

**WALAA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**WALAA COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Walaa Cooperative Insurance Company  
(A Saudi Joint Stock Company)

### **Opinion**

We have audited the financial statements of **Walaa Cooperative Insurance Company** (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at December 31, 2019, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### **Basis for Opinion**

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WALAA COOPERATIVE INSURANCE COMPANY (CONTINUED)**

**Key Audit Matters (continued)**

The key audit matter	How the matter was addressed in our audit
<p><b><u>Valuation of technical reserves</u></b></p> <p>The Company as at December 31, 2019, has gross technical reserves amounting to SR 367.8 million as reported in Note 9.1 of the financial statements, which includes outstanding claims, claims incurred but not reported (IBNR) and other technical reserves.</p> <p>The Company uses a range of actuarial methodologies to estimate these claims. This requires significant judgments relating to factors and assumptions such as inflation, claims development pattern and regulatory requirements.</p> <p>The valuation of technical reserves is a key judgmental area for the Directors given the level of subjectivity inherent in estimating the impact of claim events that have occurred for which the ultimate outcome remains uncertain.</p> <p>Due to the significance of the amounts involved and the exercise of significant judgment by Directors in the process for determination of the technical reserves, we have determined it to be a key audit matter.</p> <p><i>Refer to notes 2(d)(i) which discloses the estimated liability arising from claims under insurance contracts and note 3(vi) which discloses accounting policies for claims.</i></p>	<p>We evaluated the design and tested the implementation of key controls over the Director's processes for claims processing and payment, including controls over the completeness and accuracy of the claim estimates recorded.</p> <p>We evaluated the appropriateness of the reserving methodologies used in estimating the insurance claim liability as part of our substantive procedures.</p> <p>We performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claims and technical reserves.</p> <p>Using our actuarial specialists we performed re-projections on IBNR relating to selected operating segments, where we compared our re-projected IBNR to those booked by the Directors, and sought to understand any significant differences.</p> <p>For the remaining operating segments, we assessed the reasonableness of methodologies and assumptions used by the Directors against recognized actuarial practices and industry standards to identify and evaluate any anomalies.</p> <p>We assessed the completeness and accuracy of data used by the Directors in their calculation of technical reserves.</p> <p>We also assessed the appropriateness of the financial statements disclosures relating to this matter against the requirements of IFRS.</p>

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WALAA COOPERATIVE INSURANCE COMPANY (CONTINUED)**

**Other Information**

The Board of Directors of the Company (the "Directors") are responsible for the other information. The other information comprises the information included in the 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 Directors and Those Charged with Governance for the Financial Statements**

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

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

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WALAA COOPERATIVE INSURANCE COMPANY (CONTINUED)**

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

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

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

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

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

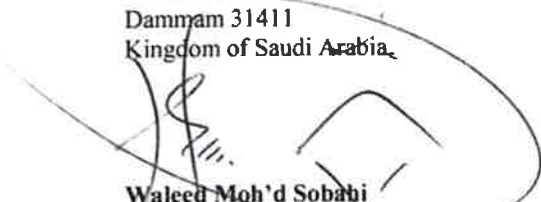
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation 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.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WALAA COOPERATIVE INSURANCE COMPANY (CONTINUED)**

**Report on legal and other regulatory requirements**


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

Deloitte and Touche & Co  
Chartered Accountants  
P. O. Box 182  
Dammam 31411  
Kingdom of Saudi Arabia

  
**Waleed Moh'd Sobahi**  
Certified Public Accountant  
Registration No. 378

21 Rajab, 1441H  
March 16, 2020 G

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

  
**Abdullah Muhammad Al Azem**  
Certified Public Accountant  
Registration No. 335



**WALAA COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2019**

	Notes	2019	2018
		SAR'000	
			(Restated)
<b>ASSETS</b>			
Cash and cash equivalents	7	560,925	1,122,329
Short term deposits	7	341,074	-
Premiums and reinsurers' receivable – net	8	150,094	202,416
Reinsurers' share of unearned premiums	9.2	274,137	195,562
Reinsurers' share of outstanding claims	9.1	97,837	124,638
Reinsurers' share of claims incurred but not reported	9.1	44,218	41,538
Deferred policy acquisition costs	9.3	16,733	23,570
Investments	6	404,248	162,876
Due from insurance operations		12,312	26,507
Prepaid expenses and other assets		49,205	34,083
Property and equipment, net	4	17,350	9,415
Intangible assets	5	1,128	1,334
Statutory deposit		52,800	44,000
Accrued income on statutory deposit		5,607	4,263
Accrued commission income	7	5,059	4,437
<b>TOTAL ASSETS</b>		<b>2,032,727</b>	<b>1,996,968</b>



Chief Financial Officer



Chief Executive Officer



Board Member


The accompanying notes 1 to 31 form an integral part of these financial statements.



**WALAA COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**AS AT DECEMBER 31, 2019**

	Notes	2019	2018
		SAR'000	
			(Restated)
<b>LIABILITIES</b>			
Policyholders claims payable		20,876	16,712
Accrued and other liabilities	11	97,270	120,114
Reinsurers' balances payable		173,378	140,897
Unearned premiums	9.2	637,828	536,608
Unearned reinsurance commission	9.3	14,086	12,443
Outstanding claims	9.1	140,433	181,504
Claims incurred but not reported	9.1	192,740	197,760
Additional premium reserves	9.1	4,970	8,525
Other technical reserves	9.1	29,700	26,379
Due to shareholders' operations		12,312	26,507
End-of-service indemnities	13	17,906	14,622
Zakat and income tax	18	15,578	28,532
Accrued commission income payable to SAMA		5,607	4,263
Surplus distribution payable	12	3,491	13,495
<b>TOTAL LIABILITIES</b>		<b>1,366,175</b>	<b>1,328,361</b>
<b>EQUITY</b>			
Share capital	19	528,000	440,000
Share premium	19	30,108	30,108
Statutory reserve		53,102	48,827
Retained earnings		40,406	155,306
Fair value reserve on investments - available-for-sale	6	17,650	(3,418)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>669,266</b>	<b>670,823</b>
Re-measurement reserve of defined benefit obligation – related to insurance operations	13	(2,714)	(2,216)
<b>TOTAL EQUITY</b>		<b>666,552</b>	<b>668,607</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,032,727</b>	<b>1,996,968</b>
Commitments and contingencies	10		

  
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Chief Financial Officer

  
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Chief Executive Officer

  
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Board Member

The accompanying notes 1 to 31 form an integral part of these financial statements.

**WALAA COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Notes	2019	2018
		SAR'000	
			(Restated)
<b>REVENUES</b>			
Gross premiums written			
- Direct		1,215,024	1,104,630
- Reinsurance		370	327
	9.2	1,215,394	1,104,957
Reinsurance premiums ceded			
- Local ceded		(9,826)	(8,439)
- Foreign ceded		(455,204)	(350,105)
	9.2	(465,030)	(358,544)
Excess of loss expenses	9.2	(14,848)	(15,284)
<b>Net premiums written</b>		735,516	731,129
Changes in unearned premiums	9.2	(101,220)	1,885
Changes in reinsurers' share of unearned premiums	9.2	78,575	65,315
<b>Net premiums earned</b>		712,871	798,329
Reinsurance commissions	9.3	24,334	28,564
Other underwriting income		2,267	3,977
<b>NET REVENUES</b>		739,472	830,870
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid		597,784	517,351
Expenses incurred related to claims		35,937	40,061
Reinsurers' share of claims paid		(50,747)	(26,447)
<b>Net claims and other benefits paid</b>		582,974	530,965
Changes in outstanding claims	9.1	(41,071)	20,885
Changes in reinsurance share of outstanding claims	9.1	26,801	(14,032)
Changes in claims incurred but not reported	9.1	(5,020)	(58,144)
Changes in reinsurance share of claims incurred but not reported	9.1	(2,680)	568
<b>Net claims and other benefits incurred</b>		561,004	480,242
Additional premium reserves	9.1	(3,555)	5,328
Other technical reserves	9.1	3,321	21,063
Policy acquisition costs	9.3	46,028	71,595
Other underwriting expenses		22,663	9,677
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>		629,461	587,905
<b>NET UNDERWRITING INCOME</b>		110,011	242,965

  
Chief Financial Officer

  
Chief Executive Officer

  
Board Member

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**WALAA COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF INCOME (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Notes	2019	2018
		SAR'000	
			(Restated)
<b><u>OTHER OPERATING (EXPENSES) / INCOME</u></b>			
Allowance for doubtful debts	8	2,834	(12,605)
General and administrative expenses	24	(115,103)	(132,636)
Commission income	25	25,623	20,430
Dividend income on investments	25	1,137	1,191
Losses on available for sale investments	26	-	(7,633)
		<b>(85,509)</b>	<b>(131,253)</b>
<b>TOTAL OTHER OPERATING EXPENSES</b>			
<b>Total income for the year before zakat and income tax &amp; surplus attribution</b>		<b>24,502</b>	111,712
Zakat	18	(1,543)	(13,647)
Income tax	18	(241)	(1,195)
		<b>22,718</b>	96,870
<b>TOTAL INCOME FOR THE YEAR</b>			
<b>Net income attributed to the insurance operations</b>	28	<b>(1,343)</b>	(11,347)
<b>Net income attributable to the shareholders</b>		<b>21,375</b>	85,523
<b>Earnings per share (EPS) (expressed in SAR per share)</b>			
Basic and diluted EPS (2018: restated)	21	<b>0.40</b>	1.62
<b>Weighted average number of ordinary outstanding shares (in 'thousands)</b>		<b>52,800</b>	52,800

  
Chief Financial Officer

  
Chief Executive Officer

  
Board Member

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**WALAA COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Notes	2019	2018
		SAR'000	
			(Restated)
Total income for the year		22,718	96,870
<b><u>Other comprehensive income / (loss)</u></b>			
<i>Items that will not be reclassified to statement of income in subsequent years</i>			
Actuarial losses on defined benefit obligation	13	(498)	(42)
<i>Items that are or may be reclassified to statements of income in subsequent years</i>			
Available for sale investments:			
- Net change in fair value	6	21,068	6,303
- Net amounts transferred to statement of income	26	-	7,633
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>43,288</b>	110,764
<b>Net comprehensive income attributed to the insurance operations</b>		<b>(845)</b>	(11,305)
<b>Net comprehensive income for the year attributable to the shareholders</b>		<b>42,443</b>	99,459



Chief Financial Officer



Chief Executive Officer



Board Member

The accompanying notes 1 to 31 form an integral part of these financial statements.

**WALAA COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2019**

Notes	Related to shareholders					Re- measurement reserve of defined benefit	Total equity
	Share capital	Share premium	Statutory reserve	Retained earnings	Fair value reserve on investments		
	SAR '000						
January 1, 2019	440,000	30,108	48,827	155,306	(3,418)	(2,216)	668,607
<b>Total comprehensive income for the year</b>							
Unrealized fair value changes on available-for-sale investments, net	-	-	-	-	21,068	-	21,068
Actuarial losses on defined benefits obligation - related to insurance operations	-	-	-	-	-	(498)	(498)
Net comprehensive income for the year attributable to shareholders	-	-	-	21,375	-	-	21,375
Total comprehensive income for the year attributable to shareholders	-	-	-	21,375	21,068	(498)	41,945
Bonus shares	88,000	-	-	(88,000)	-	-	-
Dividend	-	-	-	(44,000)	-	-	(44,000)
Transfer to statutory reserve	-	-	4,275	(4,275)	-	-	-
<b>December 31, 2019</b>	<b>528,000</b>	<b>30,108</b>	<b>53,102</b>	<b>40,406</b>	<b>17,650</b>	<b>(2,714)</b>	<b>666,552</b>

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Chief Financial Officer

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Chief Executive Officer



Board Member

The accompanying notes 1 to 31 form an integral part of these financial statements.

**WALAA COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF CHANGES IN EQUITY (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Notes	Related to shareholders						Re-measurement reserve of defined benefit	Total Equity
	Share capital	Share premium	Statutory reserve	Retained earnings	Fair value reserve on investments	Total shareholders' equity		
	400,000	30,108	31,722	126,888	(17,354)	571,364	(2,174)	569,190
6	-	-	-	-	6,303	6,303	-	6,303
13	-	-	-	-	-	-	(42)	(42)
26	-	-	-	-	7,633	7,633	-	7,633
	-	-	-	85,523	-	85,523	-	85,523
	-	-	-	85,523	13,936	99,459	(42)	99,417
20	40,000	-	-	(40,000)	-	-	-	-
	-	-	17,105	(17,105)	-	-	-	-
	440,000	30,108	48,827	155,306	(3,418)	670,823	(2,216)	668,607

January 1, 2018

Total comprehensive income for the year  
Unrealized fair value changes on available-for-sale investments, net  
Actuarial losses on defined benefits obligation - related to insurance operations  
Transfer to statement of income  
Net income for the period attributable to shareholders (restated)  
Total comprehensive income for the year attributable to Shareholders (restated)

Bonus shares  
Transfer to statutory reserve

December 31, 2018 (restated)

  
Chief Financial Officer

  
Chief Executive Officer

  
Board Member

The accompanying notes 1 to 31 form an integral part of these financial statements.



**WALAA COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019	2018
	SAR'000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year before zakat and income tax	24,502	111,712
<b>Adjustments for non-cash items:</b>		
Depreciation of property and equipment	6,999	3,453
Amortization of intangible assets	507	695
Allowance for doubtful debts	(2,834)	12,605
Dividend and loss on investments, net	(1,137)	6,442
Commission income	(25,623)	(20,430)
Provision for end-of-service indemnities	3,660	2,891
Finance cost	196	-
<b>Changes in operating assets and liabilities:</b>		
Premiums and reinsurers' receivable	52,597	(95,210)
Reinsurers' share of unearned premiums	(78,575)	(65,315)
Reinsurers' share of outstanding claims	26,801	(14,032)
Reinsurers' share of claims incurred but not reported	(2,680)	568
Deferred policy acquisition costs	6,837	13,448
Prepaid expenses and other assets	(16,504)	(5,692)
Policyholders claims payable	4,164	2,952
Accrued and other liabilities	(37,501)	24,489
Reinsurers' balances payable	32,481	79,106
Unearned premiums	101,220	(1,885)
Unearned reinsurance commission	1,643	2,601
Outstanding claims	(41,071)	20,885
Claims incurred but not reported	(5,020)	(58,144)
Additional premium reserves	(3,555)	5,328
Other technical reserves	3,321	21,063
	50,428	47,530
End-of-service indemnities paid	(874)	(1,090)
Zakat and income tax paid	(14,738)	(12,025)
<b>Net cash generated from operating activities</b>	<b>34,816</b>	<b>34,415</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions in intangible assets	(301)	(1,525)
Additions in investments	(220,304)	(60,000)
Commission income received	25,001	21,479
Dividend received	1,137	1,385
(Additions)/disposals of short term deposits	(341,074)	824,833
Additions in property and equipment	(4,050)	(4,177)
<b>Net cash (used in) / generated from investing activities</b>	<b>(539,591)</b>	<b>781,995</b>



Chief Financial Officer



Chief Executive Officer



Board Member

The accompanying notes 1 to 31 form an integral part of these financial statements.

**WALAA COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019	2018
	SAR'000	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in statutory deposit	(8,800)	(4,000)
Dividend paid	(44,000)	-
Lease liability paid	(3,829)	-
<b>Net cash used in financing activities</b>	<b>(56,629)</b>	<b>(4,000)</b>
Net change in cash and cash equivalents	(561,404)	812,410
Cash and cash equivalents, beginning of the year	1,122,329	309,919
<b>Cash and cash equivalents, end of the year</b>	<b>560,925</b>	<b>1,122,329</b>
<b><u>Non-cash information</u></b>		
Unrealized changes in fair value of available-for-sale investments	21,068	6,303
Actuarial loss on end-of-service indemnities	(498)	(42)
Right of use assets & lease liability	7,204	-



Chief Financial Officer



Chief Executive Officer



Board Member

The accompanying notes 1 to 31 form an integral part of these financial statements.



**WALAA COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**1. ORGANISATION AND PRINCIPAL ACTIVITIES**

Walaa Cooperative Insurance Company (a Joint Stock Company incorporated in Kingdom of Saudi Arabia), "the Company", was formed pursuant to Royal Decree No. (S/114) dated 02/05/1428H. The Company operates under Commercial Registration no. 2051034982 dated Jumada II 19, 1428H corresponding to July 4, 2007. The registered address of the Company's head office is as follows:

Walaa Cooperative Insurance Company  
Head Office  
Custodian of Two Holy Mosques Road  
P.O. Box 31616  
Al-Khobar 31952, Kingdom of Saudi Arabia

The purpose of the Company is to transact cooperative insurance operations and all related activities including reinsurance and agency activities. Its principal lines of business include medical, motor, marine, fire, engineering, energy, aviation and casualty insurance.

On 2 Jumada II, 1424H, corresponding to July 31, 2003, the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On 28 Jumada II, 1429H corresponding to July 2, 2008, the Saudi Arabian Monetary Authority ("SAMA"), as the principal authority responsible for the application and administration of the Insurance Law and its Implementing Regulations, granted the Company a license number (TMN/16/2008) to transact insurance activities in the of Saudi Arabia.

The Board of Directors approved the distribution of the surplus from insurance operations in accordance with the Implementing Regulations issued by SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

The General Assembly on May 29, 2018 approved 10% bonus share, as a result the share capital of the Company has increased from SAR 400 million to SAR 440 million. Further, during the year, the Extraordinary General Assembly (EGM) approved to increase share capital of the Company by issuing 8.8 million bonus shares, as a result the share capital of the Company has increased from SAR 440 million to SAR 528 million (refer note 19). Legal formalities regarding updating of the Commercial Registration and Articles of Association of the Company were completed during the year.

In 2018, the Company obtained Saudi Arabian Monetary Authority letter No.6813/41 dated 03/07/2018 approving the opening of 47 points of sales located around the Kingdom. In relation with the opening of these new sales points, the Company has signed a memorandum of understanding with a local entity to source trained staff and assist in identifying favorable locations to expand the Company's retail branch network.

**Proposed merger**

The Company signed a non-binding Memorandum of Understanding (the "MOU") with MetLife AIG ANB Cooperative Insurance Company ("MetLife") on 15/10/1440 H (corresponding to 18/06/2019) to evaluate a potential merger between the two companies. Later on 29/09/2019G corresponding to 30/01/1440 H, the Company announced its entry into a binding merger agreement with MetLife (the "Merger Agreement") in an effort to acquire all shares held by the shareholders in MetLife through the submission of an offer to exchange shares without any cash consideration, such exchange to be effected by way of increasing the capital of the Company through the issuance of new ordinary shares to all shareholders in MetLife (the "Merger"). Walaa received a no-objection letter from Saudi Arabian Monetary Authority (SAMA) on the merger transaction on 24/12/2019G (27/04/1441H).

Subsequent to the year end, the shareholders in the EGM held on January 27, 2020 corresponding to 2 Jumada II 1441 approved the proposed merger of the Company and MetLife to be effected by way of a merger pursuant to Articles 191, 192, and 193 of the Companies Law issued under Royal Decree No. M3 dated 28/1/1437H (corresponding to 10/11/2015G), through the issuance of 0.6577614444444444 new shares in the Company for each share in MetLife subject to the terms and conditions of the Merger Agreement. The formalities to update legal documents are under process

## **2. BASIS OF PREPARATION**

### **(a) Basis of presentation and measurement**

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") and the Regulations for Companies in the Kingdom of Saudi Arabia.

On July 23, 2019, SAMA instructed the insurance companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in the Kingdom of Saudi Arabia.

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3) and the effects of this change are disclosed in note 18 to the interim condensed financial statements.

These financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of available-for-sale investments and end of service benefits. The Company's statement of financial position is not presented using a current/non-current classification. Except for property and equipment, intangible assets, statutory deposit, held to maturity investments (included in investments), lease liabilities (included in accrued other liabilities) and end-of-service benefits all other assets and liabilities are of short-term nature, unless, stated otherwise.

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly (Note 28). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income, statement of comprehensive income and cash flows of the insurance operations and shareholders' operations which are presented in Note 28 of the financial statements have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations. SAMA implementing regulations require the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations. (note 18)

In preparing the Company-level financial statements in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances.

### **(b) Functional and presentation currency**

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

### **(c) Fiscal year**

The Company follows a fiscal year ending December 31.

## **2. BASIS OF PREPARATION (CONTINUED)**

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

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

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

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 outstanding claims, as at December 31, is also verified by an independent actuary.

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. The actuary had also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

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

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. Generally, a period of twelve 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 and reinsurance receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

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

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

## 2. BASIS OF PREPARATION (CONTINUED)

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

#### iv) Fair value of financial instruments (continued)

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated if required, based on appropriate assumptions. If required to estimate, certain valuation techniques are applied. Where valuation techniques 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 significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented except for the change in accounting of zakat and income tax and new IFRS standards, IFRIC interpretations and amendment thereof and adoption of the amendments to existing standards as explained below:

### i. Changes in accounting policies for Zakat and income tax:

As mentioned in note 2(a), the basis of preparation has been changed as a result of the issuance of latest instructions from SAMA dated July 23, 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 23, 2019, the zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 18 to these financial statements. The change has resulted in reduction of reported income of the Company for the year ended December 31, 2019 by SR 14,842 million. The change has had no impact on the statement of cash flows for the year ended December 31, 2018.

#### *Income tax:*

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

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

#### *Zakat:*

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2019

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ia. Change in the accounting policy for Zakat and income tax: (continued)

***IFRIC Interpretation 23 Uncertainty over Income Tax Treatment:***

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

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

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

The Company's has assessed that the interpretation has not had a significant impact on these financial statements.

***Deferred income tax:***

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

ii) **New IFRS Standards, IFRIC interpretations and amendments thereof, adopted by the Company**

The following new standards, amendments and revisions to the existing standards, which were issued by the International Accounting Standards Board (IASB) have been effective from January 1, 2019 and accordingly adopted by the Company, as applicable:

<b><u>Standard / Amendments</u></b>	<b><u>Description</u></b>
IFRS 16	Leases (see below)
IFRIC 23	Uncertainty over Income Tax Treatments
IAS 28	Long term interests in associates and joint ventures
IAS 19	Plan amendments, curtailments or settlements
IFRS 3, 11 and IAS 12, 23	Annual Improvements to IFRS 2015 - 2017 etc

The adoption of the amendment standards and interpretations applicable to the Company except for adoption of IFRS 16 did not have any significant impact on these annual financial statements.

**IFRS 16:**

Effective from January 1, 2019, the Company adopted IFRS 16 'Leases' which replaced the existing guidance on leases, including IAS 17 "Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 changes fundamentally the accounting for leases by lessees. It eliminates the previous IAS 17 dual accounting model, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) New IFRS Standards, IFRIC interpretations and amendments thereof, adopted by the Company (continued)

IFRS 16: (continued)

**Right of Use Asset / Lease Liabilities**

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

**Right of Use Assets**

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

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any re-measurement of the lease liability for lease modifications

**Lease Liabilities**

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

After the commencement date, the Company measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability;
2. Reducing the carrying amount to reflect the lease payments made; and
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

**Impact on transition**

The Company has opted for the modified retrospective application permitted by IFRS 16 upon the adoption of the new standard. During the first-time application of IFRS 16 to operating leases, the right to use the leased assets was measured at the amount of the lease liability, using the interest rate at the time of the first-time application. The adjustments as of January 1, 2019 are as follows:

	<u>2019</u>
Right-of-use assets	<u>7,204</u>
Lease liabilities	<u>7,204</u>

Below is a reconciliation of the opening and closing balances of lease liabilities.

	<u>2019</u>
Opening balance of lease liabilities recognized upon the initial transition to IFRS 16	<u>7,204</u>
Additions	3,680
Interest charged for the period	196
Prepayment	(1,382)
Payments of lease liabilities	<u>(3,829)</u>
Closing balance (note )	<u>5,869</u>

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted the lease payments using its incremental borrowing rate.

Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS16 to leases previously classified as operating leases under IAS17:

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease terms or leases with a low value of less than SAR 18,750.
- Excluded initial direct costs from measuring the right of use asset at the date of initial application.
- Used hindsight when determining the lease terms if the contract contains options to extend or terminate the lease.

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

#### **iii) Standards issued but not yet effective**

##### **iiia. IFRS 17 – Insurance Contracts**

###### ***Overview***

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

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

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

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

###### ***Measurement***

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

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

- a) the fulfilment cash flows (FCF), which comprise:
  - probability-weighted estimates of future cash flows,
  - an adjustment to reflect the time value of money (i.e. discounting) and the financial risks associated with those future cash flows,
  - and a risk adjustment for non-financial risk;
- b) the Contractual Service Margin (CSM). The CSM represents the unearned profit for a group of insurance contracts and will be recognized as the entity provides services in the future. The CSM cannot be negative at inception; any net negative amount of the fulfilment cash flows at inception will be recorded in profit or loss immediately. At the end of each subsequent reporting period the carrying amount of a group of insurance contracts is remeasured to be the sum of:
  - the liability for remaining coverage, which comprises the FCF related to future services and the CSM of the group at that date;
  - and the liability for incurred claims, which is measured as the FCF related to past services allocated to the group at that date.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### iii) Standards issued but not yet effective (continued)

##### iiia. IFRS 17 – Insurance Contracts (continued)

###### *Measurement (continued)*

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

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

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

###### *Effective date*

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

###### *Transition*

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

###### *Presentation and Disclosures*

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

###### *Impact*

The Company is currently assessing the impact of the application and implementation of IFRS 17. The Company also expects that adopting the standard will likely have an impact on IT systems, data requirements and accounting policies to address additional presentation and disclosure requirements. At the date of the publication of these financial statements, it was not practicable to quantify the potential impact of adopting IFRS 17.



### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### iii) Standards issued but not yet effective (continued)

##### iiib. 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:

##### *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 profit or loss.

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

##### *Impairment:*

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

##### *Hedge accounting:*

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### iii) Standards issued but not yet effective (continued)

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

###### *Effective date*

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

1. apply a temporary exemption from implementing IFRS 9 until the earlier of
  - a. the effective date of a new insurance contract standard; or
  - b. annual reporting periods beginning on or after January 1, 2021.. The IASB is proposing to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to January 1, 2022. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; or
2. adopt IFRS 9 but, for designated financial assets, remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contract standard is implemented. During the interim period, additional disclosures are required.

The Company has performed a detailed assessment beginning January 1, 2020:

- (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.

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

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

###### *Impact assessment:*

As at December 31, 2019, the Company has total financial assets (including insurance receivables / reinsurance recoverable) and insurance related assets amounting to SR 1,677,744 thousand and SR 1,720,933 thousand, respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SR 1,422,838 thousand (2018: SR 1,558,057 thousand). Other financial assets consist of available for sale investments amounting to SR 254,906 thousand (2018: SR 162,876 thousand). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### iii) Standards issued but not yet effective (continued)

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

Investment in funds classified under available for sale investments will be at FVSI under IFRS 9. As at December 31, 2019 debt securities are measured at fair value of SR 149,342 thousand with changes in fair value during the year of nil. Other financial assets have a fair value of SR 23,123 thousand as at December 31, 2019 with a fair value change during the year of nil. Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 27. The Company financial assets have low credit risk as at December 31, 2019 and 2018. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9; However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

#### iv) 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 determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

#### v) Revenue Recognition

##### *Recognition of premium and commission revenue*

Premiums and commission are recorded in the statement of income based on 365 days pro rata method except for long term policies (construction and engineering) and marine cargo. Unearned premiums are calculated on a straight line method over the insurance policy coverage except for:

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

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

##### *Reinsurance assumed*

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to insurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

##### *Commission income*

Commission income on time deposits and held-to-maturity investments is recognized on a time proportion basis using the effective interest rate method.

##### *Dividend income*

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

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

#### **vi) 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.

#### **vii) 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.

#### **viii) Reinsurance contracts held**

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 3(iv) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. An asset or liability is recorded in the statement of financial position - insurance operations' 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(xviii).

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.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2019

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**ix) Deferred policy acquisition costs**

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

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

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

**x) 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.

**xi) Receivables**

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in "Other operating expenses" in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, settled or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 8 fall under the scope of IFRS 4 "Insurance contracts".

**xii) Investments**

**xiiia) Available for sale**

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, 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 statement of income, as an impairment charge.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### xii) Investments

##### xiii) Available for sales (continued)

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

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

##### *Reclassification:*

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

##### xiiib) Held to maturity

Held to maturity investments are investment having fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity are classified as held to maturity. Investments are initially recognized at the fair value including direct and incremental transaction cost. Subsequent to initial measurement these are measured at amortised cost less impairment losses, if any.

#### xiii) 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.

#### xiv) 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.

#### xv) Trade date accounting

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

#### xvi) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2019

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Evidence of impairment may include:

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

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

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

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

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 determination of what is significant or prolonged requires judgment. 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 "Gain / (loss) on available for sale investments.

The determination of what is 'significant' or 'prolonged' requires judgement. 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.

**xvii) Property and equipment**

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

	<u>No of years</u>
Furniture, fixture and office equipment	5
Computer equipment	4
Vehicles	4

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### xviii) Intangible assets

Separately acquired intangible assets (computer software) are shown at historical cost. They have a finite useful life and are subsequently carried at cost less accumulated amortization and impairment losses. The Company amortises intangible assets with a limited useful life using straight-line method over the period of 4 years.

#### xix) 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).

#### xx) 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.

#### xxi) Employees' end-of-service benefits

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

#### xxii) Leases

The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

##### **Policies applicable prior to January 1, 2019**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### *The Company as lessee*

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

##### **Policies applicable from January 1, 2019**

The Company assesses whether contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these short term leases and leases of low value assets, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.



### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### xxii. Leases (continued)

##### Policies applicable from January 1, 2019 (continued)

###### *The Company as lessee (continued)*

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

Lease payments included in the measurement of the lease liability comprise:

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

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

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

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contracts that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### xxiii) Dividend distribution

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

#### xxiv) Cash and cash equivalents

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

#### xxv) 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.

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

#### xxvii) Zakat and taxes

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("the GAZT") in the Kingdom of Saudi Arabia. Zakat provision is charged to the statement of income. Zakat is computed on the Saudi shareholder's share of the zakat base, while income tax is calculated on the foreign shareholder's share of adjusted net income. Income tax is charged to the statement of income. The Company is settling the zakat and income tax annually to GAZT.

#### Withholding tax

The Company withholds taxes on certain transactions with non-resident parties in the KSA, including dividend payments to the non-resident shareholders, as required under Saudi Arabian Income Tax Law.

#### Value added tax

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

- When receivables and payables are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

#### xxviii) Statutory reserve

In accordance with the Company's by-laws, the Company shall allocate 20% of its annual 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.

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

#### **xxix) Operating segments**

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

- Medical insurance provides coverage for health insurance.
- Motor insurance provides coverage for vehicles' insurance.
- Property insurance provides coverage for property insurance.
- Engineering insurance provides coverage for engineering and contract works.
- Other insurance provides coverage for marine and other general insurance.

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

No inter-segment transactions occurred during the year. If any transaction was to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

Shareholders' income is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis

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.

#### **xxx) Unearned reinsurance commission**

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

#### **xxxii) Short-term deposits**

Short-term deposits comprise of time deposits with banks with maturity periods of more than three months and less than one year from the date of acquisition

#### **xxxiii) Fair values**

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

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

**WALAA COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**4. PROPERTY AND EQUIPMENT**

	Furniture and fixtures	Computer equipment	Vehicles	Right of use assets	Total 2019	Total 2018
	SAR'000					
<b>Cost:</b>						
January 1	12,925	10,893	375	-	24,193	20,016
Adjustment	-	-	-	7,204	7,204	-
Additions	902	3,148	-	3,680	7,730	4,177
December 31	13,827	14,041	375	10,884	39,127	24,193
<b>Accumulated Depreciation:</b>						
January 1	7,455	6,948	375	-	14,778	11,325
Charge for the year	1,836	1,722	-	3,441	6,999	3,453
December 31	9,291	8,670	375	3,441	21,777	14,778
<b>Net book value</b>						
<b>December 31, 2019</b>	<b>4,536</b>	<b>5,371</b>	<b>-</b>	<b>7,443</b>	<b>17,350</b>	<b>-</b>
December 31, 2018	5,470	3,945	-	-	-	9,415

**5. INTANGIBLE ASSETS**

	<b>Internally generated software</b>	
	2019	2018
	SAR'000	
<b>Cost:</b>		
January 1	3,773	2,248
Additions	301	1,525
December 31	4,074	3,773
<b>Accumulated amortisation</b>		
January 1	2,439	1,744
Charge for the year	507	695
December 31	2,946	2,439
<b>Net book value</b>		
<b>December 31</b>	<b>1,128</b>	<b>1,334</b>

**WALAA COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**6. INVESTMENTS**

Investments are classified as follows:

	<b>Shareholders' operations</b>	
	<b>2019</b>	<b>2018</b>
	<b>SAR'000</b>	
Available for sale investments	<b>254,906</b>	162,876
Held to maturity	<b>149,342</b>	-
	<b>404,248</b>	162,876

**i) Available-for-sale**

	<b>Domestic</b>		<b>International</b>		<b>Total</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>SAR'000</b>		<b>SAR'000</b>		<b>SAR'000</b>	
Equities	<b>254,906</b>	162,876	-	-	<b>254,906</b>	162,876
<b>Available for sale</b>	<b>254,906</b>	162,876	-	-	<b>254,906</b>	162,876

Movement in available for sale investments are as follows:

	<b>Quoted securities</b>	<b>Unquoted securities</b>	<b>Total</b>
	<b>SAR'000</b>		
As of January 1, 2018	73,644	23,123	96,767
Purchases	60,000	-	60,000
Adjustments	(194)	-	(194)
Changes in fair value of investments, net	6,303	-	6,303
As at December 31, 2018	<b>139,753</b>	<b>23,123</b>	<b>162,876</b>
As of January 1, 2019	<b>139,753</b>	<b>23,123</b>	<b>162,876</b>
Purchases	<b>70,962</b>	-	<b>70,962</b>
Changes in fair value of investments, net	<b>21,068</b>	-	<b>21,068</b>
<b>As at December 31, 2019</b>	<b>231,783</b>	<b>23,123</b>	<b>254,906</b>

**WALAA COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**7. CASH AND CASH EQUIVALENTS**

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

	<b>Insurance operations</b>	
	<b>2019</b>	<b>2018</b>
	<b>SAR'000</b>	
Bank balances and cash	<b>220,925</b>	222,652
Deposits maturing within 3 months from the acquisition date	<b>340,000</b>	431,354
<b>Total</b>	<b>560,925</b>	654,006
	<b>Shareholders' operations</b>	
	<b>2019</b>	<b>2018</b>
	<b>SAR'000</b>	
Bank balances and cash	-	20,624
Deposits maturing within 3 months from the acquisition date	-	447,699
<b>Total</b>	-	468,323
<b>Total cash and cash equivalents</b>	<b>560,925</b>	1,122,329

Deposits are maintained with financial institutions and have a maturity of three months or less from the date of acquisition. These earn commission at an average rate of 2.88% per annum as at December 31, 2019 (2018: 2.5% per annum). Bank balances and deposits are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology.

Short term deposits are placed with counterparties that have credit ratings equivalent to BBB+ to BBB ratings under standard and Poor's Fitch and Moody's rating Methodology.

Short term deposits are placed with local and licensed foreign banks' branches in Kingdom of Saudi Arabia within a maturity greater than three months from the date of original acquisition and earned Commission Income at an average rate of 2.55% per annum. For the year end December 31, 2019, the carrying amounts of the short term deposits reasonably approximate to the fair value at the statement of financial position date.

**8. PREMIUMS AND REINSURERS' RECEIVABLE - NET**

Receivables comprise amounts due from the following:

	<b>2019</b>	<b>2018</b>
	<b>SAR'000</b>	
Policyholders	<b>51,898</b>	58,069
Brokers and agents	<b>138,823</b>	187,434
Related parties (note 17)	<b>311</b>	575
Receivables from reinsurers	<b>1,678</b>	1,788
	<b>192,710</b>	247,866
Less: provision for doubtful receivables	<b>(42,616)</b>	(45,450)
<b>Premiums and reinsurers' receivable – net</b>	<b>150,094</b>	202,416



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**8. PREMIUMS AND REINSURERS' RECEIVABLE - NET (CONTINUED)**

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

	2019	2018
	SAR'000	
Balance, January 1	45,450	32,845
Provision for the year	(2,834)	12,605
Balance, December 31	42,616	45,450

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

**Premiums receivable**

Premium and reinsurance receivables	Total	<u>Past due but not impaired</u>			More than 360 days
		Neither impaired nor past due	91-180 days	181-360 days	
SAR'000					
- Policyholders	149,393	108,064	13,184	18,402	9,743
- Due from related parties	281	178	7	96	-
- Receivable from reinsurers	420	-	-	-	420
<b>2019</b>	<b>150,094</b>	<b>108,242</b>	<b>13,191</b>	<b>18,498</b>	<b>10,163</b>

Premium and reinsurance receivables	Total	Neither impaired nor past due			More than 360 days
		91-180 days	181-360 days	More than 360 days	
SAR'000					
- Policyholders	201,347	125,130	35,548	34,135	6,534
- Due from related parties	535	411	8	116	-
- Receivable from reinsurers	534	-	84	41	409
<b>2018</b>	<b>202,416</b>	<b>125,541</b>	<b>35,640</b>	<b>34,292</b>	<b>6,943</b>

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

The five largest customers accounts for 35% (December 31, 2018: 33%) of the premiums receivable as at December 31, 2019.

Provision for doubtful debts includes an amount of SAR 4.3 million (2018: SAR 4.7 million) recorded on account of value added tax.

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**9. TECHNICAL RESERVES**

**9.1 Net outstanding claims and reserves**

Net outstanding claims and reserves comprise of the following:

	2019	2018
	SAR'000	
Outstanding claims	153,084	190,757
Less: Realizable value of salvage and subrogation (note 9.1.1)	(12,651)	(9,253)
	<b>140,433</b>	<b>181,504</b>
Claims incurred but not reported	<b>192,740</b>	<b>197,760</b>
Additional premium reserves:		
- Premium deficiency reserve	4,952	7,975
- Additional unexpired risk reserve	18	550
	<b>4,970</b>	<b>8,525</b>
Other technical reserves:		
- Claims handling expense provision	15,828	11,687
- Unallocated loss adjustment expense provision	12,887	14,024
- Non-proportional reinsurance accrual reserve	985	668
	<b>29,700</b>	<b>26,379</b>
	<b>367,843</b>	<b>414,168</b>
Less:		
- Reinsurers' share of outstanding claims	(97,837)	(124,638)
- Reinsurers' share of claims incurred but not reported	(44,218)	(41,538)
	<b>(142,055)</b>	<b>(166,176)</b>
<b>Net outstanding claims and reserves</b>	<b>225,788</b>	<b>247,992</b>

**9.1.1 Salvage and subrogation**

	2019	2018
	SAR'000	
Salvage and subrogation	109,615	110,054
Allowances for non-collectable	(96,964)	(100,801)
Realizable value of salvage and subrogation	<b>12,651</b>	<b>9,253</b>

**9.2 Movement in unearned premiums**

Movement in unearned premiums comprise of the following:

	For the year ended December 31, 2019		
	Gross	Reinsurance	Net
	SAR'000		
Balance as at the beginning of the year	536,608	(195,562)	341,046
Premiums written during the year	1,215,394	(479,878)	735,516
Premiums earned during the year	(1,114,174)	401,303	(712,871)
Balance as at the end of the year	<b>637,828</b>	<b>(274,137)</b>	<b>363,691</b>



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**9. TECHNICAL RESERVES (CONTINUED)**

**9.2 Movement in unearned premiums (continued)**

	For the year ended December 31, 2018		
	Gross	Reinsurance	Net
	SAR'000		
Balance as at the beginning of the year	538,493	(130,247)	408,246
Premiums written during the year	1,104,957	(373,828)	731,129
Premiums earned during the year	(1,106,842)	308,513	(798,329)
Balance as at the end of the year	536,608	(195,562)	341,046

**9.3 Movement in deferred policy acquisition costs and unearned reinsurance commission**

	For the year ended December 31, 2019	
	Deferred policy acquisition cost	Unearned reinsurance commission
	SAR'000	
Balance, January 1	23,570	12,443
Incurred during the year	39,191	25,977
Amortized/ earned during the year	(46,028)	(24,334)
Balance, December 31	16,733	14,086

	For the year ended December 31, 2018	
	Deferred policy acquisition cost	Unearned reinsurance commission
	SAR'000	
Balance, January 1	37,018	9,842
Incurred during the year	58,147	31,165
Amortized/ earned during the year	(71,595)	(28,564)
Balance, December 31	23,570	12,443

**10. COMMITMENTS AND CONTINGENCIES**

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

	December 31, 2019	December 31, 2018
	SAR'000	
Letters of guarantee	6,450	5,300

The company has submitted these bank guarantees to various parties which are fully covered by margin deposits amounting to SAR 6.4 million (2018: SAR 5.3 million).

b) The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. The Company's management, based on independent legal advice, believes that the outcome of court cases will not have a material impact on the Company's income or financial condition.

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**11. ACCRUED AND OTHER LIABILITIES**

	<b>2019</b>	2018
	<b>SAR'000</b>	
Accrued expenses	<b>6,178</b>	26,846
Marketing representative commissions	<b>21,693</b>	25,707
Payable - General Authority of Zakat and Tax – VAT	<b>7,868</b>	5,712
Provision for leave encashment	<b>2,436</b>	2,188
Employees' savings plan	<b>567</b>	549
Payable to suppliers and service provider	<b>29,182</b>	31,879
Lease rental	<b>5,869</b>	-
Other liabilities	<b>23,477</b>	27,233
	<b>97,270</b>	120,114

Maturity analysis of lease rentals is as follows:

	<b>2019</b>
	<b>SAR'000</b>
Payable within one year	<b>3,807</b>
Payable more than one year but less than five years	<b>2,062</b>
	<b>5,869</b>

**12. SURPLUS DISTRIBUTION PAYABLE**

	<b>2019</b>	2018
	<b>SAR'000</b>	
Opening surplus distribution payable as at January 1,	<b>13,495</b>	31,055
Total income attributed to the insurance operations during the year	<b>1,343</b>	11,347
Credited to policyholders' accounts	<b>(11,347)</b>	(28,907)
Closing surplus distribution payable as at December 31,	<b>3,491</b>	13,495

**13. EMPLOYEE'S END OF SERVICE BENEFITS**

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

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

	<b>2019</b>	2018
	<b>SAR'000</b>	
Present value of defined benefit obligation	<b>17,906</b>	14,622

**13.2 Movement of defined benefit obligation**

	<b>2019</b>	2018
	<b>SAR'000</b>	
Opening balance	<b>14,622</b>	12,779
Charge to statement of income	<b>3,660</b>	2,891
Charge to statement of comprehensive income	<b>498</b>	42
Payment of benefits during the year	<b>(874)</b>	(1,090)
Closing balance	<b>17,906</b>	14,622

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**13. EMPLOYEE'S END OF SERVICE BENEFITS (CONTINUED)**

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

	<b>2019</b>	2018
	<b>SAR'000</b>	
Present value of defined benefit obligation as at January 1	<b>14,622</b>	12,779
Current service costs	<b>2,954</b>	2,469
Financial costs	<b>706</b>	422
Actuarial loss from experience adjustments	<b>498</b>	42
Benefits paid during the year	<b>(874)</b>	(1,090)
Present value of defined benefit obligation as at December 31	<b>17,906</b>	14,622

**13.4 Principal actuarial assumptions**

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

	<b>2019</b>	2018
	<b>SAR'000</b>	
Valuation discount rate	<b>3.05%</b>	4.50%
Expected rate of increase in salary level across different age bands	<b>3.05%</b>	4.50%

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

	<b>2019</b>	2018
	<b>SAR'000</b>	
	<b>Impact on defined benefit obligation</b>	
Valuation discount rate		
- Increase by 0.5%	<b>17,101</b>	13,953
- Decrease by 0.5%	<b>18,781</b>	15,349
Expected rate of increase in salary level across different age bands		
- Increase by 0.5%	<b>18,504</b>	15,068
- Decrease by 0.5%	<b>17,347</b>	14,204

The average duration of the defined benefits plan obligation at the end of reporting period is 9.36 years (2018: 9.53 years).

**14. CLAIMS DEVELOPMENT TABLE**

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the periods beginning from year 2009 onwards whose claim experience has not been fully developed.

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

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**14. CLAIMS DEVELOPMENT TABLE (CONTINUED)**

**Claims development table gross of reinsurance:**

**2019**

<b>Accident year</b>	<b>2014 &amp; Earlier</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
<b>SAR'000</b>							
<b>Estimate of ultimate claims cost gross of reinsurance:</b>							
At the end of accident year	-	439,814	513,609	578,744	600,983	633,687	633,687
One year later	-	410,761	408,368	513,928	558,114	-	558,114
Two years later	-	411,864	373,951	488,505	-	-	488,505
Three years later	-	398,943	364,801	-	-	-	364,801
Four years later	-	389,394	-	-	-	-	389,394
Five years later	473,798	-	-	-	-	-	473,798
Current estimate of cumulative claims	473,798	389,394	364,801	488,505	558,114	633,687	2,908,299
Cumulative payments to date	(415,992)	(379,459)	(357,449)	(458,694)	(501,937)	(461,595)	(2,575,126)
Liability recognized in statement of financial position	57,806	9,935	7,352	29,811	56,177	172,092	333,173
Premium deficiency reserve							4,952
Outstanding claims and reserves							<u>338,125</u>

**2018**

<b>Accident year</b>	<b>2013 &amp; Earlier</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
<b>SAR'000</b>							
<b>Estimate of ultimate claims cost gross of reinsurance:</b>							
At the end of accident year	-	387,694	439,814	513,609	578,744	600,983	600,983
One year later	-	373,891	410,761	408,368	513,928	-	513,928
Two years later	-	361,727	411,864	373,951	-	-	373,951
Three years later	-	360,446	398,943	-	-	-	398,943
Four years later	-	359,348	-	-	-	-	359,348
Five years later	520,134	-	-	-	-	-	520,134
Current estimate of cumulative claims	520,134	359,348	398,943	373,951	513,928	600,983	2,767,287
Cumulative payments to date	(525,267)	(298,613)	(370,945)	(352,083)	(429,120)	(411,995)	(2,388,023)
Liability recognized in statement of financial position	(5,133)	60,735	27,998	21,868	84,808	188,988	379,264
Premium deficiency reserve							7,975
Outstanding claims and Reserves							<u>387,239</u>

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**14. CLAIMS DEVELOPMENT TABLE (CONTINUED)**

**Claims development table net of reinsurance:**

**2019**

Accident year	2014 & Earlier	2015	2016	2017	2018	2019	Total
<b>SAR '000</b>							
At the end of accident year	-	388,992	454,496	528,730	560,868	584,043	584,043
One year later	-	346,980	361,782	460,899	524,197	-	524,197
Two years later	-	353,925	340,833	449,927	-	-	449,927
Three years later	-	340,393	338,196	-	-	-	338,196
Four years later	-	336,836	-	-	-	-	336,836
Five years later	276,239	-	-	-	-	-	276,239
Current estimate of cumulative claims	276,239	336,836	338,196	449,927	524,197	584,043	2,509,438
Cumulative payments to date	(275,418)	(332,338)	(332,387)	(432,144)	(490,249)	(455,784)	(2,318,320)
Liability recognized in statement of financial position	821	4,498	5,809	17,783	33,948	128,259	191,118
Premium deficiency reserve							4,952
Outstanding claims and reserves							196,070

**2018**

Accident year	2013 & Earlier	2014	2015	2016	2017	2018	Total
<b>SAR '000</b>							
At the end of accident year	-	217,436	388,992	454,496	528,730	560,868	560,868
One year later	-	224,573	346,980	361,782	460,899	-	460,899
Two years later	-	218,104	353,925	340,833	-	-	340,833
Three years later	-	219,391	340,393	-	-	-	340,393
Four years later	-	216,282	-	-	-	-	216,282
Five years later	385,337	-	-	-	-	-	385,337
Current estimate of cumulative claims	385,337	216,282	340,393	340,833	460,899	560,868	2,304,612
Cumulative payments to date	(392,154)	(211,309)	(330,567)	(326,758)	(421,945)	(408,791)	(2,091,524)
Liability recognized in statement of financial position	(6,817)	4,973	9,826	14,075	38,954	152,077	213,088
Premium deficiency reserve							7,975
Outstanding claims and reserves							221,063



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**15. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

**a. Carrying amounts and fair value**

The following table shows the carrying amount and fair values of financial assets, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation to fair value.

<u>Shareholders' Operations</u>	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
December 31, 2019					
		SAR '000			
<b>Financial assets measured at fair value</b>					
- Available for sale investments					
- Quoted securities	231,783	231,783	-	-	231,783
Held to Maturity investments	149,342	149,342	-	-	149,342
	<b>381,125</b>	<b>381,125</b>	-	-	<b>381,125</b>

<u>Shareholders' Operations</u>	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
December 31, 2018					
		SAR '000			
<b>Financial assets measured at fair value</b>					
- Available for sale investments					
- Quoted securities	139,753	139,753	-	-	139,753
	<b>139,753</b>	<b>139,753</b>	-	-	<b>139,753</b>

**b. Measurement of fair values**

The Company has investments amounting to SAR 23 million in unquoted securities. These investments have not been measured at fair values in the absence of active market or other means of reliably measuring their fair values. However, the management believes that there is no major difference between the carrying values and fair values of these investments.

***Transfer between the levels***

During the year, there were no transfers into or out of each level.

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**16. OPERATING SEGMENTS**

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

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

Segment assets do not include cash and cash equivalents, short term deposits, premiums and insurance balances receivable - net, due from shareholders' operations, accrued commission income, prepaid expenses and other assets, property and equipment and intangible assets. Accordingly, they are included in unallocated assets.

Segment liabilities do not include policyholders' claims payables, accrued and other liabilities, reinsurance balances payable, due to shareholders' operations, end-of-service indemnities and accrual loss thereon, and insurance operations' surplus. Accordingly, they are included in unallocated liabilities.

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

Segments do not include shareholders' assets and liabilities and equity hence, these are presented under unallocated assets / liabilities accordingly.

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

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**16. OPERATING SEGMENTS (CONTINUED)**

	As at December 31, 2019								
	Insurance operations						Total -		
	Medical	Motor	Property	Engineering	Others	Insurance operations		Shareholders' operations	Total
SAR '000									
<b>Assets</b>									
Reinsurers' share of unearned premiums	1,932	45	124,669	63,434	84,057	274,137	-	274,137	
Reinsurers' share of outstanding claims	-	365	73,720	11,598	12,154	97,837	-	97,837	
Reinsurers' share claims incurred but not Reported	-	-	17,617	16,716	9,885	44,218	-	44,218	
Deferred policy acquisition costs	2,978	6,848	1,550	1,910	3,447	16,733	-	16,733	
Unallocated assets	-	-	-	-	-	908,916	690,886	1,599,802	
<b>Total assets</b>	<b>4,910</b>	<b>7,258</b>	<b>217,556</b>	<b>93,658</b>	<b>109,543</b>	<b>1,341,841</b>	<b>690,886</b>	<b>2,032,727</b>	
<b>Liabilities and shareholders' equity</b>									
Unearned premiums	56,566	295,699	126,135	64,647	94,781	637,828	-	637,828	
Unearned reinsurance commission	-	2	4,329	4,383	5,372	14,086	-	14,086	
Outstanding claims	16,209	16,209	75,168	12,408	20,439	140,433	-	140,433	
Claims incurred but not reported	11,359	129,147	18,246	18,217	15,771	192,740	-	192,740	
Additional premium reserves	4,740	-	-	18	212	4,970	-	4,970	
Other technical reserves	1,261	27,133	456	455	395	29,700	-	29,700	
Unallocated liabilities and shareholders' equity	-	-	-	-	-	322,084	690,886	1,012,970	
<b>Total liabilities and shareholders' equity</b>	<b>90,135</b>	<b>468,190</b>	<b>224,334</b>	<b>100,128</b>	<b>136,970</b>	<b>1,341,841</b>	<b>690,886</b>	<b>2,032,727</b>	



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**16. OPERATING SEGMENTS (CONTINUED)**

	For the year ended December 31, 2019					Total
	Medical	Motor	Property	Engineering	Others	
						SAR '000
<b>REVENUES</b>						
Gross premiums written						
- Direct	96,369	622,253	239,651	102,509	154,242	1,215,024
- Reinsurance	-	-	370	-	-	370
	96,369	622,253	240,021	102,509	154,242	1,215,394
Reinsurance premiums ceded						
- Local ceded	-	-	(5,409)	(4,417)	-	(9,826)
- Foreign ceded	(2,602)	(182)	(231,292)	(94,199)	(126,929)	(455,204)
	(2,602)	(182)	(236,701)	(98,616)	(126,929)	(465,030)
Excess of loss expenses	(8,712)	(3,636)	(803)	(803)	(894)	(14,848)
<b>Net premiums written</b>	<b>85,055</b>	<b>618,435</b>	<b>2,517</b>	<b>3,090</b>	<b>26,419</b>	<b>735,516</b>
Changes in unearned premiums, net	(17,025)	(8,955)	(52)	975	2,412	(22,645)
<b>Net premiums earned</b>	<b>68,030</b>	<b>609,480</b>	<b>2,465</b>	<b>4,065</b>	<b>28,831</b>	<b>712,871</b>
Reinsurance commissions	-	8	12,039	5,843	6,444	24,334
Other underwriting income	-	2,189	9	7	62	2,267
<b>TOTAL REVENUES</b>	<b>68,030</b>	<b>611,677</b>	<b>14,513</b>	<b>9,915</b>	<b>35,337</b>	<b>739,472</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	79,799	460,552	12,783	18,644	26,006	597,784
Expenses incurred related to claims	3,309	32,628	-	-	-	35,937
Reinsurers' share of claims paid	(8,273)	(418)	(10,779)	(17,135)	(14,142)	(50,747)
<b>Net claims and other benefits paid</b>	<b>74,835</b>	<b>492,762</b>	<b>2,004</b>	<b>1,509</b>	<b>11,864</b>	<b>582,974</b>
Changes in outstanding claims, net	(10,638)	3,010	(2,223)	(510)	(3,909)	(14,270)
Changes in IBNR, net	(14)	(3,647)	(891)	785	(3,933)	(7,700)
<b>Net claims and other benefits incurred</b>	<b>64,183</b>	<b>492,125</b>	<b>(1,110)</b>	<b>1,784</b>	<b>4,022</b>	<b>561,004</b>
Additional premium reserves	(2,934)	-	-	(531)	(90)	(3,555)
Other technical reserves	878	6,031	(1,666)	(884)	(1,038)	3,321
Policy acquisition costs	5,689	26,362	5,531	3,130	5,316	46,028
Other underwriting expenses	6,573	16,039	-	-	51	22,663
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	<b>74,389</b>	<b>540,557</b>	<b>2,755</b>	<b>3,499</b>	<b>8,261</b>	<b>629,461</b>
<b>NET UNDERWRITING INCOME / EXPENSE</b>	<b>(6,359)</b>	<b>71,120</b>	<b>11,758</b>	<b>6,416</b>	<b>27,076</b>	<b>110,011</b>
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>						
Allowance for doubtful debts						2,834
General and administrative expenses						(115,103)
Commission income on deposits						25,623
Dividend income on investment						1,137
<b>TOTAL OTHER OPERATING EXPENSES</b>						<b>(85,509)</b>
<b>Total income for the period before zakat and income tax &amp; surplus attribution</b>						<b>24,502</b>
Zakat						(1,543)
Income tax						(241)
<b>Total income for the year</b>						<b>22,718</b>
Net income for the year attributable to insurance operations						(1,343)
<b>NET INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS</b>						<b>21,375</b>



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**16. OPERATING SEGMENTS (CONTINUED)**

	For the year ended December 31, 2018 (Restated)					
	Medical	Motor	Property	Engineering	Others	Total
	SAR '000					
<b>REVENUES</b>						
Gross premiums written						
- Direct	95,569	612,213	197,204	73,092	126,552	1,104,630
- Reinsurance	-	-	352	(25)	-	327
	95,569	612,213	197,556	73,067	126,552	1,104,957
Reinsurance premiums ceded						
- Local ceded	-	-	(4,124)	(4,315)	-	(8,439)
- Foreign ceded	-	(173)	(189,582)	(65,689)	(94,661)	(350,105)
		(173)	(193,706)	(70,004)	(94,661)	(358,544)
Excess of loss expenses	(8,555)	(4,677)	(588)	(588)	(876)	(15,284)
<b>Net premiums written</b>	87,014	607,363	3,262	2,475	31,015	731,129
Changes in unearned premiums, net	15,029	54,401	(261)	523	(2,492)	67,200
<b>Net premiums earned</b>	102,043	661,764	3,001	2,998	28,523	798,329
Reinsurance commissions	-	5	7,786	12,231	8,542	28,564
Other underwriting income	-	3,904	9	7	57	3,977
<b>TOTAL REVENUES</b>	102,043	665,673	10,796	15,236	37,122	830,870
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	80,442	402,046	8,584	9,269	17,010	517,351
Expenses incurred related to claims	5,843	34,218	-	-	-	40,061
Reinsurers' share of claims paid	(7,615)	(845)	(6,614)	(7,491)	(3,882)	(26,447)
<b>Net claims and other benefits paid</b>	78,670	435,419	1,970	1,778	13,128	530,965
Changes in outstanding claims, net	11,421	(797)	(1,349)	(309)	(2,113)	6,853
Changes in IBNR, net	2,193	(62,680)	149	187	2,575	(57,576)
<b>Net claims and other benefits incurred</b>	92,284	371,942	770	1,656	13,590	480,242
Additional premium reserves	7,673	-	(2,125)	550	(770)	5,328
Other technical reserves	382	17,007	1,651	1,084	939	21,063
Policy acquisition costs	10,250	46,112	4,834	2,432	7,967	71,595
Other underwriting expenses	3,712	5,905	-	-	60	9,677
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	114,301	440,966	5,130	5,722	21,786	587,905
<b>NET UNDERWRITING INCOME</b>	(12,258)	224,707	5,666	9,514	15,336	242,965
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>						
Allowance for doubtful debts						(12,605)
General and administrative expenses						(132,636)
Commission income on deposits						20,430
Dividend income on investment						1,191
Realized loss on investments						(7,633)
<b>TOTAL OTHER OPERATING EXPENSES</b>						(131,253)
<b>Total income for the period before zakat and income tax &amp; surplus attribution</b>						111,712
Zakat						(13,647)
Income tax						(1,195)
<b>Total income for the year</b>						96,870
Total income for the year attributable to insurance operations						(11,347)
<b>NET INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS</b>						85,523

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**17. RELATED PARTY TRANSACTIONS AND BALANCES**

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

	Transactions for the year ended		Net balance receivable / (payable) as at	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	SAR '000		SAR '000	
<b>Entities controlled, jointly controlled or significantly influenced by related parties</b>				
Insurance premium written /receivables from				
- BOD and related parties	2,205	2,815	130	413
- Key management personnel	-	23	-	-
Claims paid and payable to BOD and their related parties	1,893	2,024	(165)	(295)
Others	408	505	(39)	(210)

**Remuneration and compensation of BOD Members and Top Executives**

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and 5 top executives for the year ended December 31, 2019 and 2018:

	BOD members (Non-Executive)	Top Executives including the CEO and CFO
	SAR '000	
<b>2019</b>		
Salaries and allowances	-	4,985
Annual remuneration	3,106	-
End of service indemnities	-	704
<b>Total</b>	<b>3,106</b>	<b>5,689</b>
<b>2018</b>		
Salaries and allowances	-	4,763
Annual remuneration	5,032	-
End of service indemnities	-	603
<b>Total</b>	<b>5,032</b>	<b>5,366</b>

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**18. ZAKAT AND INCOME TAX**

**Zakat**

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

	<b>2019</b>	<b>2018</b>
	SAR '000	
Share capital	<b>440,000</b>	400,000
Reserves, opening provisions and other adjustments	<b>267,598</b>	233,513
Book value of long term assets	<b>(468,083)</b>	(173,625)
	<b>239,515</b>	459,888
Adjusted income for the year	<b>24,823</b>	116,241
Zakat base	<b>264,338</b>	576,129
Saudi shareholder's share of Zakat base @ 94.75%	<b>250,460</b>	545,882
Zakat due at 2.5%	<b>6,456</b>	13,647

The differences between the financial and zakatable results are mainly due to provisions, which are not allowed in the calculation of adjusted income. The movement in the zakat provision for the year was as follows:

	<b>2019</b>	<b>2018</b>
	SAR '000	
Balance, January 1	<b>27,334</b>	25,712
Provided during the year	<b>6,456</b>	13,647
Payments during the year	<b>(13,970)</b>	(12,025)
Provision adjustment for prior years	<b>(4,913)</b>	-
Balance, December 31	<b>14,907</b>	27,334

**Income tax:**

	<b>2019</b>	<b>2018</b>
	SAR '000	
Net income for the year before zakat and income tax	<b>23,159</b>	100,365
Provisions charged during the year for end of service benefits	<b>4,158</b>	2,891
Provision (reversed)/charged during the year for doubtful debts	<b>(2,834)</b>	12,605
Others	<b>340</b>	380
	<b>24,823</b>	116,241
Foreign shareholders' share of tax base @ 5.25%	<b>1,303</b>	6,103
Payments of end of service benefits	<b>(874)</b>	(1,090)
Others	<b>(961)</b>	(1,319)
	<b>(1,835)</b>	(2,409)
Foreign shareholders' share of tax payments	<b>(96)</b>	(126)
Tax base	<b>1,207</b>	5,977
Tax at 20%	<b>241</b>	1,195

No provision for income tax has been made in current year as the income tax base is negative.

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**18. ZAKAT AND INCOME TAX (CONTINUED)**

Income tax charge for the current year is calculated at 20% of the adjusted taxable income on the portion of equity owned by the foreign shareholders. The movement in the tax provision for the year was as follows:

	<b>2019</b>	2018
	SAR '000	
Balance, January 1	<b>1,198</b>	3
Provided during the year	<b>241</b>	1,195
Payments during the year	<b>(768)</b>	-
Balance, December 31	<b>671</b>	1,198

**Status of assessments**

The Company had filed Zakat and income tax returns with the General Authority of Zakat and Tax ("GAZT") up to the year ended 31 December 2018 and obtained the required certificate from GAZT that is valid up to April 30, 2020.

During 2019, the Company has received an assessment order for the year 2016 for an additional zakat and tax liability amounting to SAR 20 million. The Company successfully appealed against most of the items from that assessment and paid an amount of SAR 1.9 million as a full and final settlement.

The change in the accounting treatment for zakat and income tax (as explained in note 3) has the following impact on the line items of the statements of income, statement of financial position and changes in shareholders' equity:

As at and for the year ended December 31, 2018:

<b>Financial statement impacted</b>	<b>Account</b>	<b>SAR'000</b>		
		<b>Before the restatement</b>	<b>Effect of restatement</b>	<b>After the restated</b>
Statement of changes in Equity	Provision for zakat and income tax (retained earnings)	14,842	(14,842)	-
	Zakat and income tax for the period	-	14,842	14,842
Statement of income	Earnings per share (expressed in SAR per share) *	2.28	(0.66)	1.62

\*this includes effect of bonus shares issued in June 2019 and restatements of profits due to zakat and income tax.

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**19. SHARE CAPITAL**

The authorized, issued and paid up capital of the Company was SAR 528 million at December 31, 2019 consisting of 52.8 million shares of SAR 10 each (December 31, 2018: SAR 440 million consisting of 44 million shares of SAR 10 each).

In the year 2015, the Company had increased its share capital from SAR 200 million to SAR 400 million, by issuing 20 million right shares to its existing shareholders, which were offered at an exercise price of SAR 12 per share. This resulted in a share premium less issuance cost amounting to SAR 30.1 million.

The Company's Board of Directors in their meeting held on April 8, 2019 corresponding to 3 Sha'aban 1440H recommended to the Extraordinary General Assembly Meeting to increase share capital of the Company. The Extraordinary General Assembly approved to increase share capital of the Company from SAR 440 million to SAR 528 million by issuing one bonus share for every five existing shares owned by the shareholder. The increase in share capital is through capitalization of retained earnings of SAR 88 million. The increase in share capital was approved by the shareholders in their meeting held on 16 Ramadan 1440H (Corresponding to May 21, 2019).

The Board of Directors in their meeting held on 30 Muharram 1441 H (corresponding to 29 September 2019) resolved to increase the share capital from SAR 528,000,000 to SAR 646,397,060 by issuing 11,839,706 ordinary shares to merge MetLife into the Company and transferring all of MetLife's assets and liabilities to the Company through a securities exchange offer. This is subject to approval from CMA and MOCI.

Shareholding structure of the Company is as below:

	<b>December 31, 2019</b>		
	<b>Authorized and issued</b>	<b>Paid up</b>	
	<b>No. of Shares "000"</b>	<b>SAR "000"</b>	
International General Insurance Company	<b>2,772</b>	<b>27,720</b>	<b>27,720</b>
Others	<b>50,028</b>	<b>500,280</b>	<b>500,280</b>
<b>Total</b>	<b>52,800</b>	<b>528,000</b>	<b>528,000</b>
	<b>December 31, 2018</b>		
	<b>Authorized and issued</b>	<b>Paid up</b>	
	<b>No. of Shares "000"</b>	<b>SAR "000"</b>	
International General Insurance Company	2,310	23,100	23,100
Others	41,690	416,900	416,900
<b>Total</b>	<b>44,000</b>	<b>440,000</b>	<b>440,000</b>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**20. DIVIDEND AND BONUS SHARES**

The Board of Directors (BOD) in their meeting dated April 8, 2019, proposed a dividend of SAR 1 per share total amounting to SAR 44 million, which was approved by the shareholders in annual general assembly meeting dated May 21, 2019. The entire dividend amount was distributed during the period.

The Board of Directors in their meeting held on April 8, 2019 corresponding to 3 Sha'aban 1440H recommended to the Extraordinary General Assembly Meeting to increase share capital of the Company. The Extraordinary General Assembly approved to increase share capital of the Company from SAR 440 million to SAR 528 million by issuing one bonus share for every five existing shares owned by the shareholder. The increase in share capital is through capitalization of retained earnings of SAR 88 million. The increase in share capital was approved by the shareholders in their meeting held on 16 Ramadan 1440H (Corresponding to May 21, 2019). The Capital Market Authority in its resolution dated April 25, 2019 approved this increase in capital by issuing bonus shares.

**21. EARNINGS PER SHARE ("EPS")**

Basic and diluted earnings per share from shareholders' income is calculated by dividing net income for the period by weighted average number of ordinary shares outstanding during the year. The basic and diluted EPS of the Company for the year ended December 31, 2018 has been restated due to the issuance of 8.8 million bonus shares during the year 2019.

**22. 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 200 million
- Premium Solvency Margin
- Claims Solvency Margin

The Company's net admissible assets as at December 31, 2019 are 257.82% (2018: 281.51%) of the required minimum margin for solvency. Further, the Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at December 31, 2019 consists of paid-up share capital of SAR 528 million, statutory reserves of SAR 53.1 million and retained earnings of SAR 40.4 million (December 31, 2018: paid-up share capital of SAR 440 million, statutory reserves of SAR 48.8 million and retained earnings of SAR 155.3 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.

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**23. GROSS PREMIUMS WRITTEN**

Class	For the year ended December 31, 2019					Total Gross premiums written
	Corporate					
	Micro	Small	Medium	Large	Individual	
	SR'000					
Medical	7,673	22,082	14,163	41,487	10,964	96,369
Motor	465	4,082	15,047	51,401	551,258	622,253
Property	344	2,435	8,160	229,082	-	240,021
Engineering	240	1,526	6,758	93,985	-	102,509
Others	1,492	6,529	15,421	130,181	619	154,242
<b>Total</b>	<b>10,214</b>	<b>36,654</b>	<b>59,549</b>	<b>546,136</b>	<b>562,841</b>	<b>1,215,394</b>

Class	For the year ended December 31, 2018					Total Gross premiums written
	Corporate					
	Micro	Small	Medium	Large	Individual	
	SR'000					
Medical	9,638	35,200	15,054	28,717	6,960	95,569
Motor	1,261	3,519	15,801	55,808	535,824	612,213
Property	308	1,941	6,961	188,346	-	197,556
Engineering	159	1,842	5,595	65,471	-	73,067
Others	1,466	5,916	13,974	104,376	820	126,552
<b>Total</b>	<b>12,832</b>	<b>48,418</b>	<b>57,385</b>	<b>442,718</b>	<b>543,604</b>	<b>1,104,957</b>

**24. GENERAL AND ADMINISTRATIVE EXPENSES**

	2019	2018
	SAR '000	
Salaries, benefits and remunerations	70,051	72,455
Advertising, marketing and branch development expenses	1,990	20,976
Rent	3,915	6,168
Insurance, utilities and maintenance	3,667	5,132
Depreciation and amortization	7,506	4,148
Communications	4,401	2,415
Office supplies and printing	1,818	1,367
Training and education	859	867
Professional	11,625	10,756
Others	9,271	8,352
	<b>115,103</b>	<b>132,636</b>

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**25. INVESTMENT INCOME**

	<u>2019</u>	<u>2018</u>
	<u>SAR '000</u>	
<b>Available for sale financial assets</b>		
Dividend income on investments	1,137	1,191
<b>Cash and short term deposits</b>		
Commission income	25,623	20,430
	<u>26,760</u>	<u>21,621</u>

**26. NET REALISED LOSSES**

	<u>2019</u>	<u>2018</u>
	<u>SAR '000</u>	
<b>Available for sale financial assets</b>		
Impairment of investments	-	(7,633)
Total net realised losses for available for sale financial assets	<u>-</u>	<u>(7,633)</u>

**27. RISK MANAGEMENT**

**(a) Insurance risk**

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

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 8% of total reinsurance assets at the reporting date.

**27. RISK MANAGEMENT (CONTINUED)**

**a) Insurance risk (continued)**

**Frequency and severity of claims**

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

**Concentration of insurance risk**

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

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

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

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. Judgment 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**27. RISK MANAGEMENT (CONTINUED)**

**Process used to decide on assumptions**

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

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

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

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

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

**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 variables such as legislative changes or uncertainty in the estimation process.

A hypothetical 10% change in the claim ratio, net of reinsurance, would impact net underwriting income/(loss) as follows;



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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27. RISK MANAGEMENT (CONTINUED)

Sensitivity analysis (continued)

	Income from insurance operations	
	2019	2018
	SAR '000	
<b>Impact of change in claim ratio by + 10%</b>		
Medical	(2,757)	(3,822)
Motor	(14,499)	(14,563)
Property	(208)	(519)
Engineering	(231)	(203)
Other	(1,417)	(2,202)
	<b>(19,112)</b>	<b>(21,309)</b>
<b>Impact of change in average claim cost + 10%</b>		
Medical	(331)	(584)
Motor	(3,263)	(3,422)
	<b>(3,594)</b>	<b>(4,006)</b>

A hypothetical 10% decrease in claim ratio, net of reinsurance, would have almost equal but opposite impact on net underwriting income.

(a) **Reinsurance risk**

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

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

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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27. RISK MANAGEMENT (CONTINUED)

(b) **Market Risk**

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

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company 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. The Company maintains, diversified portfolio and performs regular monitoring of developments in related markets. In addition, the key factors that affect stock and sukuk market movements are monitored, including analysis of the operational and financial performance of investees.

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

**Currency Risk**

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

The Company's exposure to foreign currency risk is limited to United States Dollars which is pegged against the Saudi Arabian Riyal. Management believes 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 currency exposures of available-for-sale and held to maturity investments are set out below:

**Shareholders Operations**

	2019	2018
	SAR '000	
Saudi Arabian Riyals and GCC currencies	404,248	162,876
	404,248	162,876

**Commission Rate Risk**

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

An increase or decrease of 0.50 basis points in interest yields would result in an increase or decrease in the profit for the year of SAR 0.553 million (2018: SAR 0.407 million).

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**27. RISK MANAGEMENT (CONTINUED)**

**(b) Market Risk (continued)**

***Commission Rate Risk (continued)***

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

	Less than 1 year	More than 1 year	Non- commission bearing	Total
	SAR '000			
<b>Insurance Operations</b>				
<b>2019</b>	<b>470,000</b>	-	-	<b>470,000</b>
2018	431,354	-	-	431,354
<b>Shareholders Operations</b>				
<b>2019</b>	<b>211,074</b>	<b>149,342</b>	<b>254,906</b>	<b>615,322</b>
2018	447,699	-	162,876	610,575

***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 231.783 million (2018: SAR 139.753 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 a hypothetical change of a 10% increase and 10% decrease in the market prices of investments on shareholders' comprehensive income would be as follows:

	Fair value change	Effect on Company's other comprehensive income
<b>December 31, 2019</b>	<b>+ / -10%</b>	<b>+/- 23,178</b>
December 31, 2018	+ / -10%	+/- 13,975

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

**(c) Credit Risk**

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

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

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**27. RISK MANAGEMENT (CONTINUED)**

**(c) Credit Risk (continued)**

	2019	2018
	SAR '000	
<b>Insurance operations' assets</b>		
Cash and cash equivalents	560,863	653,944
Short term deposits	130,000	-
Premiums and insurance balances receivable, net	150,094	202,416
Reinsurers' share of outstanding claims	142,055	166,176
Accrued commission income	214	1,752
Other assets	39,254	25,639
	<b>1,022,480</b>	<b>1,049,927</b>
<b>Shareholders' assets</b>		
Cash and cash equivalents	-	468,323
Short term deposits	211,074	-
Accrued commission income	10,452	6,948
Available-for-sale investments	404,248	162,876
Statutory deposit	52,800	44,000
	<b>678,574</b>	<b>682,147</b>
<b>Total</b>	<b>1,701,054</b>	<b>1,732,074</b>

**Concentration of credit risk**

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Approximately 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.

Insurance Operations assets	2019		2018		2019		2018	
	Investment grade		Non-investment grade		Unrated		SAR '000	
Cash and cash equivalents	560,863	653,944	-	-	-	-	-	-
Short term deposits	130,000	-	-	-	-	-	-	-
Premium and reinsurance balances receivable								
Policyholders'	-	-	-	-	149,393	-	201,347	-
Due from related parties	-	-	-	-	281	-	535	-
Reinsurance receivables	-	-	-	-	420	-	534	-
Reinsurers share of outstanding claims and IBNR	-	-	-	-	142,055	-	166,176	-
Accrued commission income	214	1,752	-	-	-	-	-	-
Other assets	-	-	-	-	39,254	-	25,639	-
	<b>691,077</b>	<b>655,696</b>	<b>-</b>	<b>-</b>	<b>331,403</b>	<b>-</b>	<b>394,231</b>	<b>-</b>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**27. RISK MANAGEMENT (CONTINUED)**

**(c) Credit Risk (continued)**

*Concentration of credit risk (continued)*

Shareholders' assets	2019		2018		2019		2018	
	Investment grade		Non-investment grade		Unrated		SAR '000	
Cash and cash equivalents	-	468,323	-	-	-	-	-	-
Short term deposits	211,074	-	-	-	-	-	-	-
Accrued commission income	10,452	6,948	-	-	-	-	-	-
Available-for-sale investments	381,125	139,753	-	-	23,123	-	23,123	-
Statutory deposit	52,800	44,000	-	-	-	-	-	-
<b>Total</b>	<b>655,451</b>	<b>659,024</b>	<b>-</b>	<b>-</b>	<b>23,123</b>	<b>-</b>	<b>23,123</b>	<b>-</b>

**(d) Liquidity Risk**

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

- The Company has a 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 is 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 assets and liabilities:

ASSETS - INSURANCE OPERATIONS	2019			2018		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
	SAR '000			SAR '000		
Cash and cash equivalents	560,863	-	560,863	653,944	-	653,944
Short term deposits	130,000	-	130,000	-	-	-
Premiums and insurance balances receivable, net	150,094	-	150,094	202,416	-	202,416
Reinsurers' share of outstanding claims	142,055	-	142,055	166,176	-	166,176
Accrued commission income	214	-	214	1,752	-	1,752
Other assets	39,254	-	39,254	25,639	-	25,639
<b>Total</b>	<b>1,022,480</b>	<b>-</b>	<b>1,022,480</b>	<b>1,049,927</b>	<b>-</b>	<b>1,049,927</b>

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**27. RISK MANAGEMENT (CONTINUED)**

**d) Liquidity Risk (continued)**

LIABILITIES - INSURANCE OPERATIONS	2019			2018		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
	SAR '000			SAR '000		
Outstanding claims and IBNR	333,173	-	333,173	379,264	-	379,264
Policyholders claims payables	20,876	-	20,876	16,712	-	16,712
Accrued expenses and other liabilities	85,964	-	85,964	106,881	-	106,881
Reinsurance balances payables	173,378	-	173,378	140,897	-	140,897
End-of-service indemnities	-	17,906	17,906	-	14,622	14,622
Accumulated surplus	3,491	-	3,491	13,495	-	13,495
<b>Total</b>	<b>616,882</b>	<b>17,906</b>	<b>634,788</b>	<b>657,249</b>	<b>14,622</b>	<b>671,871</b>

**Maturity profile**

ASSETS - SHAREHOLDERS' OPERATIONS	2019				
	Carrying amount	Up to 1 year	1-5 years	5 years and above	Total
	SAR '000				
Cash and cash equivalents	-	-	-	-	-
Short term deposits	211,074	211,074	-	-	211,074
Accrued income	10,452	10,452	-	-	10,452
Investments	404,248	252,183	-	152,065	404,248
Statutory deposit	52,800	-	-	52,800	52,800
<b>Total</b>	<b>678,574</b>	<b>473,709</b>	<b>-</b>	<b>204,865</b>	<b>678,574</b>

**LIABILITIES - SHAREHOLDERS' OPERATIONS**

Accrued and other liabilities	435	435	-	-	435
Accrued commission income payable to SAMA	5,607	5,607	-	-	5,607
	<b>6,042</b>	<b>6,042</b>	<b>-</b>	<b>-</b>	<b>6,042</b>
	<b>672,532</b>	<b>467,667</b>	<b>-</b>	<b>204,865</b>	<b>672,532</b>

2018

ASSETS - SHAREHOLDERS' OPERATIONS	Carrying amount	Up to 1 year	1-5 years	5 years and above	Total
	SAR '000				
	Cash and cash equivalents	468,323	468,323	-	-
Short term deposits	-	-	-	-	-
Accrued income	6,948	6,948	-	-	6,948
Investments	162,876	162,876	-	-	162,876
Statutory deposit	44,000	-	-	44,000	44,000
<b>Total</b>	<b>682,147</b>	<b>638,147</b>	<b>-</b>	<b>44,000</b>	<b>682,147</b>

**LIABILITIES - SHAREHOLDERS' OPERATIONS**

Accrued and other liabilities	5,037	5,037	-	-	5,037
Accrued commission income payable to SAMA	4,263	4,263	-	-	4,263
	<b>9,300</b>	<b>9,300</b>	<b>-</b>	<b>-</b>	<b>9,300</b>
	<b>672,847</b>	<b>628,847</b>	<b>-</b>	<b>44,000</b>	<b>672,847</b>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**27. RISK MANAGEMENT (CONTINUED)**

**d) 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:

- Accrued investment income is expected to be realized within 1 to 3 months from statement of financial position's date.
- Deposits classified as 'cash and cash equivalents' are deposits placed with high credit rating financial institutions with maturity of less than 3 months from the date of placement.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims majorly pertain to property and casualty segment and are generally realized within 3 to 6 months based on settlement of balances with reinsurers.

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

- Reinsurers' balances payable for treaty arrangements are settled on a quarterly basis as per the terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to settle in accordance with statutory timelines for payment subject to completion of the required information. Property and casualty policies due to the inherent nature are generally settled within one month from the date of receipt of loss adjustor's final report.
- The policyholders claims payable, accrued expenses and other liabilities are expected to settle within a period of 3 months from the period end date.
- Surplus distribution payable is to be settled within 6 months of annual general meeting in which financial statements are approved.

**e) Operational Risk**

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

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

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

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



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**28. SUPPLEMENTARY INFORMATION**

	December 31, 2019			December 31, 2018		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SAR '000			SAR '000		
<b>ASSETS</b>						
Cash and cash equivalents	560,925	-	560,925	654,006	468,323	1,122,329
Short term deposits	130,000	211,074	341,074	-	-	-
Premiums and reinsurers' receivable – net	150,094	-	150,094	202,416	-	202,416
Reinsurers' share of unearned Premiums	274,137	-	274,137	195,562	-	195,562
Reinsurers' share of outstanding claims	97,837	-	97,837	124,638	-	124,638
Reinsurers' share of claims incurred but not reported	44,218	-	44,218	41,538	-	41,538
Deferred policy acquisition costs	16,733	-	16,733	23,570	-	23,570
Investments	-	404,248	404,248	-	162,876	162,876
Due from insurance operations	-	12,312	12,312	-	26,507	26,507
Prepaid expenses and other assets	49,205	-	49,205	34,083	-	34,083
Property and equipment	17,350	-	17,350	9,415	-	9,415
Intangible assets	1,128	-	1,128	1,334	-	1,334
Statutory deposit	-	52,800	52,800	-	44,000	44,000
Accrued income on statutory deposit	-	5,607	5,607	-	4,263	4,263
Accrued commission income	214	4,845	5,059	1,752	2,685	4,437
<b>TOTAL ASSETS</b>	<b>1,341,841</b>	<b>690,886</b>	<b>2,032,727</b>	<b>1,288,314</b>	<b>708,654</b>	<b>1,996,968</b>

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**28. SUPPLEMENTARY INFORMATION (CONTINUED)**

	December 31, 2019			December 31, 2018		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SAR '000			SAR '000		
<b>LIABILITIES</b>						
Policyholders claims payables	20,876	-	20,876	16,712	-	16,712
Accrued and other liabilities	96,835	435	97,270	115,078	5,036	120,114
Reinsurers' balances payable	173,378	-	173,378	140,897	-	140,897
Unearned premiums	637,828	-	637,828	536,608	-	536,608
Unearned reinsurance commission	14,086	-	14,086	12,443	-	12,443
Outstanding claims	140,433	-	140,433	181,504	-	181,504
Claims incurred but not reported	192,740	-	192,740	197,760	-	197,760
Additional premium reserves	4,970	-	4,970	8,525	-	8,525
Other technical reserves	29,700	-	29,700	26,379	-	26,379
End-of-service indemnities	17,906	-	17,906	14,622	-	14,622
Zakat and income tax	-	15,578	15,578	-	28,532	28,532
Accrued commission income payable to SAMA	-	5,607	5,607	-	4,263	4,263
Due to shareholders' operations	12,312	-	12,312	26,507	-	26,507
Insurance operations' surplus	3,491	-	3,491	13,495	-	13,495
<b>TOTAL LIABILITIES</b>	<b>1,344,555</b>	<b>21,620</b>	<b>1,366,175</b>	<b>1,290,530</b>	<b>37,831</b>	<b>1,328,361</b>
<b>EQUITY</b>						
Share capital	-	528,000	528,000	-	440,000	440,000
Share premium	-	30,108	30,108	-	30,108	30,108
Statutory reserve	-	53,102	53,102	-	48,827	48,827
Retained earnings	-	40,406	40,406	-	155,306	155,306
Fair value reserve on investments	-	17,650	17,650	-	(3,418)	(3,418)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>669,266</b>	<b>669,266</b>	<b>-</b>	<b>670,823</b>	<b>670,823</b>
Re-measurement of defined benefit obligation	(2,714)	-	(2,714)	(2,216)	-	(2,216)
<b>TOTAL EQUITY</b>	<b>(2,714)</b>	<b>669,266</b>	<b>666,552</b>	<b>(2,216)</b>	<b>670,823</b>	<b>668,607</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,341,841</b>	<b>690,886</b>	<b>2,032,727</b>	<b>1,288,314</b>	<b>708,654</b>	<b>1,996,968</b>

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**28. SUPPLEMENTARY INFORMATION (CONTINUED)**

	2019			2018 (Restated)		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SAR '000			SAR '000		
<b>REVENUES</b>						
Gross premiums written						
- Direct	1,215,024	-	1,215,024	1,104,630	-	1,104,630
- Reinsurance	370	-	370	327	-	327
	1,215,394	-	1,215,394	1,104,957	-	1,104,957
Reinsurance premiums ceded						
- Local ceded	(9,826)	-	(9,826)	(8,439)	-	(8,439)
- Foreign ceded	(455,204)	-	(455,204)	(350,105)	-	(350,105)
	(465,030)	-	(465,030)	(358,544)	-	(358,544)
Excess of loss expenses	(14,848)	-	(14,848)	(15,284)	-	(15,284)
<b>Net premiums written</b>	<b>735,516</b>	<b>-</b>	<b>735,516</b>	<b>731,129</b>	<b>-</b>	<b>731,129</b>
Changes in unearned premiums, net	(22,645)	-	(22,645)	67,200	-	67,200
<b>Net premiums earned</b>	<b>712,871</b>	<b>-</b>	<b>712,871</b>	<b>798,329</b>	<b>-</b>	<b>798,329</b>
Reinsurance commissions	24,334	-	24,334	28,564	-	28,564
Other underwriting income	2,267	-	2,267	3,977	-	3,977
<b>TOTAL REVENUES</b>	<b>739,472</b>	<b>-</b>	<b>739,472</b>	<b>830,870</b>	<b>-</b>	<b>830,870</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	597,784	-	597,784	517,351	-	517,351
Expenses incurred related to claims	35,937	-	35,937	40,061	-	40,061
Reinsurers' share of claims paid	(50,747)	-	(50,747)	(26,447)	-	(26,447)
<b>Net claims and other benefits paid</b>	<b>582,974</b>	<b>-</b>	<b>582,974</b>	<b>530,965</b>	<b>-</b>	<b>530,965</b>
Changes in outstanding claims, net	(14,270)	-	(14,270)	6,853	-	6,853
Changes in IBNR, net	(7,700)	-	(7,700)	(57,576)	-	(57,576)
Net claims and other benefits incurred	561,004	-	561,004	480,242	-	480,242
Additional premium reserves	(3,555)	-	(3,555)	5,328	-	5,328
Other technical reserves	3,321	-	3,321	21,063	-	21,063
Policy acquisition costs	46,028	-	46,028	71,595	-	71,595
Other underwriting expenses	22,663	-	22,663	9,677	-	9,677
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	<b>629,461</b>	<b>-</b>	<b>629,461</b>	<b>587,905</b>	<b>-</b>	<b>587,905</b>
<b>NET UNDERWRITING INCOME</b>	<b>110,011</b>	<b>-</b>	<b>110,011</b>	<b>242,965</b>	<b>-</b>	<b>242,965</b>



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**28. SUPPLEMENTARY INFORMATION (CONTINUED)**

	2019			2018		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR '000			SAR '000		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net profit for the year	1,343	23,159	24,502	11,347	100,365	111,712
<b>Adjustments for non-cash items:</b>						
Depreciation of property and equipment	6,999	-	6,999	3,453	-	3,453
Amortization of intangible assets	507	-	507	695	-	695
Allowance for doubtful debts	(2,834)	-	(2,834)	12,605	-	12,605
Dividend and loss on investments, net	-	(1,137)	(1,137)	-	6,442	6,442
Commission income	(10,402)	(15,221)	(25,623)	(9,493)	(10,937)	(20,430)
Provision for end-of-service indemnities	3,660	-	3,660	2,891	-	2,891
Finance cost	196	-	196	-	-	-
<b>Changes in operating assets and liabilities:</b>						
Premiums and reinsurers' receivable	52,597	-	52,597	(95,210)	-	(95,210)
Reinsurers' share of unearned premiums	(78,575)	-	(78,575)	(65,315)	-	(65,315)
Reinsurers' share of outstanding claims	26,801	-	26,801	(14,032)	-	(14,032)
Reinsurers' share of claims incurred but not reported	(2,680)	-	(2,680)	568	-	568
Deferred policy acquisition costs	6,837	-	6,837	13,448	-	13,448
Prepaid expenses and other assets	(16,504)	-	(16,504)	(5,692)	-	(5,692)
Policyholders claims payables	4,164	-	4,164	2,952	-	2,952
Accrued and other liabilities	(32,900)	(4,601)	(37,501)	21,594	2,895	24,489
Reinsurers' balances payable	32,481	-	32,481	79,106	-	79,106
Unearned premiums	101,220	-	101,220	(1,885)	-	(1,885)
Unearned reinsurance commission	1,643	-	1,643	2,601	-	2,601
Outstanding claims	(41,071)	-	(41,071)	20,885	-	20,885
Claims incurred but not reported	(5,020)	-	(5,020)	(58,144)	-	(58,144)
Additional premium reserves	(3,555)	-	(3,555)	5,328	-	5,328
Other technical reserves	3,321	-	3,321	21,063	-	21,063
	48,228	2,200	50,428	(51,235)	98,765	47,530
End-of-service indemnities paid	(874)	-	(874)	(1,090)	-	(1,090)
Zakat and income tax paid	-	(14,738)	(14,738)	-	(12,025)	(12,025)
<b>Net cash (used in)/ generated from operating activities</b>	<b>47,354</b>	<b>(12,538)</b>	<b>34,816</b>	<b>(52,325)</b>	<b>86,740</b>	<b>34,415</b>

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**28 SUPPLEMENTARY INFORMATION (CONTINUED)**

	Insurance operations	Share- holders' operations	Total	Insurance operations	Share- holders' operations	Total
	SAR '000			SAR '000		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Additions in intangible assets (Additions) / disposal in investments	(301)	-	(301)	(1,525)	-	(1,525)
Commission income received	11,940	13,061	25,001	11,085	10,394	21,479
Dividend received	-	1,137	1,137	-	1,385	1,385
Disposals / (addition) of short term deposits	(130,000)	(211,074)	(341,074)	400,000	424,833	824,833
Additions in property and equipment	(4,050)	-	(4,050)	(4,177)	-	(4,177)
<b>Net cash generated from / (used in ) investing activities</b>	<b>(122,411)</b>	<b>(417,180)</b>	<b>(539,591)</b>	<b>405,383</b>	<b>376,612</b>	<b>781,995</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Due from/ to shareholders'/ insurance operations	(14,195)	14,195	-	11,443	(11,443)	-
Statutory deposit	-	(8,800)	(8,800)	-	(4,000)	(4,000)
Dividend	-	(44,000)	(44,000)	-	-	-
Lease liability paid	(3,829)	-	(3,829)	-	-	-
<b>Net cash (used in)/ generated from financing activities</b>	<b>(18,024)</b>	<b>(38,605)</b>	<b>(56,629)</b>	<b>11,443</b>	<b>(15,443)</b>	<b>(4,000)</b>
<b>Net change in cash and cash equivalents</b>	<b>(93,081)</b>	<b>(468,323)</b>	<b>(561,404)</b>	<b>364,501</b>	<b>447,909</b>	<b>812,410</b>
Cash and cash equivalents, beginning of the year	654,006	468,323	1,122,329	289,505	20,414	309,919
<b>Cash and cash equivalents, end of the year</b>	<b>560,925</b>	<b>-</b>	<b>560,925</b>	<b>654,006</b>	<b>468,323</b>	<b>1,122,329</b>
<b>NON-CASH INFORMATION</b>						
Unrealised changes in fair value of available for sale investments	-	21,068	21,068	-	6,303	6,303
Actuarial losses on defined benefit pension plans	(498)	-	(498)	42	-	42
Right of use assets and lease liability	7,204	-	7,204	-	-	-



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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**29. EVENTS AFTER THE REPORTING DATE**

Subsequent to year end, the shareholders in the EGM held on January 27, 2020 corresponding to 02 Jumada II 1441 approved the proposed merger (the "Merger") of Walaa Insurance Company and MetLife AIG ANB to be effected by way of a merger pursuant to Articles 191, 192, and 193 of the Companies Law issued under Royal Decree No. M3 dated 28/1/1437H (corresponding to 10/11/2015G) (the "Companies Law"), through the issuance of 0.6577614444444444 new Walaa Insurance Company shares for each share in MetLife AIG ANB subject to the terms and conditions of the merger agreement between Walaa Insurance Company and MetLife AIG ANB dated 29 September 2019G (the "Merger Agreement").

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

**30. COMPARATIVE FIGURES**

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

**31. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the board of directors, on 16 Rajab 1441H, corresponding to March 11, 2020.