>	<b>Net unearned premiums</b>	<b>Gross outstanding claims</b>	<b>Net outstanding claims</b>
Marine	3%	1%	1%	3%
Property	11%	2%	10%	6%
Motor	57%	93%	11%	82%
Engineering	7%	1%	60%	5%
Accident and liability	7%	1%	17%	2%
Extended warranty	12%	-	-	-
Term life	3%	2%	1%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

<u>2019</u>	<b>Gross unearned premiums</b>	<b>Net unearned premiums</b>	<b>Gross outstanding claims</b>	<b>Net outstanding claims</b>
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%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**(b) 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.

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**30 Risk management (continued)**

**30.1 Insurance risk (continued)**

**(c) 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.

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. The details of estimation uncertainty of outstanding claims (including IBNR) are given in note 2.

**(d) 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(e)(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, additional unexpired risk reserves, 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.

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**30 Risk management (continued)**

**30.1 Insurance risk (continued)**

**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.

**(e) 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, 2020 and 2019, 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.

**30.2 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.

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**30 Risk management (continued)**

**30.2 Market risk (continued)**

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

**(a) 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. The Company has transactions in Saudi Riyals and US Dollars which are pegged and hence there is no currency risk exposure to the Company.

**(b) Commission rate risk**

Commission rate risk is the risk that the value of future cash flows of a financial instrument will change because of change in market commission rates.

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.

The commission and non-commission bearing investments of the Company and their maturities as at December 31, 2020 and 2019 are as follows:

	<b>Less than 1 year</b>	<b>More than 1 year</b>	<b>Non-commission bearing</b>	<b>Total</b>
<b>2020</b>	<b>332,537</b>	<b>31,436</b>	<b>145,962</b>	<b>509,935</b>
2019	361,733	26,000	99,542	487,275

An increase or decrease of 100 basis points in interest yields would result in a change in the profit for the year of SAR 3.6 million (2019: SAR 3.9 million).

**(c) 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 56 million (2019: SAR 43 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:

	<b>Fair value change</b>	<b>Effect on Company's profit</b>
<b>December 31, 2020</b>	<b>+ / - 10%</b>	<b>+ / - 5,600</b>
December 31, 2019	+ / - 10%	+ / - 4,300

The Company has an unquoted equity investment amounting to SAR 1.9 million (2019: SAR 1.9 million) carried at cost where the impact of changes in equity price risk will only be reflected when the investment is sold or deemed to be impaired and statement of income will be then impacted.

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**30 Risk management (continued)**

**30.3 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:

	<u>2020</u>	2019
<b>Financial assets</b>		
Cash and cash equivalents	<b>80,733</b>	354,707
Short-term deposits	<b>242,250</b>	-
Premiums receivable, net	<b>194,538</b>	153,813
Due from reinsurers, net	<b>44,039</b>	139,910
Reinsurers' share of outstanding claims	<b>559,837</b>	531,601
Investments, net of equity investments and mutual funds	<b>109,064</b>	68,073
Statutory deposit	<b>20,000</b>	20,000
Accrued income on statutory deposit	<b>1,469</b>	1,275
Staff and other receivables	<b>9,662</b>	8,294
	<b><u>1,261,592</u></b>	<u>1,277,673</u>

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.

<u>2020</u>	<i>Investment grade</i>	<u>Non-investment grade</u>		<i>Total</i>
		<i>Satisfactory</i>	<i>Past due but not impaired</i>	
Cash and cash equivalents	<b>80,733</b>	-	-	<b>80,733</b>
Short-term deposits	<b>242,250</b>	-	-	<b>242,250</b>
Premiums receivable, net	-	<b>115,901</b>	<b>78,637</b>	<b>194,538</b>
Due from reinsurers, net	-	<b>44,039</b>	-	<b>44,039</b>
Reinsurers' share of outstanding claims	-	<b>559,837</b>	-	<b>559,837</b>
Investments, net of equity and mutual funds	<b>109,064</b>	-	-	<b>109,064</b>
Statutory deposit	<b>20,000</b>	-	-	<b>20,000</b>
Accrued income on statutory deposit	<b>1,469</b>	-	-	<b>1,469</b>
Staff and other receivables	-	<b>9,662</b>	-	<b>9,662</b>
<b>December 31, 2020</b>	<b><u>453,516</u></b>	<b><u>729,439</u></b>	<b><u>78,637</u></b>	<b><u>1,261,592</u></b>

<u>2019</u>	<i>Investment grade</i>	<u>Non-investment grade</u>		<i>Total</i>
		<i>Satisfactory</i>	<i>Past due but not impaired</i>	
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
Accrued income on statutory deposit	1,275	-	-	1,275
Staff and other receivables	-	8,294	-	8,294
December 31, 2019	<b><u>444,055</u></b>	<b><u>747,351</u></b>	<b><u>86,267</u></b>	<b><u>1,277,673</u></b>

**WATANIYA INSURANCE COMPANY**  
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**30 Risk management (continued)**

**30.3 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. Also see note 6.

**30.4 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:

<i><b>Financial liabilities</b></i>	<b>Less than 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
Outstanding claims	<b>266,948</b>	<b>375,000</b>	<b>641,948</b>
Due to reinsurers, agents, brokers and third-party administrators	<b>105,695</b>	-	<b>105,695</b>
Policyholder payable	<b>22,681</b>	-	<b>22,681</b>
Accrued expenses and other liabilities	<b>58,365</b>	<b>13,859</b>	<b>72,224</b>
Accrued income on statutory deposit	-	<b>1,469</b>	<b>1,469</b>
<b>December 31, 2020</b>	<b>453,689</b>	<b>390,328</b>	<b>844,017</b>

<i>Financial liabilities</i>	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 payable	153,385	-	153,385
Accrued expenses and other liabilities	41,345	12,077	53,422
Accrued income on statutory deposit	-	1,275	1,275
December 31, 2019	507,052	388,352	895,404

Insurance contract liabilities amounting to Saudi Riyals 119.31 million (2019: 118.44 million) which include Claims incurred but not reported, Premium deficiency reserve, Additional unexpired risk reserve and Unallocated loss adjustment expenses have a maturity of less than 12 months.

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**30 Risk management (continued)**

**30.4 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.

**30.5 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 operations of the Company are subject to regulatory requirements in the Kingdom of Saudi Arabia. Such regulations only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to maintain the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In management view, the Company has substantially complied with such regulatory requirements.

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.

**31 Comparative figures**

Certain of the comparative figures have been reclassified and regrouped to conform to the current year presentation. Such reclassifications have not resulted in any additional impact on equity, income, or total comprehensive income for comparative year. The reclassification in 2019 comparative statement of income relates to VAT paid amounting to SAR 2.7 million from the "general and administrative expenses" to "other underwriting expenses"

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**32 Commitments and contingencies**

- 32.1** The Company's banks have issued payment guarantees of SAR 2.2 million (2019: SAR 2.1 million) to its suppliers on behalf of the Company.
- 32.2** The Company is a defendant in a case that was filed by a client amounting to SAR 19 million (2019: Nil). The preliminary decision of the Primary Committee for Resolution of Insurance Disputes and Violations ruled in favour of the Company and dismissed the case brought by the claimant. The Appeal Committee for Settlement of Insurance of Insurance Disputes and Violations has issued a verdict which cancels the preliminary decision and decided to return the case to the Primary Committee for Resolution of Insurance Disputes and Violations for consideration and review. Management believes that the case is without merit and has therefore not taken any provisions there against.
- 32.3** See note 22.3 for zakat and tax related contingencies.
- 32.4** The Company has discounted letters of credit issued in its favour by a customer to SR 3.7 million (2019: Nil).

**33 Impact of COVID-19**

The World Health Organisation declared the corona virus (COVID-19) to be a global pandemic on March 11, 2020, escalating from a declaration of a public health emergency on January 30, 2020. COVID-19 has had unexpected human and economic consequences across many countries and has resulted in significant market volatility.

COVID-19 pandemic continues to disrupt global markets as many geographies are beginning to experience a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time and is closely monitoring its exposures at a granular level, while maintaining acceptable service levels and operational activities and ensuring the safety and wellbeing of its employees.

Management of the Company is closely monitoring the situation as it evolves which is outlined on the broad dimensions as below:

**(a) Business impact**

**Impact on sales, receivables and product/pricing strategies**

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

The key factors that impacted the 2020 production were market dynamics, the consumer spending and the insurance industry outlook and initiatives. Market dynamics involved the reduced Government spending and curtailment of projects due to COVID-19 situation. On the consumer side there was a clear tendency of the consumers to reduce cost and to shop for the cheapest solution.

There has been a limited impact on collections and liquidity during the current phase and this is being monitored regularly by management. Overall, product and pricing strategies continue to be on track and hence management does not see any significant changes presently.

Based upon the current trends, management has updated its sales forecasts to reflect these for the future. Management will continue to monitor the impact and update the forecasts further considering the situation as it continues to evolve.



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**33 Impact of COVID-19 (continued)**

**Impact on claims and reserving**

Motor technical reserves

In response to the COVID-19 pandemic, SAMA issued a circular 189 (the "circular") dated May 8, 2020 to all insurance companies in the Kingdom of Saudi Arabia. Amongst other things, the circular instructed insurance companies to extend the period of validity of all existing retail motor insurance policies by further two months as well as providing a two-month additional coverage for all new retail motor policies written within one month of this circular, without any additional consideration from the policyholders.

The management, in conjunction with its appointed actuary, deliberated on a variety of internal factors and concluded, that the Company considers the extension of two months in existing motor policies as new policy and recorded a premium deficiency reserve based on the expected claims for the extended 2 months period. The Company has performed a liability adequacy test using current estimates of future cash flows under its insurance contracts at an aggregated level for motor line of business and the recorded a Premium/contribution deficiency reserve amounting to SAR 12.96 million as at December 31, 2020.

Reinsurers continue to settle their share of the claims in line with the treaty and contracts with no adverse impact to business. Management continues to conduct regular reviews on the Company's reinsurers in relation to the counterparty credit ratings, financial metrics, credit outlook and changes to their structures, if any.

The reserving towards IBNR continues to be consistent with the methodology and techniques applied as at December 31, 2019 and it factors the actual claim experience in the year ended December 31, 2020.

**Impact on expenses**

The Company continues to maintain its staff in the normal course of business and pay the salaries.

Some of the expenses such as communication, technology and maintenance costs have increased due to the higher level of support to extend remote working options for the employees as well as costs towards sanitising, social distancing and providing a safe environment for those employees working from the office. The additional costs have been partially offset with the lower costs towards business travel, conveyance and lower discretionary spending.

**Impact on financial assets**

In line with the impact upon the capital markets and interest-rates in the initial period of the pandemic in March 2020, there was some volatility and impact on the investment valuation which has recovered during the year ended December 31, 2020. The determination of fair value considers observable market information, determining whether specific markets are active or inactive, and whether transactions in inactive markets are deemed to be disorderly (i.e. forced or distressed), with none noted for the portfolio of financial assets held by the Company.

The Company continued to assess whether there is an objective evidence that a financial asset or a group of financial assets is impaired. During the year, the Company applied the accounting policy for impairment of financial assets consistent with prior year. With respect to insurance and reinsurance receivables, the Company is closely monitoring the credit quality of its customers and reinsurance companies and updating the allowance for impairment whenever there is an objective evidence of credit impairment.

**(b) Operational resilience and business continuity**

From the initial stages of the COVID-19 pandemic, the Company set-up business continuity committee which frequently meets and reviews the operational, continuity, security, health and safety matters for the Company.

This includes rolling out several key guidelines with respect to systems availability, continuity of service to our customers, employee health and safety guidelines, travel restrictions, social distancing, rotational remote-working, exposure policy, travel guidelines in case required for personal reasons and other related matters. The IT systems availability and the business continuity procedures in terms of data back-up and recovery remain intact in the current situation.

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**33 Impact of COVID-19 (continued)**

**(c) Accounting and financial reporting**

In the current phase of COVID-19 pandemic, the Company continues to apply its accounting policies consistently without deviation. Considering the impact on the business is limited, management continues to adopt a consistent approach to the use of estimates in the financial information. As the situation evolves in future, management will continue to monitor and consider updates as appropriate at that time.

The Company continues to maintain a healthy solvency ratio (note 26) and sound liquidity position during this phase.

**34 Approval of the financial statements**

These financial statements have been approved by the Board of Directors on March 01, 2021 corresponding to 17 Rajab 1442 H.