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

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

INDEX

PAGE

pwc

Aldar Audit Bureau
Abdullah Al-Basri & Co.

Grant Thornton | An instinct for growth

Independent Auditors' Report on the Audit of the Financial Statements To the Shareholders of Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

Opinion

We have audited the financial statements of Al Rajhi Company for Cooperative Insurance (the "Company"), which comprise the statement of financial position as at December 31, 2019, the statements of income and comprehensive income, changes in shareholders' 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, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization of Certified Public Accountants ("SOCPA") (collectively) referred to as IFRS that are endorsed in the Kingdom of Saudi Arabia.

Basis for Opinion

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

Key Audit Matters

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

Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Valuation of ultimate claim liabilities arising from insurance contracts	
As at December 31, 2019, outstanding claims including claims incurred but not reported (IBNR) amounted to Saudi Riyals 1,156.87 million as reported in Note 11 to the financial statements. The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. In particular, estimates of IBNR and the use of actuarial and statistical projections involve a significant judgment. A range of methods e.g. Chain ladder method, Bornhuetter Ferguson method, expected loss ratio method etc. are used by the management's expert (actuary) to determine these liabilities. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We considered this as a key audit matter as the determination of ultimate claim liabilities arising from insurance contracts is subjective and relies on management assumptions and judgements. *Refer to the significant accounting policies Note 4 to the financial statements, Note 26 which explains the valuation methodology used by the Company and critical judgments and estimates.*	We understood, evaluated and tested key controls around the claims handling and provision setting processes of the Company and accuracy of claims data used in the actuarial reserving process. We evaluated the competence, capabilities and objectivity of the management's expert by considering their professional qualifications and experiences and assessing their relationship with the Company. In obtaining a sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilised by the management's expert in estimating the IBNR by comparing it to accounting records. In order to challenge management's methodologies and assumptions, we were assisted by our internal expert (actuary) to understand and evaluate the Company's actuarial practices and provisions established. In order to gain comfort over the actuarial report issued by management's expert, our internal expert performed the following: - evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences; - assessed the reasonableness of key actuarial assumptions including claims ratios and expected frequency and severity of claims; - reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed; and - assessed the adequacy of the Company's disclosures regarding assumptions used and sensitivities as included in the accounting policies and in Note 26 to the financial statements.

Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company) (continued)

Other Information included in the Company's 2019 Annual Report
The Board of Directors of the Company (the "Directors") are responsible for the other information. Other information consists of the information included in the Company's 2019 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization of Certified Public Accountants, 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, that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, 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;

pwc

Aldar Audit Bureau
Abdullah Al-Basri & Co

Grant Thornton An instinct for growth

Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company) (continued)

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to 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 period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in Compliance, in all material respects, with the applicable requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

PricewaterhouseCoopers
P.O. Box 8282
Riyadh 11482
Kingdom of Saudi Arabia

Ali H. Al Basri
Certified Public Accountant
Registration No. 409

Aldar Audit Bureau
Abdullah Al Basri & Co
P.O. Box 2195
Riyadh 11452
Kingdom of Saudi Arabia

Abdullah M. Al Basri
Certified Public Accountant
Registration No. 171

PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

27 Rajab 1441H
(corresponding to 22 March 2020)

ALDAR AUDIT BUREAU
Professional Partnership Co.
Head Office Riyadh
CR 1010443981
Certified Accountants
Abdullah Al Basri & Co

STATEMENT OF FINANCIAL POSITION

As at December 31,

	Notes	SAR '000 2019	SAR '000 2018
ASSETS			
Cash and cash equivalents	5	**481,018**	492,182
Contributions and re-takaful / reinsurance balances receivable, net	6	**336,149**	456,575
Re-takaful / reinsurance share of unearned contributions	11.2	**111,870**	88,458
Re-takaful / reinsurance share of outstanding claims	11.1 (a)	**110,180**	371,580
Re-takaful / reinsurance share of claims incurred but not reported	11.1 (a)	**13,413**	13,411
Re-takaful / reinsurance share of mathematical reserve at fair value through statement of income (FVSI)		**21**	109
Deferred policy acquisition costs	11.3	**44,512**	60,868
Investments mandatorily measured at fair value through statement of income (FVSI)	10 (a)	**183,556**	163,828
Investments designated as fair value through other comprehensive income (FVOCI)	10 (b)	**276,696**	155,462
Investments held at amortised cost	10 (c)	**1,813,705**	1,788,646
Prepayments and other assets		**156,206**	69,602
Property and equipment, net	8	**25,263**	18,713
Statutory deposit	9	**39,969**	39,968
Accrued income on statutory deposit		**944**	3,439
Right-of-use assets	7	**9,772**	-
TOTAL ASSETS		**3,603,274**	3,722,841
LIABILITIES			
Payables, accruals and other liabilities	13	**128,702**	132,108
Re-takaful / reinsurance balances payable		**94,637**	56,127
Unearned contributions	11.2	**1,123,170**	1,302,633
Unearned re-takaful / reinsurance commission income	11.4	**8,792**	6,002
Gross outstanding claims	11.1 (a)	**353,601**	564,096
Claims incurred but not reported	11.1 (a)	**776,962**	731,714
Contrbution deficiency reserve	11.1 (a)	**26,303**	9,034
Unit linked liabilities at FVSI	11.1 (a), 20	**86,821**	52,336
End-of-service benefits (EOSB)	14	**18,620**	15,119
Provision for zakat and income tax	19	**40,932**	33,689
Payables to SAMA		**5,654**	4,346
Lease obligations		**6,978**	-
		2,671,172	2,907,204
Takaful operations' surplus payable	24	**56,883**	47,236
TOTAL LIABILITIES AND ACCUMULATED SURPLUS		**2,728,055**	2,954,440
EQUITY			
Share capital	21	**400,000**	400,000
Statutory reserve		**113,082**	91,302
Retained earnings		**335,138**	270,733
Remeasurement reserve for EOSB	14	**(1,528)**	(187)
Fair value reserve - investments designated as FVOCI		**28,527**	6,553
TOTAL EQUITY		**875,219**	768,401
TOTAL LIABILITIES, ACCUMULATED SURPLUS AND EQUITY		**3,603,274**	3,722,841
COMMITMENTS AND CONTINGENCIES	12	**22,456**	14,437

Naser Abdullah Aloufi
Member-Board

Abdulaziz Mohammed Al Sedeas
Chief Executive Officer

Robert Pereira
Chief Financial Officer

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31

	Notes	SAR '000 2019	SAR '000 2018 (Restated)
REVENUES			
Gross contribution written	11..2	**2,569,804**	2,973,594
Re-takaful / reinsurance contributions ceded - domestic	11..2	**(3,748)**	(1,978)
Re-takaful / reinsurance contributions ceded - foreign	11..2	**(122,087)**	(93,616)
Excess of loss expenses (XOL)	11..2	**(7,833)**	(14,997)
Net contributions written	11..2	**2,436,136**	2,863,003
Changes in unearned contributions, net		**202,875**	(1,774)
Net contributions earned		**2,639,011**	2,861,229
Re-takaful / reinsurance commission income		**9,661**	14,551
Other underwriting income		**2,000**	5,972
TOTAL REVENUES		**2,650,672**	2,881,752
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid and loss adjustment expenses		**(2,331,524)**	(2,178,187)
Surrenders and maturities		**(7,924)**	(3,552)
Expenses incurred related to claims		**(67,450)**	(69,638)
Re-takaful / reinsurance share of claims paid		**311,941**	99,458
Net claims and other benefits paid		**(2,094,957)**	(2,151,919)
Changes in outstanding claims, net		**(50,905)**	(10,729)
Changes in incurred but not reported (IBNR) claims, net		**(45,246)**	(149,333)
Change in contrbution deficiency reserve		**(17,269)**	(9,034)
Net claims and other benefits incurred		**(2,208,377)**	(2,321,015)
Change in unit linked liabilities at FVSI, net		**(28,034)**	(20,784)
Policy acquisition costs		**(110,352)**	(109,522)
Other underwriting expenses		**(21,227)**	(30,162)
TOTAL UNDERWRITING COSTS AND EXPENSES		**(2,367,990)**	(2,481,483)
NET UNDERWRITING INCOME		**282,682**	400,269
OTHER OPERATING (EXPENSES)/ INCOME			
Allowance for doubtful debts - contributions and re-takaful / reinsurance balances receivable	6	**(17,759)**	(50,528)
General and administrative expenses	16	**(241,195)**	(232,963)
Special commission income		**72,051**	65,892
Net gains on investments mandatorily measured at FVSI		**14,055**	10,764
Dividend income		**7,016**	4,144
Reversal of impairment / (impairment loss) on financial assets	10.e	**134**	(323)
Other income		**1,548**	6,542
TOTAL OTHER OPERATING EXPENSES		**(164,150)**	(196,472)
Net income for the year before zakat		**118,532**	203,797
Net income for the year attributable to takaful operations	25	**(9,647)**	(18,770)
Net income for the year before zakat attributable to the shareholders		**108,885**	185,027
Provision for zakat	19	**(22,700)**	(19,500)
Net income for the year after zakat attributable to the shareholders		**86,185**	165,527
Earnings per share (EPS)			
Basic and diluted EPS	23	**2.15**	4.14

Naser Abdullah Aloufi	Abdulaziz Mohammed Al Sedeas	Robert Pereira
Member-Board	Chief Executive Officer	Chief Financial Officer

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31

	Notes	SAR '000 2019	SAR '000 2018 (Restated)
Net income for the year after zakat attributable to the shareholders		**86,185**	165,527
Other comprehensive income:			
Items that will not be reclassified to statement of income in subsequent year			
- Net fair value changes on investments designated as FVOCI			
- Shareholder's operations	10 (b)	**17,319**	10,712
- Remeasurement of EOSB		**(1,341)**	(187)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**102,163**	176,052
Net income for the year attributable to takaful operation		**9,647**	18,770
Items that will not be reclassified to statement of income in subsequent year			
- Net fair value changes on investments designated as FVOCI	10 (b)		
- Takaful operations		**4,655**	(5,711)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO TAKAFUL OPERATIONS		**14,302**	13,059
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**116,465**	189,111

Naser Abdullah Aloufi	Abdulaziz Mohammed Al Sedeas	Robert Pereira
Member-Board	Chief Executive Officer	Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31
(SAR in '000')

	Notes	Share capital	Statutory reserve	Retained earnings	Remeasurement reserve for EOSB	Fair value reserve - investments designated as FVOCI	Total
Balance as at January 1, 2019		**400,000**	**91,302**	**270,733**	**(187)**	**6,553**	**768,401**
Total comprehensive income attributable to the shareholders :							
Net income for the year after zakat attributable to the shareholders		**-**	**-**	**86,185**	**-**	**-**	**86,185**
-Net fair value changes on investments designated as FVOCI		**-**	**-**	**-**	**-**	**21,974**	**21,974**
-Remeasurement of EOSB		**-**	**-**	**-**	**(1,341)**	**-**	**(1,341)**
		-	**-**	**86,185**	**(1,341)**	**21,974**	**106,818**
Transfer to statutory reserve		**-**	**21,780**	**(21,780)**	**-**	**-**	**-**
Balance as at December 31, 2019		**400,000**	**113,082**	**335,138**	**(1,528)**	**28,527**	**875,219**

	Share capital	Statutory reserve	Retained earnings	Remeasurement reserve for EOSB	Fair value reserve - investments designated as FVOCI	Total
Balance as at January 1, 2018	400,000	54,297	142,211	-	1,552	598,060
Total comprehensive income attributable to the shareholders : (restated)						
Net income for the year after zakat attributable to the shareholders	-	-	165,527	-	-	165,527
-Net fair value changes on investments designated as FVOCI	-	-	-	-	5,001	5,001
-Remeasurement of EOSB	-	-	-	(187)	-	(187)
	-	-	165,527	(187)	5,001	170,341
Transfer to statutory reserve	-	37,005	(37,005)	-	-	-
Balance as at December 31, 2018	400,000	91,302	270,733	(187)	6,553	768,401

Naser Abdullah Aloufi	Abdulaziz Mohammed Al Sedeas	Robert Pereira
Member-Board	Chief Executive Officer	Chief Financial Officer

STATEMENT OF CASH FLOWS
For the year ended December 31

	Notes	SAR '000 2019	SAR '000 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before zakat		**118,532**	203,797
Adjustments for non-cash items:			
Depreciation of property and equipment, net	8	**8,105**	7,934
Depreciation of right-of-use assets	7	**5,667**	-
Allowance for doubtful debts -Contributions and re-takaful / reinsurance balances receivable	6	**17,759**	50,528
Unrealized gain on investments mandatorily measured at FVSI	10 (a)	**(6,390)**	(1,234)
(Reversal of impairment loss) / impairment loss on financial		**(134)**	323
Provision for end-of-service benefits (EOSB)	14	**4,136**	5,477
		147,675	266,825
Changes in operating assets and liabilities:			
Contributions and re-takaful / reinsurance balances receivable	6	**102,667**	(243,818)
Re-takaful / reinsurance share of unearned contributions	11.2	**(23,412)**	3,251
Re-takaful / reinsurance share of outstanding claims	11.1 (a)	**261,400**	(242,518)
Re-takaful / reinsurance share of claims incurred but not reported	11.1 (a)	**(2)**	-
Re-takaful / reinsurance share of mathematical reserve at FVSI	11.1 (a)	**88**	5
Deferred policy acquisition costs	11.3	**16,356**	(25,079)
Prepayments and other assets		**(86,604)**	(19,721)
Right-of-use assets	7	**(15,439)**	-
Accrued income on statutory deposit		**(1,307)**	(873)
Payable, accruals and other liabilities	13	**(3,406)**	19,834
Unit linked liabilities at FVSI	11.1 (a), 20	**34,485**	21,741
Re-takaful / reinsurance balances payable		**38,510**	(10,191)
Unearned contributions	11.2	**(179,463)**	(1,477)
Unearned re-takaful / reinsurance commission		**2,790**	(1,070)
Gross outstanding claims	11.1(a)	**(210,495)**	284,970
Claims incurred but not reported	11.1(a)	**45,248**	117,610
Contrbution deficiency reserve	11.1(a)	**17,269**	9,034
Lease obligations		**6,978**	-
Deposit against guarantees	12	**(8,019)**	(1,440)
Payables to SAMA		**1,308**	873
		146,627	177,956
Zakat paid	19	**(15,457)**	(12,301)
Takaful operations' surplus paid		**-**	(5,976)
End-of-service benefits paid (EOSB)		**(1,976)**	(828)
Net cash generated from operating activities		**129,194**	158,851
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments mandatorily measured at FVSI	10 (a)	**(1,764,416)**	(1,760,073)
Disposals of investments mandatorily measured at FVSI	10 (a)	**1,751,078**	1,754,789
Purchase of investments designated as FVOCI	10 (b)	**(99,450)**	(125,486)
Disposals of investments designated as FVOCI	10 (b)	**-**	59,899
Movement in cash balance in equity share portfolio	10 (b)	**190**	(108)
Purchase of investments held at amortised cost	10 (c)	**(1,795,001)**	(1,370,000)
Disposal of investments held at amortised cost	10 (c)	**1,770,000**	950,000
Additions in property and equipment	8	**(14,655)**	(7,711)
Net cash (used in) investing activities		**(152,254)**	(498,690)
Net change in cash and cash equivalents		**(23,060)**	(339,839)
Cash and cash equivalents, at the beginning of the year	5	**476,940**	816,779
Cash and cash equivalents, at the end of the year	5	**453,880**	476,940
NON-CASH INFORMATION			
Changes in fair value of investments designated as FVOCI		**21,974**	5,001
Remeasurement of end-of-service benefits (EOSB)		**1,341**	187

Naser Abdullah Aloufi
Member-Board

Abdulaziz Mohammed Al Sedeas
Chief Executive Officer

Robert Pereira
Chief Financial Officer

Notes to the financial information
For the year ended December 31, 2019

1. GENERAL

Al Rajhi Company for Cooperative Insurance (a Saudi Joint Stock Company incorporated in Kingdom of Saudi Arabia), "the Company", was formed pursuant to Royal Decree No. (M/35) dated Jumada al thani 27,1429. (January 1, 2008). The Company operates under Commercial Registration no. 1010270371 dated Rajab 5, 1430, corresponding to June 28, 2009. The registered address of the Company's head office is as follows:

Al Rajhi Company for Cooperative Insurance
P.O. Box 67791
Riyadh 11517
Kingdom of Saudi Arabia.

The purpose of the Company is to conduct takaful operations and all related activities including re-takaful / re-insurance and agency activities. Its principal lines of business include motor, medical, protection & savings, marine, fire, engineering and casualty insurance.

On July 31, 2003, corresponding to Jumada al thani 2, 1424, 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 to transact insurance activities in the Kingdom of Saudi Arabia. On April 20, 2004, corresponding to Rabi' al-awwal 1, 1425, the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32).

As a commitment from the Company for its activities to be in compliance with Islamic Shari'a legislations, since its inception, the Company has established a Shari'a Authority to review and approve the activities and the products of the Company.

Statement of compliance

The financial statements of the Company as at and for the year ended 31 December 2019, have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia (KSA) and other standards and pronouncements issued by Saudi Organization of Certified Public Accountants (SOCPA)."

The financial statements of the Comapny as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat).

On 23 July 2019, SAMA instructed the insurance and/ or reinsurance 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") and as endorsed in the Kingdom of Saudi Arabia and with other standards and pronaoncement that are issued by Saudi Organization of Certified Public Accountants (SOCPA) (collectively) refered to as IFRS as endorsed in the Kingdom of Saudi Arabia

Accordingly, beginning period ended June 30, 2019, and onwards, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and the effects of this change are disclosed in note 19 to the financial statements).

2. BASIS OF PREPARATION (continued)

a) Basis of presentation and measurement (continued)

The financial statements are prepared under the going concern basis and the historical cost convention, except for investments measured at fair value through statement of income (FVSI), investments designated as fair value through other comprehensive income (FVOCI), unit linked liabilities measured at FVSI and employees' end of service benefits (EOSB) carried at present value using Projected Unit Credit Method. The Company's statement of financial position is not presented using a current / non-current classification. The following balances would generally be classified as non-current: financial assets at fair value through other comprehensive income, financial asset at amortised cost, property and equipment, statutory deposit, other assets, end of service benefits and payable to shareholders. All other assets and liabilities are classified as current.

As required by the Saudi Arabian Insurance Regulations and guidelines of the sharia board, the Company maintains separate books of accounts for takaful operations and shareholders' operations and presents the financial information accordingly (refer note 25). 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.

As per the Company's policy, all general and administrative expenses of takaful operations are charged to shareholders' operations. The Company operates in accordance with the Islamic Shariah provisions manages the co-operative insurance operations and calculates the management fee (refer note 4.19) and pays it in full shortly after the end of the fiscal year.

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

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

b) Fiscal year

The Company follows a fiscal year ending December 31.

c) Critical accounting judgments, estimates and assumptions

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

2. BASIS OF PREPARATION (continued)

c) Critical accounting judgments, estimates and assumptions (continued)

Following are the accounting judgments and estimates that were 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 period both for the expected ultimate cost of claim reported and for the expected ultimate costs of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

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

ii. Measurement of expected credit loss allowance on financial assets accounted for under IFRS 9

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, other than contributions and re-takaful balances receivable, is an area that requires the use of complex models and significant assumptions about future economic conditions.
Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit loss (ECL) is further detailed in note 26.1.1, which also sets out key sensitivities of the ECL to changes in these elements.
Number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

a. Determining criteria for significant increase in credit risk;
b. Choosing appropriate models and assumptions for the measurement of ECL;
c. Establishing groups of similar financial assets for the purposes of measuring ECL.

iii) Impairment of contributions and re-takaful balances receivable accounted for under IAS-39

Insurance contracts are accounted for under IFRS-4 and excluded from the scope of IFRS-9. Therefore, these continue to be accounted for under IAS-39.A provision for impairment of contribution and re-takaful balances receivable 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 investments designated as FVOCI are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.
The fair value of such securities not quoted in an active market may be determined by the Company using latest available audited net assets value of the investee. The Company would exercise judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Company may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the market practice. As of December 31, 2019, the Company has unlisted equity investments of SAR 7.54 million (December 31, 2018 SAR 7.54 million).

2. BASIS OF PREPARATION (continued)

d) Seasonality of operations

There are no seasonal changes that may affect takaful operations of the Company.

e) Functional and presentation currency

The functional and presentational currency of the Company is Saudi Riyals. The financial information values are presented in Saudi Riyals rounded to the nearest thousand (SAR'000), unless otherwise indicated.

3. STANDARDS AND AMENDMENTS ISSUED

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2018, except for the change in accounting policy as mentioned in note 4.25 and adoption of the new and amended standards and interpretation made in the following which are effective for annual periods beginning on or after January 1, 2019:

a. New IFRS Standards, Interpretations and Amendments

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

IFRS 16: Lease
IFRS 28: Long term interests in associates and joint ventures.
IAS 19: Plan amendment curtailment or settlement.
IFRS 3,11: Annual improvements to IFRS 2015 - 2017.
IFRS 12,23: Annual improvements to IFRS 2015 - 2017

b. Standards issued but not yet effective

The following are the standards which are issued but are not yet effective:

IFRS 4 "Insurance Contracts". Earlier adoption permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the statement of income and the statement of finacial position. The Company has decided not to early adopt IFRS 17 however IFRS 9 is already adopted effective from January 1, 2017.
IFRS 17 "Insurance Contracts", applicable for the period beginning on or after January 1, 2022, and will supersedes IFRS 4 - insurance contract

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).

3. STANDARDS AND AMENDMENTS ISSUED (continued)

IFRS 17 – Insurance Contracts (continued)

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.

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.

3. STANDARDS AND AMENDMENTS ISSUED (continued)

IFRS 17 – Insurance Contracts (continued)

Impact

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

Impact Area	Summary of Impact
Financial Impact	Company is still assessing Financial Impact
Data Impact / IT Systems	• New chart of accounts to be developed for PAA/ GMM/VFA • Actuarial and accounting data will be needed at more granular level • Discount rates will need to be stored for group of contracts and tracked for interest accretion calculation under GMM • Embedded risk adjustment calculation in the actuarial system. Confidence interval numbers to be sourced for risk adjustment. • Identification of key inputs for onerous contracts test as well as defining 'facts and circumstance' for PAA contracts • Calculation and tracking of contractual service margin • Calculation of coverage period of risk attaching reinsurance contract
Process Impact	• Finance, actuarial, underwriting and IT processes to be built suitable for IFRS 17 together with new set of controls and governance framework • New reconciliation processes to be put in place between accounting, actuarial and underwriting data sources • Setting up new accounting policies each suitable for measurement model and technical decisions for each area • Monitor terms and conditions attaching to insurance and reinsurance contracts • New expense allocation process acquisition costs, claims settlement costs and underwriting costs to be put in place to identify profitability at a contract level. • For recognition, advance premium receipts to be compared to contract receipt date • Cash receipts for premiums need to be tracked at policy level • System to track coverage period for future products need to be put in place
Impact on RI Arrangements	• Insurance contract liabilities / assets is required to be reported gross of reinsurance and a separate reinsurance asset / liability shall be reported • The cash flows (after factoring any expected credit loss) shall be reported gross (before reinsurance) and undiscounted • Cancellation clauses to be reviewed to assess the impact on measurement models relevant for these contracts
Impact on Policies & Control Frameworks	• New Steering committee for IFRS 17 needs to be put in place • Project plan for design and implementation to be set at activities level

The Company has started with their implementation process and have set up an implementation committee.

4. SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies are as follows; these policies have been applied consistently where otherwise mentioned.

4.1 Takaful contracts

Takaful contracts are those contracts where the Company (the insurer) has accepted significant takaful risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company defines significant takaful risk as the possibility of having to pay benefits on the occurrence of an insured event.

Once a contract has been classified as a takaful contract, it remains a takaful contract till its maturity, even if the takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and murabaha deposits with an original maturity of three months or less from the acquisition date.

4.3 Contributions and re-takaful/ reinsurance balances

Contributions receivable are stated at gross written contributions receivable from insurance contracts, less an allowance for any uncollectible amounts. Contributions and re-takaful balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration 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 the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 6 fall under the scope of IFRS 4 "Insurance contracts".

4.4 Re-Takaful/ Reinsurance

Re-takaful/ reinsurance contracts are contracts entered into by the Company under which the Company is compensated for losses on takaful contracts issued.

The benefits to which the Company is entitled under its re-takaful/ reinsurance contracts held are recognized as re-takaful/ reinsurance assets. These assets consist of the re-takaful/ reinsurance share of settlement of claims and other receivables such as profit commissions and the re-takaful/ reinsurance share of outstanding claims that are dependent on the expected claims and benefits arising under the related re-takaful/ reinsurance contracts.

Amounts recoverable from or due to re-takaful/ reinsurance companies are recognized consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each re-takaful/ reinsurance contract.

Where the carrying amount of a re-takaful/ reinsurance asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Allowance for doubtful debt is recognised in the statement of income. On derecognition of a re-takaful/ reinsurance asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

Ceded re-takaful/ reinsurance arrangements do not relieve the Company from its obligations to policyholders.

4.5 Deferred policy acquisition costs (DPAC)

Commissions and other costs directly related to the acquisition and renewal of takaful contracts are deferred and amortised over the terms of the contract to which they relate, similar to contributions earned. Amortisation is recorded in the "policy acquisition cost" in the statement of income. All other indirect costs are recognised as an expense when incurred.

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 assessment is performed of the policies at each reporting date or if circumstances exist which require assessment. If based on assessment, the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require write-off in the statement of income. DPAC is also considered in the liability adequacy test for each reporting period.

4.6 Financial assets and liabilities

Measurement methods

The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, contributions or discounts and fees and points paid or received that are integral to the effective profit rate, such as origination fees.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial assets and liabilities (continued)

Profit income

Profit income is recognised using the effective profit rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, profit income is recognised by applying the effective profit rate to the net carrying value of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, profit income is recognised by applying the effective profit rate to the gross carrying amount of the financial asset.

Initial recognition and measurement

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

The Company exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and profit income on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Company considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

4.6.1 Classification and subsequent measurement of financial assets

The Company classifies its financial assets in the following measurement categories:

a. Fair value through statement of income (FVSI);

b. Fair value through other comprehensive income (FVOCI); or

c. Held at amortised cost.

Investment in the mutual funds are classified as FVSI.

Investment in shares are designated as FVOCI.

Investments in sukuks, time deposits, balances with banks, statutory deposits and contribution and retakaful balances receivables are classified as held at amortized cost.

There is no debt instrument which has been classified as FVOCI or FVSI by the Company.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

(i) the Company's business model for managing the financial assets; and

(ii) the contractual cash flow characteristics of the financial assets.

Business model:

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets, which is held by the Company as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVSI.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6.1 Classification and subsequent measurement of financial assets (continued)

Solely payments of principal and profit:

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and profit. In making this assessment, the Company considers whether the contractual cash flows are consistent with the financing agreement i.e. profit includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVSI.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit, and that are not designated at FVSI, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 26.1.1. Profit income from these financial assets is included in 'Special commission income' using the effective profit method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVSI, are designated as fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, special commission income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in the statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of income. Profit income from these financial assets is included in 'Special commission income' using the effective profit rate method.
- Fair value through statement of income (FVSI): Assets that are held for trading purpose or assets that do not meet the criteria for amortised cost or FVOCI are measured at FVSI. A gain or loss on a debt investment that is subsequently measured at FVSI presented in the statement of income in the period in which it arises.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year ended 2019.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company classifies all equity investments at FVSI, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, transaction costs are made part of the cost at initial recognition and subsequent fair value gains and losses (unrealized) are recognized in OCI and are not subsequently reclassified to the statement of income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in the statement of income as 'Dividend income' when the Company's right to receive payments is established.

Gains and losses on equity investments at FVSI (both realized and unrealized) are included in the 'Net gains on investments mandatorily measured at FVSI' line in the statement of income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6.2 Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The Company applies the expected credit losses ('ECL') on its financial assets measured at amortised cost, other than contributions and re-takaful/ reinsurance balances receivable as rights and obligations under insurance contracts are accounted for under IFRS 4 because the policyholder transfers to the insurer significant insurance rather than financial risk, and FVOCI, which are in the scope of IFRS 9 for impairment. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 26.1.1 provides more detail of how the expected credit loss allowance is measured.

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset carried under IAS-39 or a group of such financial assets is impaired. 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 for assets carried at amortized cost, impairment is based on estimated future cash flows that are discounted at the original effective commission rate.

4.6.3 Derecognition of financial assets

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

4.6.4 Classification and subsequent measurement of financial liabilities

Financial liabilities are classified and subsequently measured at amortised cost, except for financial liabilities at fair value through statement of income (FVSI): this classification is applied to financial liabilities at FVSI at initial recognition. Gains or losses on financial liabilities designated at FVSI are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in statement of income (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in the statement of income.

The Company has unit linked liabilities at FVSI. These pertains to individual Protection and Saving insurance contracts which insures human life events such as death over a long period of time. Insurance premiums are recognized directly as liabilities. These are contractually linked to the fair value of the investments within the policy holders unit linked investments. These liabilities are increased/decreased by change in the unit prices as in the case of unit-linked contracts and decreased by plan holder charges and surrender and maturities. The unit linked liabilities are determined as the value of the units deemed allocated at the valuation date. Additional technical provisions have been established for the value of risk related to the life insurance contracts. These additional provisions are calculated using actuarial techniques and are immaterial and are not a significant portion of the overall unit linked liabilities.

4.6.5 Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Offsetting

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

4.8 Property and equipment

Property and equipment is measured at cost net of accumulated depreciation and accumulated impairment in value if any. Cost includes expenditure that is directly attributable to the acquisition of the assets. Expenditure for repair and maintenance is charged to the statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalised. Depreciation is charged to the statement of income on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets are:

	Year
Office and electrical equipment	5
Furniture and fixtures	6-7
Motor vehicles	5
Computer hardware and software	3 - 5

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in statement of income.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

The carrying values of property and equipment are reviewed for impairment when events 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.

The residual values, useful lives and methods of depreciation of property, equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

4.9 Statutory deposit

In accordance with the Cooperative Insurance Companies Control Law issued by the Saudi Arabian Monetary Authority ("SAMA"), the Company is required to maintain a deposit in a bank account equal to 10% of the paid up share capital of the Company. This statutory deposit cannot be withdrawn without the consent of SAMA. Statutory deposit is classified as a financial asset and is carried at amortized cost.

4.10 Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of income in the period in which they are incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date, together with related claim handling cost whether reported by the insured or not. Provisions for reported claims not paid as at the reporting 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 ("IBNR") at the reporting date. The ultimate liability may be in excess of or less than the amount provided.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is charged to statement of income.

The Company does not discount its liabilities for unpaid claims, as substantially all claims are expected to be paid within one year of the reporting date.

Re-takaful/ reinsurance claims are recognized when the related gross insurance claim is recognised according to the term of the relevant contract.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Salvage and subrogation

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.

4.12 Liability adequacy test

At each reporting date, a liability adequacy test is performed to ensure the adequacy of the takaful contract liabilities net of related deferred policy acquisition costs, using current estimates of future cash flows under takaful contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of income initially by writing off related deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests under contribution deficiency reserves.

4.13 End of service benefits

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

4.14 Zakat and income tax

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of net adjusted income for the year. Zakat and income tax is accrued on a quarterly basis. Effective January 1, 2017.On 23 July 2019, SAMA instructed the insurance and / or reinsurance 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") and as endorsed in the kingdoam of Saudi Arabia nad with other standards and pronaoncement that are issued by Saudi Organization of Certified Public Accountants (SOCPA) (collectively) refered to as IFRS as endorsed in the kingdoam of Saudi Arabia.

4.15 Payables to SAMA

This represents accrued income on statutory deposit and SAMA levy accrual. The Company is carrying this liability at amortized cost.

4.16 Takaful operations' surplus payable

In accordance with the Implementing Regulations issued by SAMA, the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policy holders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

4.17 Statutory reserves

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Revenue recognition

Contributions and commissions are taken into income over the terms of the policies to which they relate on a pro-rata basis. The portion of contributions and commissions that will be earned in the future is reported as unearned contributions and commissions, respectively, and is deffered based on the following methods:

4.18.1 Recognition of contribution and commission revenue

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

Last three months from the period 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 contributions are earned in the first year which gradually increases towards the end of the tenure of the policy; and

Actual number of days for other lines of business.

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

Management fee attributable to shareholders' operations as appearing in note 25.2 includes contributions earned less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts reinsured, less provision for any anticipated future losses on continuing policies.

4.18.2 Re-takaful/ Reinsurance commission income

Re-takaful/ reinsurance commissions are deferred and amortised on a straight-line basis over the term of the takaful contracts. Re-takaful/ reinsurance commission income is recognised as the basis of terms agreed with reinsurers which include claim or loss ratios on policies ceded.

4.19 Management fee for administration of takaful operations and attributable to shareholders operations

The Company's by-laws require separate books to be maintained for Takaful and Shareholders' operations. As per the Company's policy, all general and administrative expenses of Takaful operations are charged to Shareholders' operations. The Company in accordance with the Islamic sharia provisions of managing the co-operative insurance operations calculates the management fees in the below manner and pays it in full shortly after the end of the fiscal year.

- The first component of the management fee is calculated based on the net contributions written for the year after adjusting commission income and cost of production for motor and general at 40% and for health at 30% and is limited to the extent of general and administrative expenses charged in the statement of income – shareholders' operations; and
- The other component of the management fee is determined up to 90% of the net surplus if any for the year from takaful operations remaining after computing the first component of management fee. The Company is required to distribute the remaining 10% of the net surplus from Takaful operations to policyholders in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Agency ("SAMA").

4.20 Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of income, except when they relate to items where gains or losses are recognized directly in other comprehensive income and the gain or loss is recognised net of the exchange component in equity.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21 Dividend distribution

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

4.22 Segmental reporting

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 four reportable segments as follows:

- General
- Motor
- Health
- Protection and savings

Operating segments do not include shareholders' operations of the Company. Income earned from investments is the only revenue generating activity in shareholders operations. 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 to the Chief Executive Officer. The Chief Executive Officer is the key decision maker and is responsible for allocating resources, assessing performance and making strategic decisions of the operating segments. No inter-segment transactions occurred during the year.

4.23 Seasonality of operations

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

4.24 Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 2 to 10 years for offices, vehicles and equipments. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the finance rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental financing rate. Generally, the Company uses its incremental financing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is measured at amortized cost using the incremental financing cost. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.24 Leases (continued)

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

IFRS 16: Leases ("IFRS 16")

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases.

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of SAR 13.8 million were recorded as of January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019, the rate applied is 6.15%

The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

The following table reconciles the Company's operating lease obligations at December 31, 2018, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	80,356
Discounted using the incremental borrowing rate at January 1, 2019	(1,078)
Recognition exemptions / not yet commenced	(65,468)
Lease obligations recognized at January 1, 2019	**13,810**

4.25 Change in accounting policy in relation to accounting for zakat

As mentioned in note 1, the basis of preparation has been changed beginning period ended June 30, 2019, based on the issuance of latest instructions from SAMA dated 23 July 2019. Previously, zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. As per SAMA instruction dated 23 July 2019, the zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat retrospectively (see note 19) to the financial statements. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2018 by SAR 19.5 million. The change has had no impact on the statement of cash flows for the the year ended 31 December 2018.

5. CASH AND CASH EQUIVALENTS

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

	Takaful operations	
SAR'000	**December 31, 2019**	December 31, 2018
Bank balances and cash	**319,609**	205,425
Deposits maturing within 3 months from the acquisition date	**100,000**	150,000
Cash and cash equivalents in the statement of cash flow	**419,609**	355,425
Less : Impairment loss	**(27)**	(65)
Cash and bank balances, net	**419,582**	355,360
Deposits against letters of guarantee	**22,456**	14,437
Total	**442,038**	369,797

	Shareholders' operations	
SAR'000	**December 31, 2019**	December 31, 2018
Bank balances and cash	**34,271**	71,515
Deposits maturing within 3 months from the acquisition date	**-**	50,000
Cash and cash equivalents in the statement of cash flow	**34,271**	121,515
Less : Impairment loss	**-**	(38)
Cash and bank balances, net	**34,271**	121,477
Cash at banks (statutory deposit income)	**4,709**	908
Total	**38,980**	122,385
Total	**481,018**	492,182

6. CONTRIBUTIONS AND RE-TAKAFUL / RE-INSURANCE BALANCES RECEIVABLE - NET

Receivables comprise amounts due from the following:

SAR'000	**December 31, 2019**	December 31, 2018
Policyholders	**147,344**	224,746
Brokers and agents	**132,590**	47,858
Related parties	**143,711**	253,255
Receivables from re-takaful / reinsurance	**8,465**	8,918
	432,110	534,777
Provision for doubtful receivables	**(95,961)**	(78,202)
Contributions and re-takaful / reinsurance balances receivable – net	**336,149**	456,575

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

	2019	2018
	SAR'000	
Balance, January 1	**78,202**	38,486
Provision for the year	**17,759**	50,528
Write-offs	**-**	(10,812)
Balance, December 31	**95,961**	78,202

6. CONTRIBUTIONS AND RE-TAKAFUL/ RE-INSURANCE BALANCES RECEIVABLE - NET (continued)

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

	Total	Neither past due nor impaired	Past due but not impaired		Past due and impaired		
			Less than 30 days	31 - 90 days	91 - 180 days	181 - 360 days	More than 360 days
Contributions and Re-Takaful/ Reinsurance Receivables							
- Policyholders'	**147,344**	**49,236**	**5,756**	**13,564**	**5,025**	**6,300**	**67,463**
- Brokers and agents	**132,590**	**72,211**	**19,425**	**10,659**	**7,175**	**5,219**	**17,901**
- Due from related parties	**143,711**	**141,613**	**10**	**590**	**417**	**55**	**1,026**
- Receivable from Re-Takaful/ Reinsurance	**8,465**	**-**	**820**	**2,232**	**3,598**	**818**	**997**
2019	**432,110**	**263,060**	**26,011**	**27,045**	**16,215**	**12,392**	**87,387**

	Total	Neither past due nor impaired	Past due but not impaired		Past due and impaired		
			Less than 30 days	31 - 90 days	91 - 180 days	181 - 360 days	More than 360 days
Contributions and Re-Takaful/ Reinsurance Receivables							
- Policyholders'	224,746	97,291	37,101	25,265	14,380	39,283	11,426
- Brokers and agents	47,858	17,362	3,871	12,023	1,159	2,867	10,576
- Due from related parties	253,255	1,515	105,634	142,197	401	175	3,333
- Receivable from Re-Takaful/ Reinsurance	8,918	-	1,858	1,560	2,294	2,448	758
2018	534,777	116,168	148,464	181,045	18,234	44,773	26,093

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.
Unimpaired receivables are estimated, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.
The five largest customers accounts for 61.2% (December 31, 2018: 63.2%) of the premiums receivable as at December 31, 2019.

7. RIGHT -OF-USE ASSETS

The following table presents the right-of-use assets for the Company:

	Offices	Vehicles	Equipments	Total
Balance at January 1, 2019	10,422	1,872	1,717	14,011
Additions	1,428	-	-	1,428
Depreciation / Amortization	(4,637)	(502)	(528)	(5,667)
Balance at December 31, 2019	**7,213**	**1,370**	**1,189**	**9,772**

8. PROPERTY AND EQUIPMENT

	Office and electrical equipment SAR'000	Furniture and fixtures SAR'000	Motor vehicles SAR'000	Computer hardware SAR'000	Computer software SAR'000	Total SAR'000
Cost:						
Balance at January 1, 2019	3,772	22,188	1,719	12,318	35,287	75,284
Additions during the year	199	11,004	-	921	2,531	14,655
Disposals during the year	-	-	-	-	-	-
Balance at December 31, 2019	**3,971**	**33,192**	**1,719**	**13,239**	**37,818**	**89,939**
Accumulated depreciation:						
Balance at January 1, 2019	2,840	17,288	1,460	9,017	25,966	56,571
Charge for the year (note 16)	327	1,368	128	1,700	4,582	8,105
Disposals during the year	-	-	-	-	-	-
Balance at December 31, 2019	**3,167**	**18,656**	**1,588**	**10,717**	**30,548**	**64,676**
Net book value as at						
December 31, 2019	**804**	**14,536**	**131**	**2,522**	**7,270**	**25,263**
December 31, 2018	932	4,900	259	3,301	9,321	18,713

9. STATUTORY DEPOSIT

Statutory deposit amounting to SAR 40 million (December 2018: SAR 40 million) kept with a local bank, represents 10% of the paid up share capital of the Company which is maintained in accordance with the Cooperative Insurance Companies Control Law issued by the Saudi Arabian Monetary Authority ("SAMA"). This statutory deposit cannot be withdrawn without the consent of SAMA. Under ECL method the Company charged an impairment loss amounting to SAR 0.03 million (2018: SAR 0.03 million)

10. INVESTMENTS

Investments are classified as follows:

		Takaful operations	
SAR'000	**Notes**	**December 31, 2019**	December 31, 2018
- Investments mandatorily measured at FVSI (mutual funds)	10 (a)	**170,552**	129,853
- Investments designated as FVOCI (equity shares) Unit linked	10 (b)	**29,982**	25,327
- Investments held at amortised cost (deposits and sukuks)	10 (c)	**1,598,708**	1,703,637
Total		**1,799,242**	1,858,817

		Shareholders' operations	
SAR'000		**December 31, 2019**	December 31, 2018
- Investments mandatorily measured at FVSI (mutual funds)	10 (a)	**13,004**	33,975
- Investments designated as FVOCI (equity shares)	10 (b)	**246,714**	130,135
- Investments held at amortised cost (deposits and sukuks)	10 (c)	**214,997**	85,009
Total		**474,715**	249,119

10. INVESTMENTS (continued)

Movement in the investment balance is as follows:

a) Investments mandatorily measured at FVSI (mutual funds)

	Takaful operations	
SAR'000	**December 31, 2019**	December 31, 2018
At the beginning of the year	**129,853**	124,829
Purchased during the year	**1,219,416**	1,215,073
Sold during the year	**(1,185,249)**	(1,211,077)
Net change in fair values during the year	**6,532**	1,028
At the end of the year	**170,552**	129,853

	Shareholders' operations	
SAR'000	**December 31, 2019**	December 31, 2018
At the beginning of the year	**33,975**	32,481
Purchased during the year	**545,000**	545,000
Sold during the year	**(565,829)**	(543,712)
Net change in fair values during the year	**(142)**	206
At the end of the year	**13,004**	33,975
Total	**183,556**	163,828

10. INVESTMENTS (continued)

b) Investments designated as FVOCI (equity shares) Unit linked

	Takaful operations	
SAR'000	**December 31, 2019**	December 31, 2018
Opening balance	**25,327**	-
Purchases	-	31,038
Changes in fair value of investments	**4,655**	(5,711)
Closing balance	**29,982**	25,327

	Shareholders' operations	
SAR'000	**December 31, 2019**	December 31, 2018
At the beginning of the year		
Balance of equity shares portfolio with Al Rajhi Capital	**122,507**	78,738
Cash balance with Al Rajhi Capital	**86**	(22)
Equity - unlisted shares	**7,542**	6,050
Total at the beginning of the year	**130,135**	84,766
Movement during the year		
Purchased during the year	**99,450**	94,448
Sold during the year	-	(59,899)
Net change in fair values during the year	**17,319**	10,712
Net change in cash balance with Al Rajhi Capital	**(190)**	108
Closing balance of equity shares portfolio	**246,714**	130,135
Portfolio balance with Al Rajhi Capital at the end of the year	**239,276**	122,507
Cash balance with Al Rajhi Capital	**(104)**	86
Equity - unlisted shares	**7,542**	7,542
At the end of the year	**246,714**	130,135
Total	**276,696**	155,462

10. INVESTMENTS (continued)

c) Investments held at amortised cost (deposits and sukuks)

Investments in Murabaha deposits and Sukuks are classified as investments measured at amortised cost. The Company's business model for these investments is to hold to collect the contractual cash flows. The cash flows of Murabaha deposits and Sukuks represent solely payments of principal and profit on the principal outstanding.

The movement during the year is set out below:

	SAR' 000	
	Takaful operations	
SAR'000	**December 31, 2019**	December 31, 2018
At the beginning of the year		
Murabaha deposits	**1,655,000**	1,235,000
Sukuk	**50,000**	50,000
Purchases	**1,250,000**	1,090,000
Disposals / maturities	**(1,355,000)**	(670,000)
At the end of the year, gross	**1,600,000**	1,705,000
Less: Impairment loss	**(1,292)**	(1,363)
At the end of the year, net	**1,598,708**	1,703,637

	SAR' 000	
	Shareholders' operations	
SAR'000	**December 31, 2019**	December 31, 2018
At the beginning of the year		
Murabaha deposits	**65,000**	85,074
Sukuk	**20,074**	-
Purchased during the year	**545,001**	280,000
Maturities during the year	**(415,000)**	(280,000)
At the end of the year, gross	**215,075**	85,074
Less: Impairment loss	**(78)**	(65)
At the end of the year, net	**214,997**	85,009
Total	**1,813,705**	1,788,646

d) Maximum exposure to credit risk – financial instruments subject to ECL

The following tables contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets measured at amortised cost below also represents the Company's maximum exposure to credit risk on these assets.

i) Takaful operations

Financial statement line item	December 31, 2019 Stage 1 12-month ECL SAR'000	Stage 2 Lifetime ECL SAR'000	Stage 3 Lifetime ECL SAR'000	Total SAR'000	December 31, 2018 SAR'000
Bank balances	**442,038**	-	-	**442,038**	368,648
Investments held at amortised cost	**1,600,000**	-	-	**1,600,000**	1,705,000
Gross carrying amount	**2,042,038**	-	-	**2,042,038**	2,073,648
Loss allowance	**(1,319)**	-	-	**(1,319)**	(1,428)
Carrying amount	**2,040,719**	-	-	**2,040,719**	2,072,220

Credit grade	December 31, 2019 Stage 1 12-month ECL SAR'000	Stage 2 Lifetime ECL SAR'000	Stage 3 Lifetime ECL SAR'000	Total SAR'000	December 31, 2018 SAR'000
Investment grade	**2,042,038**	-	-	**2,042,038**	2,073,648
Non investment grade	-	-	-	-	-
Gross carrying amount	**2,042,038**	-	-	**2,042,038**	2,073,648
Loss allowance	**(1,319)**	-	-	**(1,319)**	(1,428)
Carrying amount	**2,040,719**	-	-	**2,040,719**	2,072,220

The Company's exposures to credit risk are not collateralized.

Investment grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Non investment grade represents un-rated exposures.

d) Maximum exposure to credit risk – financial instruments subject to ECL (continued)

ii) Shareholders' operations

Financial statement line item	December 31, 2019				December 31, 2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	Lifetime ECL	Lifetime ECL		
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Bank balances	**38,980**	-	-	**38,980**	122,385
Investments held at amortised cost	**215,075**	-	-	**215,075**	85,074
Statutory deposit	**40,000**	-	-	**40,000**	40,000
Gross carrying amount	**294,055**	-	-	**294,055**	247,459
Loss allowance	**(109)**	-	-	**(109)**	(134)
Carrying amount	**293,946**	-	-	**293,946**	247,325

Credit grade	December 31, 2019				December 31, 2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	Lifetime ECL	Lifetime ECL		
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Investment grade	**294,055**	-	-	**294,055**	247,459
Non investment grade	-	-	-	-	-
Gross carrying amount	**294,055**	-	-	**294,055**	247,459
Loss allowance	**(109)**	-	-	**(109)**	(134)
Carrying amount	**293,946**	-	-	**293,946**	247,325

The Company's exposures to credit risk are not collateralized.

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Non investment grade represents un-rated exposures.

e) Loss allowance

The loss allowance recognised during the year and the change in the loss allowance between the beginning and the end of the year is given below.

i) Takaful operations:

	Stage 1 12-month ECL SAR'000	**Stage 2** Lifetime ECL SAR'000	**Stage 3** Lifetime ECL SAR'000	**Total** SAR'000
Loss allowance as at January 1, 2019	**1,428**	-	-	**1,428**
Movements with the statement of income				
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
New financial assets originated or purchased	**1,761**	-	-	**1,761**
Net re-measurement of loss allowance	-	-	-	-
Financial assets derecognised during the year	**(1,870)**	-	-	**(1,870)**
Write-offs	-	-	-	-
Total loss allowance for the year	**(109)**	-	-	**(109)**
Loss allowance as at December 31, 2019	**1,319**	-	-	**1,319**

ii) Shareholders' operations:

	Stage 1 12-month ECL SAR'000	**Stage 2** Lifetime ECL SAR'000	**Stage 3** Lifetime ECL SAR'000	**Total** SAR'000
Loss allowance as at January 1, 2019	**134**	-	-	**134**
Movements with the statement of income				
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
New financial assets originated or purchased	**567**	-	-	**567**
Net re-measurement of loss allowance	-	-	-	-
Financial assets derecognised during the year	**(592)**	-	-	**(592)**
Write-offs	-	-	-	-
Total loss allowance for the year	**(25)**	-	-	**(25)**
				-
Loss allowance as at December 31, 2019	**109**	-	-	**109**

11. TECHNICAL RESERVES

11.1 Net outstanding claims and reserves

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

SAR'000	December 31, 2019	December 31, 2018
Outstanding claims	**458,876**	677,569
Less: Realizable value of salvage and subrogation	**(105,275)**	(113,473)
	353,601	564,096
Claims incurred but not reported	**776,962**	731,714
Contribution deficiency reserve	**26,303**	9,034
	1,156,866	1,304,844
Unit linked liabilities at FVSI	**86,821**	52,336
	1,243,687	1,357,180
Less:		
Re-takaful / reinsurance share of outstanding claims	**110,180**	371,580
Re-takaful / reinsurance share of claims incurred but not reported	**13,413**	13,411
	123,593	384,991
Net outstanding claims and reserves	**1,120,094**	972,189

b) Claim development:

The following table shows the estimates of cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each reporting date, together with cumulative payments to date.

Gross insurance contract outstanding claims provision for 2019:

Accident year	*2015 & prior years SAR'000*	*2016 SAR'000*	*2017 SAR'000*	*2018 SAR'000*	*2019 SAR'000*	*Total SAR'000*
Estimate of ultimate claims cost at end of accident year	**1,168,238**	**1,197,584**	**2,211,659**	**2,576,902**	**2,263,701**	**2,263,701**
One year later	**1,434,800**	**1,609,322**	**2,295,822**	**2,561,928**	**-**	**2,561,928**
Two years later	**1,499,560**	**1,631,959**	**2,318,115**	**-**	**-**	**2,318,115**
Three years later	**1,504,178**	**1,626,985**	**-**	**-**	**-**	**1,626,985**
Four years later	**1,505,412**	**-**	**-**	**-**	**-**	**1,505,412**
Current estimate of cumulative claims incurred	**1,505,412**	**1,626,985**	**2,318,115**	**2,561,928**	**2,263,701**	**10,276,142**
Cumulative payments to date	**1,499,603**	**1,601,228**	**2,249,875**	**2,248,303**	**1,520,267**	**9,119,276**
Total gross insurance outstanding claims provision per the statement of financial position	**5,809**	**25,757**	**68,241**	**313,625**	**743,434**	**1,156,866**

11. TECHNICAL RESERVES

11.1 Net outstanding claims and reserves (Continued)

b) Claim development: (continued)

Gross insurance contract outstanding claims provision for 2018:

Accident year	*2014 & prior years SAR '000*	*2015 SAR '000*	*2016 SAR '000*	*2017 SAR '000*	*2018 SAR '000*	*Total SAR '000*
Estimate of ultimate claims cost at end of accident year	1,569,641	1,168,238	1,197,584	2,211,659	2,576,902	2,576,902
One year later	1,589,806	1,434,800	1,609,322	2,295,822	-	2,295,822
Two years later	1,651,569	1,499,560	1,631,959	-	-	1,631,959
Three years later	1,667,669	1,504,178	-	-	-	1,504,178
Four years later	1,668,903	-	-	-	-	1,668,903
Current estimate of cumulative claims incurred	1,668,903	1,504,178	1,631,959	2,295,822	2,576,902	9,677,764
Cumulative payments to date	1,665,183	1,487,685	1,588,261	2,094,993	1,536,798	8,372,920
Total gross insurance outstanding claims provision per the statement of financial position	3,720	16,493	43,698	200,829	1,040,104	1,304,844

11.2 Movement in unearned contributions

Movement in unearned contributions comprise of the following:

Year ended December 31, 2019

SAR'000	**Gross**	**Re-takaful (Reinsurance)**	**XOL**	**Net**
Balance at the beginning of the year	**1,302,633**	**(88,458)**	**-**	**1,214,175**
Contribution written during the year	**2,569,804**	**(125,835)**	**(7,833)**	**2,436,136**
Contribution earned during the year	**(2,749,267)**	**102,423**	**7,833**	**(2,639,011)**
Balance at the end of the year	**1,123,170**	**(111,870)**	**-**	**1,011,300**

Year ended December 31, 2018

SAR'000	Gross	Re-takaful (Reinsurance)	XOL	Net
Balance at the beginning of the year	1,304,110	(91,709)	-	1,212,401
Contribution written during the year	2,973,594	(95,594)	(14,997)	2,863,003
Contribution earned during the year	(2,975,071)	98,845	14,997	(2,861,229)
Balance at the end of the year	1,302,633	(88,458)	-	1,214,175

11. TECHNICAL RESERVES (Continued)

11.3 Movement in deferred policy acquisition costs

SAR '000	December 31, 2019	December 31, 2018
Balance at the beginning of the year	60,868	35,789
Incurred during the year	93,996	134,601
Amortized / written off during the year	(110,352)	(109,522)
Balance at the end of the year	44,512	60,868

11.4 Movement in unearned Re-takaful commission income

SAR '000	December 31, 2019	December 31, 2018
Balance at the beginning of the year	6,002	7,072
Incurred during the year	12,451	13,481
Amortized during the year	(9,661)	(14,551)
Balance at the end of the year	8,792	6,002

12. COMMITMENTS AND CONTIGENCIES

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

SAR'000	December 31, 2019	December 31, 2018
Letters of guarantee	22,456	14,437
Total	22,456	14,437

b) The Company enters into takaful contracts and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all the pending and threatened legal proceedings, management does not believe that any such proceedings (including litigation) that are in progress at reporting date will have a material effect on its results and financial position.

13. PAYABLE, ACCRUALS AND OTHER LIABILITIES

SAR '000	December 31, 2019	December 31, 2018
Payables to policyholders against claims	12,345	17,920
Accrued expenses	51,257	30,211
Marketing representative commissions	9,900	22,292
Provision for leave encashment	1,537	1,463
Payable to GAZT	19,211	22,174
Other liabilities	34,452	38,048
	128,702	132,108

14. END OF SERVICE BENEFITS (EOSB)

14.1 General description

The Company operates an end of service benefit scheme for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the scheme is estimated by a qualified actuary in accordance with International Accounting Standard 19 - Employee Benefits, using "Projected Unit Credit Method".

14.2 Movement of defined benefit obligation

	December 31, 2019	December 31, 2018
	SAR'000	
Opening balance	**15,119**	10,283
Charge to statement of income	**4,136**	5,477
Charge to statement of comprehensive income	**1,341**	187
Payment of benefits during the year	**(1,976)**	(828)
Closing balance	**18,620**	15,119

	December 31, 2019	December 31, 2018
	SAR'000	
Present value of defined benefit obligation as at January 1	**15,119**	10,283
Current service costs	**3,495**	4,963
Financial costs	**641**	514
Remeasurement (loss)/ gain from experience adjustments	**1,341**	187
Benefits paid during the year	**(1,976)**	(828)
Present value of defined benefit obligation as at December 31	**18,620**	15,119

14.4 Principal actuarial assumptions

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

Basic actuarial assumptions as at:	**December 31, 2019**	December 31, 2018
Valuation discount rate	**3.8%**	3.4%
Expected rate of increase in salary level across different age bands	**5.0%**	0.5%

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

Sensitivity analysis

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

	December 31, 2019	
	SAR'000	
	Increase	**Decrease**
Discount rate (1.0% movement)	**17,653**	**19,693**
Future salary growth (1.0% movement)	**19,659**	**17,665**

	December 31, 2018	
	SAR'000	
	Increase	Decrease
Discount rate (1.0% movement)	12,468	18,517
Future salary growth (0.5% movement)	16,686	13,726

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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 and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value.

Determination of fair value and fair value hierarchy (continued)

a. Carrying amounts and fair value (continued)

		Fair value			
SAR'000s	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2019					
Financial assets measured at fair value					
- Investments mandatorily measured at FVSI	**183,556**	**183,556**	-	-	**183,556**
- Investments designated as FVOCI – Quoted securities	**269,154**	**269,154**	-	-	**269,154**
- Investments designated as FVOCI – Unquoted securities	**7,542**	-	-	**7,542**	**7,542**
	460,252	**452,710**	-	**7,542**	**460,252**
Financial assets not measured at fair value					
- Cash and cash equivalents	**481,018**	-	-	-	**481,018**
- Investments held at amortised cost	**1,813,705**	-	-	-	**1,813,705**
- Statutory deposit	**39,969**	-	-	-	**39,969**
- Other assets	**17,152**	-	-	-	**17,152**
	2,351,844	-	-	-	**2,351,844**

		Fair value			
SAR'000s	Carrying value	Level 1	Level 2	Level 3	Total
December 31, 2018					
Financial assets measured at fair value					
- Investments mandatorily measured at FVSI	163,828	163,828	-	-	163,828
- Investments designated as FVOCI – Quoted securities	147,920	147,920	-	-	147,920
- Investments designated as FVOCI – Unquoted securities	7,542	-	-	7,542	7,542
	319,290	311,748	-	7,542	319,290
Financial assets not measured at fair value					
- Cash and cash equivalents	491,033	-	-	-	491,033
- Investments held at amortised cost	1,788,646	-	-	-	1,788,646
- Statutory deposits at amortised cost	39,969	-	-	-	39,969
- Other assets	21,680	-	-	-	21,680
	2,341,328	-	-	-	2,341,328

The fair values of the financial assets not measured at fair value are not materially different from their carrying values.

Determination of fair value and fair value hierarchy (continued)

a. Carrying amounts and fair value (continued)

		Fair value			
SAR'000s	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2019					
Financial liabilities measured at fair value					
- Unit linked liabilities at FVSI	**86,821**	**86,821**	**-**	**-**	**86,821**
	86,821	**86,821**	**-**	**-**	**86,821**

		Fair value			
SAR'000s	Carrying value	Level 1	Level 2	Level 3	Total
December 31, 2018					
Financial liabilities measured at fair value					
- Unit linked liabilities at FVSI	52,336	52,336	-	-	52,336
	52,336	52,336	-	-	52,336

i) Level 3 fair values

Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

Shareholders' operations

SAR'000s	**Financial assets at FVOCI – Unquoted securities**
Balance at January 1, 2019	**7,542**
Purchases	-
Sales	-
Gain / loss included in statement of income	-
Gain / loss included in OCI	-
Balance at December 31, 2019	**7,542**

The fair value of unquoted securities at level 3 is not materially different than its cost price.

i) Level 3 fair values (continued)

Reconciliation of Level 3 fair values
Takaful operations

SAR'000s	Financial assets mandatorily measured at FVSI
Balance at January 1, 2018	68,453
Purchases	-
Sales	-
Transfer out of Level 3	(68,453)
Gain / loss included in statement of income	-
Balance at December 31, 2018	-

Shareholders' operations

SAR'000s	Financial assets at FVOCI – Unquoted securities
Balance at January 1, 2018	6,050
Purchases	-
Sales	-
Gain / loss included in statement of income	-
Gain / loss included in OCI	1,492
Balance at December 31, 2018	7,542

The fair value of unquoted securities at level 3 is not materially different than its cost price.

Transfer out of level 3

The Company holds an investment in Alimna Makkah Real Estate Fund, which is classified as FVSI, with a fair value of SAR 68.33 million at December 31, 2018. The inception date of fund was November 9, 2017 and, accordingly, as at December 31, 2018, the fair value of this investment was not materially different than its cost price.

The underlying assets of the fund does not include any asset which require fair value adjustment. The mutual fund is quoted and traded through the fund manager's portal.

16. GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	**December 31, 2019**	December 31, 2018
		SAR'000	
Employee costs		**167,271**	169,855
Office expenses		**12,851**	11,819
Depreciation	8	**8,105**	7,934
Legal and professional fees		**26,957**	20,041
Information technology expenses		**13,240**	11,875
Advertising and marketing expenses		**7,379**	5,341
Communication expenses		**1,475**	1,670
Travel and lodging expenses		**3,508**	3,947
Others		**409**	481
		241,195	232,963

17. OPERATING SEGMENTS

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

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

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

Segment assets do not include takaful operations' bank balances and cash, net contributions receivable, investments etc., accordingly, they are included in unallocated assets. Segment liabilities do not include takaful operations' payables accruals and other liabilities and re-takaful / reinsurance balances payable etc., 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.

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

For the year ended December 31, 2019

Customers' category	**Medical**	**Motor**	**Property & casualty**	**Protection & Savings**	**Total**
			SAR'000		
GROSS CONTRIBUTION WRITTEN					
Retail	**24,451**	**511,105**	**7,452**	**51,566**	**594,574**
Very small	**86,034**	**-**	**-**	**-**	**86,034**
Small	**83,607**	**57,384**	**-**	**-**	**140,991**
Medium	**122,452**	**117,840**	**-**	**-**	**240,292**
Corporate	**182,732**	**1,134,728**	**138,150**	**52,303**	**1,507,913**
TOTAL GROSS CONTRIBUTION WRITTEN	**499,276**	**1,821,057**	**145,602**	**103,869**	**2,569,804**

For the year ended December 31, 2018

Customers' category	Medical	Motor	Property & casualty	Protection & Savings	Total
			SAR'000		
GROSS CONTRIBUTION WRITTEN					
Retail	4,724	510,670	4,265	35,844	555,503
Very small	109,378	-	-	-	109,378
Small	129,676	34,366	-	-	164,042
Medium	174,681	131,345	-	-	306,026
Corporate	275,807	1,424,718	97,014	41,106	1,838,645
TOTAL GROSS CONTRIBUTION WRITTEN	694,266	2,101,099	101,279	76,950	2,973,594

17. OPERATING SEGMENTS (continued)

As at December 31, 2019

Operating segments	Takaful operations						
	Medical	Motor	Property & Casualty	Protection & Savings	Total - Takaful operations	Shareholders' operations	Total
	SAR'000						
Assets:							
Cash and cash equivalents	-	-	-	-	442,038	38,980	481,018
Contributions and re-takaful / reinsurance balances receivable – net	-	-	-	-	336,149	-	336,149
Re-takaful / reinsurance share of unearned contributions	-	30,343	79,824	1,703	111,870	-	111,870
Re-takaful / reinsurance share of outstanding claims	-	19,531	80,685	9,964	110,180	-	110,180
Re-takaful / reinsurance share of claims incurred but not reported	-	-	6,815	6,598	13,413	-	13,413
Deferred policy acquisition costs	13,430	24,567	6,096	419	44,512	-	44,512
Investments mandatorily measured at FVSI	-	-	-	-	170,552	13,004	183,556
Investments designated as FVOCI	-	-	-	-	29,982	246,714	276,696
Investments held at amortised cost	-	-	-	-	1,598,708	214,997	1,813,705
Right-of-use assets	-	-	-	-	-	9,772	9,772
Unallocated assets	-	-	-	-	89,095	133,308	222,403
Total assets	13,430	74,441	173,420	18,684	2,618,488	984,786	3,603,274
Liabilities, accumulated surplus & equity							
Unearned contributions	193,718	827,478	97,832	4,143	1,123,170	-	1,123,170
Unearned re-takaful / reinsurance commission	-	1,291	7,501	-	8,792	-	8,792
Gross outstanding claims	23,172	231,011	84,827	14,591	353,601	-	353,601
Claims incurred but not reported	173,995	584,603	8,454	9,910	776,962	-	776,962
Contribution deficiency reserve	25,292	-	1,011	-	26,303	-	26,303
Lease obligations	-	-	-	-	-	6,978	6,978
Unallocated liabilities, equity and surplus	-	-	-	-	329,660	977,808	1,307,468
Total liabilities, accumulated surplus and equity	416,178	1,644,383	199,625	28,643	2,618,488	984,786	3,603,274

17. OPERATING SEGMENTS (continued)

As at December 31, 2018

	Takaful operations						
Operating segments	Medical	Motor	Property & casualty	Protection & Savings	Total - Takaful operations	Shareholders' operations	Total
				SAR'000			
Assets:							
Cash and cash equivalents	-	-	-	-	369,797	122,385	492,182
Contributions and re-takaful / reinsurance balances receivable – net	-	-	-	-	456,575	-	456,575
Re-takaful / reinsurance share of unearned contributions	-	35,746	51,231	1,481	88,458	-	88,458
Re-takaful / reinsurance share of outstanding claims	-	10,019	358,843	2,718	371,580	-	371,580
Re-takaful / reinsurance share of claims incurred but not reported	-	-	6,496	6,915	13,411	-	13,411
Deferred policy acquisition costs	28,845	28,359	3,253	411	60,868	-	60,868
Investments mandatorily measured at FVSI	-	-	-	-	129,853	33,975	163,828
Investments designated as FVOCI	-	-	-	-	25,327	130,135	155,462
Investments held at amortised cost	-	-	-	-	1,703,637	85,009	1,788,646
Unallocated assets	-	-	-	-	39,894	91,937	131,831
Total assets	28,845	74,124	419,823	11,525	3,259,400	463,441	3,722,841
Liabilities, accumulated surplus & equity							
Unearned contributions	361,798	873,955	62,485	4,395	1,302,633	-	1,302,633
Unearned re-takaful / reinsurance commission	-	-	6,002	-	6,002	-	6,002
Gross outstanding claims	39,582	158,399	362,230	3,885	564,096	-	564,096
Claims incurred but not reported	92,105	620,331	8,277	11,001	731,714	-	731,714
Contribution deficiency reserve	9,034	-	-	-	9,034	-	9,034
Unallocated liabilities, equity and surplus	-	-	-	-	244,033	865,329	1,109,362
Total liabilities, accumulated surplus and equity	502,519	1,652,685	438,994	19,281	2,857,512	865,329	3,722,841

17. OPERATING SEGMENTS (continued)

	For the year ended December 31, 2019				
Operating segments	**Medical**	**Motor**	**Property & Casualty**	**Protection & Savings**	**Total**
			SAR'000		
REVENUES					
Gross contributions written	499,276	1,821,057	145,602	103,869	2,569,804
Re-takaful / reinsurance contributions ceded	165	(2,737)	(106,173)	(17,090)	(125,835)
Excess of loss expenses (XOL)	-	(5,987)	(1,846)	-	(7,833)
Net contributions written	499,441	1,812,333	37,583	86,779	2,436,136
Changes in unearned contributions, net	168,080	41,074	(6,753)	474	202,875
Net contributions earned	667,521	1,853,407	30,830	87,253	2,639,011
Re-takaful / reinsurance commission income	-	812	8,849	-	9,661
Other underwriting income	(204)	554	155	1,495	2,000
TOTAL REVENUES	667,317	1,854,773	39,834	88,748	2,650,672
UNDERWRITING COSTS AND EXPENSES					
Gross claims paid and loss adjustment expenses	(752,220)	(1,266,202)	(296,100)	(17,002)	(2,331,524)
Surrender and maturities	-	-	-	(7,924)	(7,924)
Expenses incurred related to claims	(4,204)	(63,246)	-	-	(67,450)
Re-takaful / re-insurance share of claims paid	-	5,566	295,222	11,153	311,941
Net claims and other benefits paid	(756,424)	(1,323,882)	(878)	(13,773)	(2,094,957)
Changes in outstanding claims, net	16,410	(63,099)	(756)	(3,460)	(50,905)
Changes in incurred but not reported (IBNR) claims, net	(81,890)	35,728	142	774	(45,246)
Contrbution deficiency reserve	(16,258)	-	(1,011)	-	(17,269)
Net claims and other benefits incurred	(838,162)	(1,351,253)	(2,503)	(16,459)	(2,208,377)
Change in unit linked liabilities at FVSI, net	-	-	-	(28,034)	(28,034)
Policy acquisition costs	(50,029)	(40,647)	(9,173)	(10,503)	(110,352)
Other underwriting expenses	(5,948)	(13,631)	(756)	(892)	(21,227)
TOTAL UNDERWRITING COSTS AND EXPENSES	(894,139)	(1,405,531)	(12,432)	(55,888)	(2,367,990)
NET UNDERWRITING INCOME	(226,822)	449,242	27,402	32,860	282,682
OTHER OPERATING EXPENSES					
Allowance for doubtful debts - contribution and re-takaful / reinsurance balances receivable	-	-	-	-	(17,759)
General and administrative expenses	-	-	-	-	(241,195)
Special commission income	-	-	-	-	72,051
Net gains on investments mandatorily measured at FVSI	-	-	-	-	14,055
Dividend income	-	-	-	-	7,016
Impairment loss on financial assets	-	-	-	-	134
Other income	-	-	-	-	1,548
NET INCOME FOR THE YEAR BEFORE ZAKAT					118,532

17. OPERATING SEGMENTS (continued)

	For the year ended December 31, 2018				
Operating segments	Medical	Motor	Property & casualty	Protection & Savings	Total
			SAR'000		
REVENUES					
Gross contributions written	694,266	2,101,099	101,279	76,950	2,973,594
Re-takaful / reinsurance contributions ceded	(1,055)	(10,741)	(72,294)	(11,504)	(95,594)
Excess of loss expenses (XOL)	-	(10,125)	(4,872)	-	(14,997)
Net contributions written	693,211	2,080,233	24,113	65,446	2,863,003
Changes in unearned contributions, net	(156,979)	157,010	369	(2,174)	(1,774)
Net contributions earned	536,232	2,237,243	24,482	63,272	2,861,229
Re-takaful / reinsurance commission income	37	1,901	12,402	211	14,551
Other underwriting income	(5)	4,488	298	1,191	5,972
TOTAL REVENUES	536,264	2,243,632	37,182	64,674	2,881,752
UNDERWRITING COSTS AND EXPENSES					
Gross claims paid and loss adjustment expenses	(460,246)	(1,623,205)	(85,426)	(9,310)	(2,178,187)
Surrender and maturities	-	-	-	(3,552)	(3,552)
Expenses incurred related to claims	(4,091)	(65,547)	-	-	(69,638)
Re-takaful / reinsurance share of claims paid	-	10,910	81,620	6,928	99,458
Net claims and other benefits paid	(464,337)	(1,677,842)	(3,806)	(5,934)	(2,151,919)
Changes in outstanding claims, net	4,613	(17,709)	3,055	(688)	(10,729)
Changes in incurred but not reported (IBNR) claims, net	(34,888)	(112,311)	(89)	(2,045)	(149,333)
Change in contrbution deficiency reserve	(9,034)	-	-	-	(9,034)
Net claims and other benefits incurred	(503,646)	(1,807,862)	(840)	(8,667)	(2,321,015)
Change in unit linked liabilities at FVSI	-	-	-	(20,784)	(20,784)
Policy acquisition costs	(39,169)	(57,123)	(7,780)	(5,450)	(109,522)
Other underwriting expenses	(12,002)	(15,647)	(2,125)	(388)	(30,162)
TOTAL UNDERWRITING COSTS AND EXPENSES	(554,817)	(1,880,632)	(10,745)	(35,289)	(2,481,483)
NET UNDERWRITING INCOME	(18,553)	363,000	26,437	29,385	400,269
OTHER OPERATING EXPENSES					
Allowance for doubtful debts - contribution and re-takaful / reinsurance balances receivable	-	-	-	-	(50,528)
General and administrative expenses	-	-	-	-	(232,963)
Special commission income	-	-	-	-	65,892
Net gains on investments mandatorily measured at FVSI	-	-	-	-	10,764
Dividend income	-	-	-	-	4,144
Impairment loss on financial assets	-	-	-	-	(323)
Other income	-	-	-	-	6,542
NET INCOME FOR THE YEAR BEFORE ZAKAT					203,797

18. 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		**Balance receivable / (payable) as at**	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
	SAR'000			
Major shareholders				
Gross contribution written	**861,880**	1,050,802	**142,152**	249,872
Claims paid	**615,901**	893,069	**(3,348)**	(2,172)
Claims incurred and notified during the period	**662,212**	894,571	**(194,312)**	(148,001)
Reimbursement from related party	-	340	-	-
Bank Balance	-	-	**332,713**	274,705
Investment in shares of Al Rajhi Banking and Investment Corporation	-	-	**29,783**	25,901
Entities controlled, jointly controlled or significantly influenced by related parties				
Gross contribution written	**2,235**	29,323	**1,559**	3,382
Claims paid	**1,534**	77,295	-	-
Claims incurred and notified during the period	**1,749**	333,532	**(568)**	(277,417)
Investments managed by affiliates	**6,921**	6,114	**115,228**	95,500
Income received from sale of investment in Al Rajhi Capital commodity fund	**6,772**	5,944	-	-
Investment management fee paid to Al Rajhi Capital	**2,829**	3,251	-	-
Commission to Al Rajhi Takaful Agency	**4,739**	1,558	**(6,815)**	1,701

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

	For the year ended	
	December 31, 2019	December 31, 2018
	SAR'000	
Salaries and other allowances	**7,070**	6,198
End of service benefits	**3,461**	2,424
	10,531	8,622
Shariah committee remuneration	**248**	340

19. ZAKAT AND INCOME TAX

A summary of Movement in the Zakat and income tax accrued during the year ended 31 December 2019 and the year ended 31 December 2018 are as follows:

a) The zakat charge for the year has been computed as follows:

	December 31, 2019 SAR'000	December 31, 2018 SAR'000
Equity	**768,401**	598,060
Opening allowances and other adjustments	**184,623**	62,130
Book value of long term assets	**(117,317)**	(125,632)
	835,707	534,558
Zakatable income for the year	**72,293**	245,442
Zakat base	**908,000**	780,000
Zakat @ 2.5%	**22,700**	19,500

The differences between the income as per the financial statements and zakatable income (income subject to zakat which is computed based on zakat rules) for the year used for zakat base is mainly due to provisions, which are not allowed in the calculation of zakatable income.

b) Movements in zakat accrued are as follows:

	Zakat payable	
	December 31, 2019	December 31, 2018
	SR '000	SR '000
Balance at beginning of the year	**33,689**	26,490
Provided during the year	**22,700**	19,500
Payments during the year	**(15,457)**	(12,301)
Balance at end of the year	**40,932**	33,689

Shareholdings

Following are the shareholding structure of the Company as on:

	December 31, 2019	December 31, 2018
Shareholding subject to Zakat	**100%**	100%

Status of assessments

The Company had filed zakat and income tax returns with the General Authority of Zakat and Tax ("GAZT") for the years from 2010 to 2018.

GAZT requested data from the company for the assessment years 2010 to 2015. The Company is fully engaged with the consultant. The requested information has been provided to the consultant who is in the process of submitting reply to GAZT

For the year 2011, the Company has filed an appeal to recover the additional paid zakat against the additional zakat assessment of SAR 1.852 million raised by the GAZT. The appeal is still pending accordingly, no receivable is recorded or contingent asset is disclosed.

The Zakat and income tax payable by the Company has been calculated based on the best estimate of the management.

19. ZAKAT AND INCOME TAX (continued)

Change in accounting treatment in relation to zakat

The change in accounting treatment for zakat and income tax has the following impact on the statements of income, comprehensive income and changes in equity

Statement of income (restated)	SAR '000
Account	As previously stated for the year ended December 31, 2018
Net income for the year attributable to the shareholders before Zakat	185,027
Effect of restatement relating to zakat (Zakat charge for the year)	(19,500)
Net income for the year after Zakat	**165,527**

Statement of comprehensive income (restated)	SAR '000
Account	As previously stated for the year ended December 31, 2018
Total comprehensive income for the year before zakat	208,611
Effect of restatement relating to zakat (Zakat charge for the year)	(19,500)
Total comprehensive income for the year	**189,111**

Statement of changes in shareholders' equity (restated)	SAR '000		
Account	As previously stated	Effect of restatement relating to zakat	As restated
Net income for the year ended December 31, 2018	185,027	(19,500)	165,527

The basic and diluted earning per share have been restated for the effects of the change in accounting policy, as mentioned below:

Basic and diluted earning per share	SAR		
Account	As previously stated	Effect of restatement relating to zakat	As restated
Basic and diluted earning per share for the year ended December 31, 2018	4.63	(0.49)	4.14

20. UNIT LINKED LIABILITIES AT FVSI

The movement during the year in financial liabilities at fair value through statement of income is set out below:

	December 31, 2019	December 31, 2018
	SAR'000	SAR'000
At the beginning of the year	**52,336**	30,595
Net changes in reserve during the year	**27,946**	20,784
Net change in fair values during the year	**6,539**	957
At the end of the year	**86,821**	52,336

21. SHARE CAPITAL

The authorized, issued and paid up capital of the Company was SAR 400 million at December 31, 2019 (December 31, 2018: SAR 400 million) consisting of 40 million shares (December 31, 2018: 40 million shares) of SAR 10 each.

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

	December 31, 2019		
	Authorized and issued		**Paid up**
	No. of shares	**SAR'000**	
Al Rajhi Insurance Co. Ltd. (Bahrain)	**10,600,000**	**106,000**	**106,000**
Al Rajhi Banking and Investment Corporation	**9,000,000**	**90,000**	**90,000**
Oman Insurance Company - Dubai	**2,400,000**	**24,000**	**24,000**
Others	**18,000,000**	**180,000**	**180,000**
	40,000,000	**400,000**	**400,000**

	December 31, 2018		
	Authorized and issued		Paid up
	No. of Shares	SAR'000	
Al Rajhi Insurance Co. Ltd. (Bahrain)	10,600,000	106,000	106,000
Al Rajhi Banking and Investment Corporation	9,000,000	90,000	90,000
Oman Insurance Company - Dubai	2,400,000	24,000	24,000
Others	18,000,000	180,000	180,000
	40,000,000	400,000	400,000

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

The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained. According to the said Article, 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 is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at Deceember 31, 2019 consists of paid-up share capital of SAR 400 million, statutory reserves of SAR 113.1 million and retained earnings of SAR 335.1 million (December 31, 2018: paid-up share capital of SAR 400 million, statutory reserves of SAR 91.3 million and retained earnings of SAR 270.7 million.) in the statement of financial position

23. EARNINGS PER SHARE ("EPS")

Earnings per share for the year ended December 31, 2019 and year ended December 31, 2018 is calculated by dividing the net income for the year attributable to the equity holders by 40 million shares. There were no dilutive potential shares in issue as at December 31, 2019 and December 31, 2018.

24. TAKAFUL OPERATIONS' SURPLUS

	December 31, 2019	December 31, 2018
	SAR'000	SAR'000
Opening surplus distribution payable as at January 1	**47,236**	34,442
Adjustments on initial adoption of IFRS-9	**-**	-
Total income attributed to the insurance operations during the year	**9,647**	18,770
Surplus paid to policy holders	**-**	(5,976)
Closing surplus distribution payable as at December 31	**56,883**	47,236

25. SUPPLEMENTARY INFORMATION

25.1 Statement of financial position

	SAR '000					
	December 31, 2019			December 31, 2018		
	Takaful operations	**Shareholders' operations**	**Total**	Takaful operations	Shareholders' operations	Total
ASSETS:						
Cash and cash equivalents	**442,038**	**38,980**	**481,018**	369,797	122,385	492,182
Contributions and re-takaful / reinsurance balances receivable - net	**336,149**	**-**	**336,149**	456,575	-	456,575
Re-takaful / reinsurance share of unearned contributions	**111,870**	**-**	**111,870**	88,458	-	88,458
Re-takaful / reinsurance share of outstanding claims	**110,180**	**-**	**110,180**	371,580	-	371,580
Re-takaful / reinsurance share of outstanding claims IBNR	**13,413**	**-**	**13,413**	13,411	-	13,411
Re-takaful / reinsurance share of mathematical reserve at FVSI	**21**	**-**	**21**	109	-	109
Deferred policy acquisition costs	**44,512**	**-**	**44,512**	60,868	-	60,868
Investments mandatorily measured at FVSI	**170,552**	**13,004**	**183,556**	129,853	33,975	163,828
Investments designated as FVOCI	**29,982**	**246,714**	**276,696**	25,327	130,135	155,462
Due (to) / from shareholders'/ takaful operations	**(328,011)**	**328,011**	**-**	(401,888)	401,888	-
Investments held at amortised cost	**1,598,708**	**214,997**	**1,813,705**	1,703,637	85,009	1,788,646
Prepaymets and other assets	**89,074**	**67,132**	**156,206**	39,785	29,817	69,602
Property and equipment, net	**-**	**25,263**	**25,263**	-	18,713	18,713
Statutory deposit	**-**	**39,969**	**39,969**	-	39,968	39,968
Accrued income on statutory deposit	**-**	**944**	**944**	-	3,439	3,439
Right-of-use assets	**-**	**9,772**	**9,772**	-	-	-
TOTAL ASSETS	**2,618,488**	**984,786**	**3,603,274**	2,857,512	865,329	3,722,841

25. SUPPLEMENTARY INFORMATION (continued)
25.1 Statement of financial position (continued)

	SAR '000					
	December 31, 2019			December 31, 2018		
	Takaful operations	**Shareholders' operations**	**Total**	Takaful operations	Shareholders' operations	Total
LIABILITIES:						
Payables, accruals and other liabilities	**92,374**	**36,328**	**128,702**	94,045	38,063	132,108
Re-takaful / reinsurance balances payable	**94,637**	**-**	**94,637**	56,127	-	56,127
Unearned contributions	**1,123,170**	**-**	**1,123,170**	1,302,633	-	1,302,633
Unearned re-takaful / reinsurance commission income	**8,792**	**-**	**8,792**	6,002	-	6,002
Gross outstanding claims	**353,601**	**-**	**353,601**	564,096	-	564,096
Claim Incurred but not reported	**776,962**	**-**	**776,962**	731,714	-	731,714
Contribution deficiency reserve	**26,303**	**-**	**26,303**	9,034	-	9,034
Unit linked liabilities at FVSI	**86,821**	**-**	**86,821**	52,336	-	52,336
End-of-service benefits (EOSB)	**-**	**18,620**	**18,620**	-	15,119	15,119
Provision for zakat and income tax	**-**	**40,932**	**40,932**	-	33,689	33,689
Payables to SAMA	**-**	**5,654**	**5,654**	-	4,346	4,346
Lease obligations	**-**	**6,978**	**6,978**	-	-	-
	2,562,660	**108,512**	**2,671,172**	2,815,987	91,217	2,907,204
Takaful operations' surplus payable	**56,883**	**-**	**56,883**	47,236	-	47,236
TOTAL LIABILITIES AND ACCUMULATED SURPLUS	**2,619,543**	**108,512**	**2,728,055**	2,863,223	91,217	2,954,440
EQUITY:						
Share capital	**-**	**400,000**	**400,000**	-	400,000	400,000
Statutory reserve	**-**	**113,082**	**113,082**	-	91,302	91,302
Retained earnings	**-**	**335,138**	**335,138**	-	270,733	270,733
Remeasurement reserve for EOSB	**-**	**(1,528)**	**(1,528)**	-	(187)	(187)
Fair value reserve - Investments designated as FVOCI	**(1,055)**	**29,582**	**28,527**	(5,711)	12,264	6,553
TOTAL EQUITY	**(1,055)**	**876,274**	**875,219**	(5,711)	774,112	768,401
TOTAL LIABILITIES, ACCUMULATED SURPLUS AND EQUITY	**2,618,488**	**984,786**	**3,603,274**	2,857,512	865,329	3,722,841
COMMITMENTS AND CONTINGENCIES	**22,456**	**-**	**22,456**	14,437	-	14,437

25. SUPPLEMENTARY INFORMATION (continued)
25.2 Statement of income (continued)
For the year ended December 31

	SAR '000					
	2019			2018 (Restated)		
	Takaful operations	Shareholders' operations	Total	Takaful operations	Shareholders' operations	Total
REVENUES						
Gross contributions written	2,569,804	-	2,569,804	2,973,594	-	2,973,594
Re-takaful / reinsurance contributions ceded - domestic	(3,748)	-	(3,748)	(1,978)	-	(1,978)
Re-takaful / reinsurance contributions ceded - foreign	(122,087)	-	(122,087)	(93,616)	-	(93,616)
Excess of loss expenses – foreign	(7,833)	-	(7,833)	(14,997)	-	(14,997)
Net contributions written	2,436,136	-	2,436,136	2,863,003	-	2,863,003
Changes in unearned contributions, net	202,875	-	202,875	(1,774)	-	(1,774)
Net contributions earned	2,639,011	-	2,639,011	2,861,229	-	2,861,229
Re-takaful / reinsurance commission income	9,661	-	9,661	14,551	-	14,551
Other underwriting income	2,000	-	2,000	5,972	-	5,972
TOTAL REVENUES	2,650,672	-	2,650,672	2,881,752	-	2,881,752
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid and loss adjustment expenses	(2,331,524)	-	(2,331,524)	(2,178,187)	-	(2,178,187)
Surrenders and maturities	(7,924)	-	(7,924)	(3,552)	-	(3,552)
Expenses incurred related to claims	(67,450)	-	(67,450)	(69,638)	-	(69,638)
Reinsurers'/ Retakaful share of claims paid	311,941	-	311,941	99,458	-	99,458
Net claims and other benefits paid	(2,094,957)	-	(2,094,957)	(2,151,919)	-	(2,151,919)
Changes in outstanding claims, net	(50,905)	-	(50,905)	(10,729)	-	(10,729)
Changes in incurred but not reported (IBNR) claims, net	(45,246)	-	(45,246)	(149,333)	-	(149,333)
Change in contrbution deficiency reserve	(17,269)	-	(17,269)	(9,034)	-	(9,034)
Net claims and other benefits incurred	(2,208,377)	-	(2,208,377)	(2,321,015)	-	(2,321,015)
Change in unit linked liabilities at FVSI, net	(28,034)	-	(28,034)	(20,784)	-	(20,784)
Policy acquisition costs	(110,352)	-	(110,352)	(109,522)	-	(109,522)
Other underwriting expenses	(21,227)	-	(21,227)	(30,162)	-	(30,162)
TOTAL UNDERWRITING COSTS AND EXPENSES	(2,367,990)	-	(2,367,990)	(2,481,483)	-	(2,481,483)
NET UNDERWRITING INCOME	282,682	-	282,682	400,269	-	400,269
OTHER OPERATING (EXPENSES)/ INCOME						
Allowance for doubtful debts - contribution and retakaful / reinsurance balances receivable	(17,759)	-	(17,759)	(50,528)	-	(50,528)
Management fee for administration of takaful operations	(241,195)	241,195	-	(232,963)	232,963	-
General and administrative expenses	-	(241,195)	(241,195)	-	(232,963)	(232,963)
Special commission income	60,602	11,449	72,051	58,232	7,660	65,892
Net gains on investments mandatorily measured at FVSI	12,027	2,028	14,055	8,770	1,994	10,764
Dividend income	-	7,016	7,016	-	4,144	4,144
Reversal / (Impairment loss) of impairment loss	109	25	134	(346)	23	(323)
Other income	-	1,548	1,548	4,262	2,280	6,542
TOTAL OTHER OPERATING (EXPENSES)/ INCOME	(186,216)	22,066	(164,150)	(212,573)	16,101	(196,472)
NET INCOME FOR THE YEAR BEFORE ATTRIBUTION OF MANAGEMENT FEE	96,466	22,066	118,532	187,696	16,101	203,797
Management fee attributable to shareholders' operations	(86,819)	86,819	-	(168,926)	168,926	-
NET INCOME FOR THE YEAR AFTER ATTRIBUTION OF MANAGEMENT FEE	9,647	108,885	118,532	18,770	185,027	203,797
Provision for zakat	-	(22,700)	(22,700)	-	(19,500)	(19,500)
Net income for the year after zakat	9,647	86,185	95,832	18,770	165,527	184,297

25. SUPPLEMENTARY INFORMATION (continued)
25.3 Statement of comprehensive income
For the year ended December 31

	SAR '000					
	2019			2018 (Restated)		
	Takaful operations	**Shareholders' operations**	**Total**	Takaful operations	Shareholders' operations	Total
Net income for the year after attribution of management fee to shareholders' operations	**9,647**	**86,185**	**95,832**	18,770	165,527	184,297
Other comprehensive income / (loss) :						
Items that will not be reclassified to statement of income in subsequent years						
- Net change in fair value in investments designated as FVOCI	**4,655**	**17,319**	**21,974**	(5,711)	10,712	5,001
- Remeasurement of EOSB	**-**	**(1,341)**	**(1,341)**	-	(187)	(187)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**14,302**	**102,163**	**116,465**	13,059	176,052	189,111

25. SUPPLEMENTARY INFORMATION (continued)

25.4 Statement of cash flows

	SAR '000					
	Takaful operations	**Shareholders' operations**	**Total**	Takaful operations	Shareholders' operations	Total
	For the year ended December 31, 2019			For the year ended December 31, 2018		
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income for the year before zakat	**9,647**	**108,885**	**118,532**	18,770	185,027	203,797
Adjustments for non-cash items:						
Depreciation of property and equipment	**-**	**8,105**	**8,105**	-	7,934	7,934
Depreciation of right-of-use assets	**-**	**5,667**	**5,667**	-	-	-
Management fee for administration of takaful operations	**241,195**	**(241,195)**	**-**	232,963	(232,963)	-
Management fee attributable to shareholders' operations	**86,816**	**(86,816)**	**-**	168,926	(168,926)	-
Allowance for doubtful debts - contribution and retakaful / reinsurance balances receivable	**17,759**	**-**	**17,759**	50,528	-	50,528
Unrealized gain on investments mandatorily measured at FVSI	**(6,532)**	**142**	**(6,390)**	(1,028)	(206)	(1,234)
Reversal / Impairment of impairment of investments held at amortised cost	**(109)**	**(25)**	**(134)**	346	(23)	323
Provision for end-of-service benefits	**-**	**4,136**	**4,136**	-	5,477	5,477
	348,776	**(201,101)**	**147,675**	470,505	(203,680)	266,825
Changes in operating assets and liabilities:						
Contributions and re-takaful balances receivable	**102,667**	**-**	**102,667**	(243,818)	-	(243,818)
Re-takaful / reinsurance share of unearned contributions	**(23,412)**	**-**	**(23,412)**	3,251	-	3,251
Re-takaful / reinsurance share of outstanding claims	**261,400**	**-**	**261,400**	(242,518)	-	(242,518)
Re-takaful / reinsurance share of claims incurred but not reported	**(2)**	**-**	**(2)**	-	-	-
Re-takaful / reinsurance share of financial liabilities at FVSI	**88**	**-**	**88**	5	-	5
Deferred policy acquisition costs	**16,356**	**-**	**16,356**	(25,079)	-	(25,079)
Prepayments and other assets	**(49,289)**	**(37,315)**	**(86,604)**	(5,709)	(14,012)	(19,721)
Other assets	**-**	**-**	**-**	-	-	-
Right-of-use assets	**-**	**(15,439)**	**(15,439)**	-	-	-
Accrued income on statutory deposit	**-**	**(1,307)**	**(1,307)**	-	(873)	(873)
Payable to SAMA	**-**	**1,308**	**1,308**	-	873	873
Payable, accruals and other liabilities	**(1,670)**	**(1,736)**	**(3,406)**	13,548	6,286	19,834
Financial liabilities at FVSI	**34,485**	**-**	**34,485**	21,741	-	21,741
Re-takaful / reinsurance balances payable	**38,510**	**-**	**38,510**	(10,191)	-	(10,191)
Unearned contributions	**(179,463)**	**-**	**(179,463)**	(1,477)	-	(1,477)
Unearned re-takaful / reinsurance commission	**2,790**	**-**	**2,790**	(1,070)	-	(1,070)

25. SUPPLEMENTARY INFORMATION (continued)

25.4 Statement of cash flows (continued)

	SAR '000					
	Takaful operations	**Shareholders' operations**	**Total**	Takaful operations	Shareholders' operations	Total
	For the year ended December 31, 2019			For the year ended December 31, 2018		
Gross outstanding claims	**(210,495)**	**-**	**(210,495)**	284,970	-	284,970
Claims incurred but not rported	**45,248**	**-**	**45,248**	117,610	-	117,610
Contrbution deficiency reserve	**17,269**	**-**	**17,269**	9,034	-	9,034
Lease obligations	**-**	**6,978**	**6,978**	-	-	-
Deposit against letters of guarantee	**(8,019)**	**-**	**(8,019)**	(1,440)	-	(1,440)
	395,239	**(248,612)**	**146,627**	389,362	(211,406)	177,956
Management fee (paid) / received	**(401,888)**	**401,888**	**-**	(343,709)	343,709	-
Zakat paid	**-**	**(15,457)**	**(15,457)**	-	(12,301)	(12,301)
Takaful operations' surplus paid	**-**	**-**	**-**	(5,976)	-	(5,976)
End-of-service benefits paid	**-**	**(1,976)**	**(1,976)**	-	(828)	(828)
Net cash generated from operating activities	**(6,649)**	**135,843**	**129,194**	39,677	119,174	158,851
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments mandatorily measured at FVSI	**(1,219,416)**	**(545,000)**	**(1,764,416)**	(1,215,073)	(545,000)	(1,760,073)
Disposals of investments mandatorily measured at FVSI	**1,185,249**	**565,829**	**1,751,078**	1,211,077	543,712	1,754,789
Purchase of investments designated as FVOCI	**-**	**(99,450)**	**(99,450)**	(31,038)	(94,448)	(125,486)
Disposals of investments designated as FVOCI	**-**	**-**	**-**	-	59,899	59,899
Movement in cash balance in equity share portfolio	**-**	**190**	**190**	-	(108)	(108)
Purchase of investments held at amortised cost	**(1,250,000)**	**(545,001)**	**(1,795,001)**	(1,090,000)	(280,000)	(1,370,000)
Disposal of investments held at amortised cost	**1,355,000**	**415,000**	**1,770,000**	670,000	280,000	950,000
Additions in property and equipment	**-**	**(14,655)**	**(14,655)**		(7,711)	(7,711)
Net cash (used in) investing activities	**70,833**	**(223,087)**	**(152,254)**	(455,034)	(43,656)	(498,690)
CASH FLOWS FROM FINANCING ACTIVITIES						
Due (to) / from shareholders / takaful operations	**-**	**-**	**-**	204,322	(204,322)	-
Net cash generated from / (used in) financing activities	**-**	**-**	**-**	204,322	(204,322)	-
Net change in cash and cash equivalents	**64,184**	**(87,244)**	**(23,060)**	(211,035)	(128,804)	(339,839)
Cash and cash equivalents, beginning of the year	**355,425**	**121,515**	**476,940**	566,460	250,319	816,779
Cash and cash equivalents, end of the year	**419,609**	**34,271**	**453,880**	355,425	121,515	476,940
NON-CASH INFORMATION						
Changes in fair value of investments designated as FVOCI	**4,655**	**17,319**	**21,974**	(5,711)	10,712	5,001

26. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. These risks are an inevitable consequence of participating in financial markets. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company's financial performance.

The Company's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Company reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

26.1 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.

26.1.1 Credit risk measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

a. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.

b. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

c. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

d. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

e. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.

The key judgements and assumptions adopted by the Company in addressing the requirements of IFRS 9 are discussed below:

Significant increase in credit risk

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met.

Quantitative criteria:

- Downward movement in the external credit rating by two notches;
- Downward movement in the external credit rating by one notch if the revised external credit rating becomes below "investment grade";
- Contractual payments are more than 7 days past due;

Qualitative criteria:

- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the counterparty that results in a significant decrease in the counterparty's ability to meet its obligations to the
- A group company of the counterparty has defaulted and in the Company's opinion repayment capacity of the counterparty would also be significantly impacted.

Definition of default and credit-impaired assets

The Company defines a financial instruments as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

- Contractual payments are more than 90 days past due;
- Counterparty's refusal to pay the amounts due.

Qualitative criteria:

- Information about the bankruptcy of the counterparty;
- Legal case on recovery proceedings;

The criteria above have been applied to all financial assets other than contribution and re-takaful balances receivable held by the Company and are consistent with the definition of default used for internal risk management purposes. An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six month. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. For impairment allowance on contribution and re-takaful balances receivable refer note 4.3 and note 6

26. FINANCIAL RISK MANAGEMENT

26.1 Credit risk (continued)

26.1.1 Credit risk measurement (continued)

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters. The base case represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company considers scenarios in range of 3-5 years horizon (consistent with forecast available from public sources) beyond which long term average macroeconomic conditions prevail. Externally available macroeconomic forecast from Global Rating Agencies and Saudi Arabian Monetary Authority (SAMA) are used for making base case forecast. For other scenarios, adjustment are made to base case forecast based on expert judgement. The Company uses multiple scenarios and probabilities are assigned to each scenario based on expert judgement.

Based on the detailed analysis of the Companies exposures to the credit risk, the management of the Company have opted to benefit from the practical expedient in calculating the expected credit losses provided by IFRS 9 for financial assets with low credit risk. The management of the Company measures impairment using 12-month expected credit losses for its financial assets subject to impairment. The low credit risk financial assets of the Company meet the following requirements of IFRS 9 to measure impairment using 12-month expected credit losses:

- Low credit risk of default;
- The counterparties have a strong capacity to meet their obligations in the near term;
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the counterparties to fulfil their contractual cash flow obligations.

The Company uses external credit risk ratings of well-known and reputable rating agencies to assess the probability of default of individual counterparties.

The Company does not recognise lifetime expected credit losses on a financial instrument simply because it was considered to have low credit risk in the previous reporting period and is not considered to have low credit risk at the reporting date. In such a case, the Company will determine whether there has been a significant increase in credit risk since initial recognition and thus whether lifetime expected credit losses are required to be recognised.

Measuring expected credit losses

The Expected Credit Loss (ECL) is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12-month PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the Company's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the exposure.

26. FINANCIAL RISK MANAGEMENT (continued)

26.1 Credit risk (continued)

26.1.1 Credit risk measurement (continued)

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective profit rate.

The Lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the exposures. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

a) Maximum exposure to credit risk – financial instruments subject to ECL

The following tables contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets measured at amortised cost below, also represents the Company's maximum exposure to credit risk on these assets.

i) TAKAFUL OPERATIONS

	December 31, 2019				
Financial statement line item	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	December 31, 2018
	12-month ECL	Lifetime ECL	Lifetime ECL		
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Bank balances	**442,038**	-	-	**442,038**	368,648
Investments held at amortised cost	**1,600,000**	-	-	**1,600,000**	1,705,000
Gross carrying amount	**2,042,038**	-	-	**2,042,038**	2,073,648
Loss allowance	**(1,319)**	-	-	**(1,319)**	(1,428)
Carrying amount	**2,040,719**	-	-	**2,040,719**	2,072,220

	December 31, 2019				
Credit grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	December 31, 2018
	12-month ECL	Lifetime ECL	Lifetime ECL		
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Investment grade	**2,042,038**	-	-	**2,042,038**	2,073,648
Gross carrying amount	**2,042,038**	-	-	**2,042,038**	2,073,648
Loss allowance	**(1,319)**	-	-	**(1,319)**	(1,428)
Carrying amount	**2,040,719**	-	-	**2,040,719**	2,072,220

26. FINANCIAL RISK MANAGEMENT (continued)

26.1 Credit risk (continued)

26.1.1 Credit risk measurement (continued)

a) Maximum exposure to credit risk – financial instruments subject to ECL (continued)

ii) SHAREHOLDERS' OPERATIONS

Financial statement line item	December 31, 2019				December 31, 2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	Lifetime ECL	Lifetime ECL		
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Bank balances	**38,980**	-	-	**38,980**	122,385
Investments held at amortised cost	**215,075**	-	-	**215,075**	85,074
Statutory deposit	**40,000**	-	-	**40,000**	40,000
Gross carrying amount	**294,055**	-	-	**294,055**	247,459
Loss allowance	**(109)**	-	-	**(109)**	(134)
Carrying amount	**293,946**	-	-	**293,946**	247,325

Credit grade	December 31, 2019				December 31, 2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	Lifetime ECL	Lifetime ECL		
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Investment grade	**294,055**	-	-	**294,055**	247,459
Gross carrying amount	**294,055**	-	-	**294,055**	247,459
Loss allowance	**(109)**	-	-	**(109)**	(134)
Carrying amount	**293,946**	-	-	**293,946**	247,325

The Company's exposures to credit risk are not collateralised.

b) Loss allowance

The loss allowance recognised in the period may be impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

26. FINANCIAL RISK MANAGEMENT (continued)

26.1 Credit risk (continued)

26.1.1 Credit risk measurement (continued)

b) Loss allowance

i) TAKAFUL OPERATIONS

	Stage 1 12-month ECL SAR'000	**Stage 2** Lifetime ECL SAR'000	**Stage 3** Lifetime ECL SAR'000	**Total** SAR'000
Loss allowance as at January 1, 2019	**1,428**	-	-	**1,428**
Movements with the statement of income				
Transfers:				
New financial assets originated or purchased	**1,761**	-	-	**1,761**
Net re-measurement of loss allowance	-	-	-	-
Financial assets derecognised during the year	**(1,870)**	-	-	**(1,870)**
Write-offs	-	-	-	-
Total loss allowance for the year	**(109)**	-	-	**(109)**
Loss allowance as at December 31, 2019	**1,319**	-	-	**1,319**

	Stage 1 12-month ECL SAR'000	**Stage 2** Lifetime ECL SAR'000	**Stage 3** Lifetime ECL SAR'000	**Total** SAR'000
Loss allowance as at January 1, 2018	1,081	-	-	1,081
Movements with the statement of income				
Transfers:				
New financial assets originated or purchased	943	-	-	943
Financial assets derecognised during the year	(792)	-	-	(792)
Write-offs	-	-	-	-
Total loss allowance for the year	347	-	-	347
Loss allowance as at December 31, 2018	1,428	-	-	1,428

26. FINANCIAL RISK MANAGEMENT (continued)

26.1 Credit risk (continued)

26.1.1 Credit risk measurement (continued)

b) Loss allowance (continued)

ii) SHAREHOLDERS' OPERATIONS

	Stage 1 12-month ECL SAR'000	**Stage 2** Lifetime ECL SAR'000	**Stage 3** Lifetime ECL SAR'000	**Total** SAR'000
Loss allowance as at January 1, 2019	**134**	**-**	**-**	**134**
Movements with the statement of income				
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
New financial assets originated or purchased	**567**	-	-	**567**
Net re-measurement of loss allowance	-	-	-	-
Financial assets derecognised during the year	**(592)**	-	-	**(592)**
Write-offs	-	-	-	-
Total reversal of loss allowance for the year	**(25)**	-	-	**(25)**
Loss allowance as at December 31, 2019	**109**	**-**	**-**	**109**

	Stage 1 12-month ECL SAR'000	**Stage 2** Lifetime ECL SAR'000	**Stage 3** Lifetime ECL SAR'000	**Total** SAR'000
Loss allowance as at January 1, 2018	158	-	-	1,081
Movements with the statement of income				
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
New financial assets originated or purchased	294	-	-	294
Net re-measurement of loss allowance	5	-	-	5
Financial assets derecognised during the year	(323)	-	-	(323)
Write-offs	-	-	-	-
Total reversal of loss allowance for the year	(24)	-	-	(24)
Loss allowance as at December 31, 2018	134	-	-	134

26. FINANCIAL RISK MANAGEMENT (continued)

26.2 Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and a strategic plan approved by the Board. The Company is exposed to takaful, re-takaful, commission rate, credit, liquidity and currency risks.

26.3 Risk management structure

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

Board of Directors

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

Senior management

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

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

a) Takaful risk

The risk under a takaful contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of takaful liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of takaful contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of re-takaful/ reinsurance arrangements.

A significant portion of re-takaful/ reinsurance business ceded is placed on a quota share basis with retention limits varying by product lines. Amounts recoverable from re-takaful/ reinsurance are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the financial position as re-takaful/ reinsurance assets.

Although the Company has re-takaful/ reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to re-takaful/ reinsurance ceded, to the extent that any re-takaful/ reinsurance is unable to meet its obligations assumed under such re-takaful/ reinsurance arrangements.

The takaful claim liabilities mentioned in note 11.1 (a) are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

A key feature of the liability adequacy testing is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly property and fire and accident, motor, medical and marine risks. These are regarded as short-term takaful contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 Risk management structure (continued)

a) Takaful risk (continued)

Property and Accident

For property takaful contracts the main risks are fire and business interruption. In recent years the Company has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance/ reinsurance cover for such damage to limit losses for any individual claim to SAR 500 thousand

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the Company has only underwritten comprehensive polices for owner/drivers over 21 years of age. Substantially all of the motor contracts relate to private individuals.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are key factors that influence the level of claims. The Company also has risk management procedures to control cost of claims. The Company has re-takaful cover for such damage to limit the losses for any individual claim to SAR 3,250 thousand (2018: SAR 1,250 thousand).

Medical

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

Marine

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

The underwriting strategy for the marine cargo class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has re-takaful cover to limit losses for any individual claim to SAR 500 thousand (2018: SAR 500 thousand).

Sensitivity analysis

The takaful claims provision is sensitive to the above key assumptions. A hypothetical 5% change in the claim ratio would impact income by approximately SAR 110 million (2018: SAR 116 million) annually in aggregate.

b) Re-takaful risk

In order to minimize its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for re-takaful purposes. Such re-takaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Motor policies are protected by an excess of loss treaty. Health policies have been reinsured on a quota share basis. Marine, engineering and other lines of business have been insured on a quota share, surplus and facultative basis.

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 Risk management structure (continued)

b) Re-takaful risk (continued)

Re-takaful ceded contracts do not relieve the Company from its obligations to the policyholders and as a result, the Company remains liable for outstanding claims re-takaful to the extent that the re-takaful fails to meet the obligations under the reinsurance agreements. The credit exposure in respect of re-takaful share of outstanding claims is mainly concentrated in the Gulf Co-operative Council countries (the 'GCC') and Europe.

c) Currency risk

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, Company's foreign currency transactions are primarily in US dollars which is pegged with Saudi Riyal and therefore the financial instruments are not sensitive to currency fluctuations.

d) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company has no significant concentration of commission rate risk.

The sensitivity of the income is the effect of the assumed changes in the commission rates, with all other variable held constant, on the Company's income for one year. Based on the floating rate financial assets held at December 31, 2018 an increase or decrease of 50 basis points in commission rates would result in a change in the loss or gain for the year of SAR 4,950 thousand (2018: SAR 850 thousand)

e) Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from 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 has investment in the units of commodity fund (classified as FVSI) managed by a related party. A 5% change in the net asset value of funds, with all other variables held constant, would impact the net income for the year by increase / decrease of SAR 1,476 thousand (2018: SAR 2,287 thousand) .

The Company has investment in the Saudi companies equities listed on Tadawul (Classified as FVOCI). A 5% change in the market value of these investments, with all other variables held constant, would impact the shareholders' equity by increase / decrease of SAR 11,964 thousand (2018: SAR 6,125 thousand).

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 Risk management structure (continued)

f) Credit risk

The analysis of the credit ratings of the investment portfolio is as follows:

	December 31, 2019	
	Takaful operations SAR'000	Shareholders' operations SAR'000
S & P equivalent (A-)	324,913	174,953
S & P equivalent (BBB+)	1,174,101	40,044
S & P equivalent (BB)	99,694	-
	1,598,708	214,997

	December 31, 2018	
	Takaful operations SAR'000	Shareholders' operations SAR'000
S & P equivalent (A-)	344,907	-
S & P equivalent (BBB+)	1,259,036	85,009
S & P equivalent (BB)	99,694	-
	1,703,637	85,009

g) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial instruments. There is also a liquidity risk associated with the timing difference between gross cash out-flows and expected re-takaful recoveries.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

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

- A Company liquidity risk policy setting 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 Risk Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet takaful obligations.
- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

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

Maturity profiles

The table below summarises the maturity profile of the non-derivative financial assets and liabilities of the Company based on remaining expected obligations. For takaful contract liabilities and re-takaful/ reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised takaful liabilities. Repayments that are subject to notice are treated as if notice were to be given immediately.

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 Risk management structure (continued)

g) Liquidity risk (continued)

Maturity profiles (continued)

	December 31, 2019 - SAR '000			December 31, 2018 - SAR '000		
	Less than one year	**More than one year**	**Total**	Less than one year	More than one year	Total
ASSETS, TAKAFUL OPERATIONS						
Cash and cash equivalents	**442,038**	**-**	**442,038**	369,797	-	369,797
Contributions and re-takaful balances receivable - net	**336,149**	**-**	**336,149**	419,670	36,905	456,575
Re-takaful share of outstanding claims	**110,180**	**-**	**110,180**	371,580	-	371,580
Re-takaful share of mathematical reserve at FVSI	**13,413**	**-**	**13,413**	13,411	-	13,411
Deferred policy acquisition costs	**21**	**-**	**21**	109	-	109
Investments mandatorily measured at FVSI	**170,552**	**-**	**170,552**	129,853	-	129,853
Investments designated as FVOCI	**-**	**29,982**	**29,982**	-	25,327	25,327
Due (to)/ from shareholders'/ takaful operations	**(328,011)**	**-**	**(328,011)**	(401,888)	-	(401,888)
Investments held at amortised cost	**1,598,708**		**1,598,708**	519,711	1,183,926	1,703,637
TOTAL ASSETS	**2,343,050**	**29,982**	**2,373,032**	1,422,243	1,246,158	2,668,401

	December 31, 2019 - SAR '000			December 31, 2018 - SAR '000		
	Less than one year	**More than one year**	**Total**	Less than one year	More than one year	Total
LIABILITIES, TAKAFUL OPERATIONS						
Re-takaful balances payable	**94,637**	**-**	**94,637**	56,127	-	56,127
Gross outstanding claims	**353,601**	**-**	**353,601**	564,096	-	564,096
Claims incurred but not reported	**776,962**	**-**	**776,962**	731,714	-	731,714
Contrbution deficiency reserve	**26,303**	**-**	**26,303**	9,034	-	9,034
Unit linked liabilities at FVSI	**-**	**86,821**	**86,821**	-	52,336	52,336
Takaful operations' surplus payable	**56,883**	**-**	**56,883**	47,236	-	47,236
TOTAL LIABILITIES AND SURPLUS	**1,308,386**	**86,821**	**1,395,207**	1,408,207	52,336	1,460,543

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 Risk management structure (continued)

g) Liquidity risk (continued)

Maturity profiles (continued)

	December 31, 2019 - SAR '000			December 31, 2018 - SAR '000		
	Less than one year	**More than one year**	**Total**	Less than one year	More than one year	Total
ASSETS, SHAREHOLDERS' OPERATIONS						
Cash and cash equivalents	**38,980**	-	**38,980**	122,385	-	122,385
Investments mandatorily measured at FVSI	**13,004**	-	**13,004**	33,975	-	33,975
Investments designated as FVOCI	**246,714**	-	**246,714**	-	130,135	130,135
Due (to)/ from shareholders'/ takaful operations	**328,011**	-	**328,011**	401,888	-	401,888
Investments held at amortised cost	**214,997**	-	**214,997**	20,059	64,950	85,009
Statutory deposit	**39,969**	-	**39,969**	-	39,968	39,968
Accrued income on statutory deposit	**944**	-	**944**	-	3,439	3,439
TOTAL ASSETS	**882,619**	-	**882,619**	578,307	238,492	816,799

	December 31, 2019 - SAR '000			December 31, 2018 - SAR '000		
	Less than one year	**More than one year**	**Total**	Less than one year	More than one year	Total
LIABILITIES, SHAREHOLDERS' OPERATIONS						
Provision for zakat and income tax	**40,932**	-	**40,932**	33,689	-	33,689
End-of-service benefits	**18,620**	-	**18,620**	-	15,119	15,119
Payables to SAMA	**944**	-	**944**	3,439	-	3,439
TOTAL LIABILITIES AND SURPLUS	**60,496**	-	**60,496**	37,128	15,119	52,247

Liquidity profile

The table below summarizes the maturity profile of the financial assets and financial liabilities of the Company based on remaining contractual obligations, including contribution receivable. For takaful contract liabilities and assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized takaful liabilities. Unearned contributions, re-takaful share of unearned contributions, deferred policy acquisition costs and unearned re-takaful commission income have been excluded from the analysis as they are not contractual obligations. Repayments that are subject to notice are treated as if notice were to be given immediately and such amounts are classified as due within one year.

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 Risk management structure (continued)

g) Liquidity risk (continued)

Liquidity profile (continued)

	December 31, 2019 - SAR '000			
	Up to 1 year	1-3 years	above 3 years	Total
ASSETS, TAKAFUL OPERATIONS				
Cash and cash equivalents	442,038	-	-	442,038
Contributions and re-takaful/ reinsurance balances receivable - net	336,149	-	-	336,149
Re-takaful/ reinsurance share of outstanding claims	110,180	-		110,180
Investments mandatorily measured at FVSI	170,552	-	-	170,552
Investments designated as FVOCI	-	-	29,982	29,982
Due (to)/ from shareholders'/ takaful operations	(328,011)	-	-	(328,011)
Investments held at amortised cost	1,598,708	-	-	1,598,708
TOTAL ASSETS	2,329,616	-	29,982	2,359,598

	December 31, 2019 - SAR '000			
	Up to 1 year	1-3 years	above 3 years	Total
LIABILITIES, TAKAFUL OPERATIONS				
Re-takaful balances payable	94,637	-	-	94,637
Gross outstanding claims	353,601	-	-	353,601
Unit linked liabilities at FVSI	-	-	86,821	86,821
Takaful operations' surplus payable	56,883	-	-	56,883
TOTAL LIABILITIES AND SURPLUS	505,121	-	86,821	591,942

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 Risk management structure (continued)

g) Liquidity risk (continued)

Liquidity profile (continued)

	December 31, 2019 - SAR '000			
	Up to 1 year	1-3 years	above 3 years	Total
ASSETS, SHAREHOLDERS' OPERATIONS				
Cash and cash equivalents	38,980	-	-	38,980
Investments mandatorily measured at FVSI	13,004	-	-	13,004
Investments designated as FVOCI	246,714	-	-	246,714
Due (to) / from shareholders'/ takaful operations	328,011	-	-	328,011
Investments held at amortised cost	214,997	-	-	214,997
Statutory deposit	39,969	-	-	39,969
Accrued income on statutory deposit	944	-	-	944
TOTAL ASSETS	882,619	-	-	882,619

	December 31, 2019 - SAR '000			
	Up to 1 year	1-3 years	above 3 years	Total
LIABILITIES, SHAREHOLDERS' OPERATIONS				
Provision for zakat and income tax	40,932	-	-	40,932
End-of-service benefits	-	-	18,620	18,620
Payables to SAMA	944	-	-	944
Fair value reserve - Investments designated as FVOCI	-	-	29,582	29,582
TOTAL LIABILITIES AND SURPLUS	41,876	-	48,202	90,078

27. COMPARATIVE FIGURES

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

28. EVENTS AFTER THE REPORTING PERIOD

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.

29. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors of the Company, on Rajab 16, 1441, corresponding March 11, 2020.