

**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, 2020**

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Independent Auditors' Report

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 – a Saudi Joint Stock Company (the “Company”), which comprise the statement of financial position as at 31 December 2020, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory notes.

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

Basis for Opinion

We conducted our audit in accordance with the 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 code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matters	How the matter was addressed in our audit
<p>Valuation of ultimate claim liabilities arising from insurance contracts</p> <p>As at 31 December 2020, gross outstanding claims and reserves including claims incurred but not reported (IBNR) amounted to Saudi Riyals 1.26 billion as reported in Note 11 to the financial statements.</p> <p>The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none">• Understood, evaluated and tested key controls around the claims handling and provision setting processes.• Evaluated the competence, capabilities and objectivity of the management's expert based on their professional qualifications and experience and assessed their independence.• Performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to



Key audit matters	How the matter was addressed in our audit
<p>The Company principally uses an external actuary (“management’s expert”) to provide them with the estimate of such liabilities. A range of methods were used to determine these provisions which were based on a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>Due to the estimation uncertainty and subjectivity involved including uncertainties due to Covid 19 pandemic in the assessment of valuation of ultimate claim liabilities arising from insurance contracts, we have considered this as a key audit matter.</p> <p><i>Refer to notes 2 and 4 to the financial statements which explain the valuation methodology used by the Company and critical judgements and estimates.</i></p>	<p>appropriate source documentation to evaluate the valuation of outstanding claim reserves.</p> <ul style="list-style-type: none"> • Obtained sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, and tested on sample basis, the accuracy of underlying claims data utilised by the management’s expert in estimating the IBNR by comparing it to the accounting and other records. • Challenged management’s methods and assumptions, through assistance of our internal actuarial expert to understand and evaluate the Company’s actuarial practices and provisions established and gained comfort over the actuarial report issued by management’s expert, by performing the following: <ul style="list-style-type: none"> (i) Evaluated whether the Company’s actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences; (ii) Assessed key actuarial assumptions including claims ratios and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company’s historical experience, current trends and our own industry knowledge; and (iii) Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivity analysis performed. • Assessed the adequacy and appropriateness of the related disclosures in the financial statements.

Other Information

The Board of Directors of the Company (the “Directors”) are responsible for the other information. The other information comprises information included in the Company’s 2020 annual report, other than the financial statements and our auditors’ report thereon. The annual report is expected to be made available to us after the date of this auditors’ report.

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

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



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

Responsibilities of the 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, as endorsed in the Kingdom of Saudi Arabia, 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 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 the International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;



- Conclude on the appropriateness of 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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Date: 11 March 2021
Corresponding to: 27 Rajab, 1442H



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

STATEMENT OF FINANCIAL POSITION

As at December 31,

	Notes	SAR '000	
		2020	2019
ASSETS			
Cash and cash equivalents	5	873,725	481,018
Contributions and re-takaful / reinsurance balances receivable, net	6	564,188	336,149
Re-takaful / reinsurance share of unearned contributions	11.2	210,423	111,870
Re-takaful / reinsurance share of outstanding claims	11.1 (a)	85,469	110,180
Re-takaful / reinsurance share of claims incurred but not reported	11.1 (a)	26,957	13,413
Re-takaful / reinsurance share of mathematical reserve at fair value through statement of income (FVSI)		23	21
Deferred policy acquisition costs	11.3	87,591	44,512
Investments mandatorily measured at fair value through statement of income (FVSI)	10 (a)	533,719	183,556
Investments designated as fair value through other comprehensive income (FVOCI)	10 (b)	326,448	276,696
Investments held at amortised cost	10 (c)	1,379,039	1,813,705
Prepayments and other assets	13	86,537	129,812
Property and equipment, net	8	100,298	51,657
Statutory deposit	9	39,969	39,969
Accrued income on statutory deposit		2,227	944
Right-of-use assets	7	43,649	9,772
TOTAL ASSETS		4,360,262	3,603,274
LIABILITIES			
Payables, accruals and other liabilities	14	280,201	128,702
Re-takaful / reinsurance balances payable		177,442	94,637
Unearned contributions	11.2	1,204,917	1,123,170
Unearned re-takaful / reinsurance commission income	11.4	14,902	8,792
Gross outstanding claims	11.1 (a)	308,529	353,601
Claims incurred but not reported	11.1 (a)	872,294	776,962
Contribution deficiency reserve	11.1 (a)	74,952	26,303
Unit linked liabilities at FVSI	11.1 (a), 20	141,093	86,821
End-of-service benefits (EOSB)	16	27,680	18,620
Provision for zakat and income tax	21	47,904	40,932
Payables to SAMA		6,937	5,654
Lease obligations		42,714	6,978
		3,199,565	2,671,172
Takaful operations' surplus payable	26	48,316	56,883
TOTAL LIABILITIES AND ACCUMULATED SURPLUS		3,247,881	2,728,055
EQUITY			
Share capital	23	400,000	400,000
Statutory reserve		158,491	113,082
Retained earnings		516,775	335,138
Remeasurement reserve for EOSB	16	(7,752)	(1,528)
Fair value reserve - investments designated as FVOCI		44,867	28,527
TOTAL EQUITY		1,112,381	875,219
TOTAL LIABILITIES, ACCUMULATED SURPLUS AND EQUITY			
		4,360,262	3,603,274
COMMITMENTS AND CONTINGENCIES			
	12	21,073	22,456

عن المكتب احمد سامر الزبيدي

Naser Abdullah Aloufi
Member-Board

Mahmoud Salim Dahduli

Mahmoud Salim Dahduli
Chief Executive Officer - Acting

Robert Pereira

Robert Pereira
Chief Financial Officer

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

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31

	Notes	2020	2019
REVENUES			
Gross contribution written	11..2	2,732,873	2,569,804
Re-takaful / reinsurance contributions ceded - domestic	11..2	(9,728)	(3,748)
Re-takaful / reinsurance contributions ceded - foreign	11..2	(398,737)	(122,087)
Excess of loss expenses (XOL)	11..2	(8,256)	(7,833)
Net contributions written	11..2	2,316,152	2,436,136
Changes in unearned contributions, net		16,806	202,875
Net contributions earned		2,332,958	2,639,011
Re-takaful / reinsurance commission income		22,665	9,661
Other underwriting income		3,047	2,000
TOTAL REVENUES		2,358,670	2,650,672
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid and loss adjustment expenses		(1,493,216)	(2,331,524)
Surrenders and maturities		(14,657)	(7,924)
Expenses incurred related to claims		(51,918)	(67,450)
Re-takaful / reinsurance share of claims paid		65,401	311,941
Net claims and other benefits paid		(1,494,390)	(2,094,957)
Changes in outstanding claims, net		20,361	(50,905)
Changes in incurred but not reported (IBNR) claims, net		(81,788)	(45,246)
Change in contribution deficiency reserve		(48,649)	(17,269)
Net claims and other benefits incurred		(1,604,466)	(2,208,377)
Change in unit linked liabilities at FVSI, net		(42,219)	(28,034)
Policy acquisition costs		(149,515)	(110,352)
Other underwriting expenses		(21,523)	(21,227)
TOTAL UNDERWRITING COSTS AND EXPENSES		(1,817,723)	(2,367,990)
NET UNDERWRITING INCOME		540,947	282,682
OTHER OPERATING (EXPENSES)/ INCOME			
Allowance for doubtful debts - contributions and re-takaful / reinsurance balances receivable	6	(44,143)	(17,759)
General and administrative expenses	18	(298,019)	(241,195)
Special commission income		56,610	72,051
Net gains on investments mandatorily measured at FVSI		13,691	14,055
Dividend income		7,696	7,016
Reversal of impairment on financial assets	10.e	361	134
Other income		862	1,548
TOTAL OTHER OPERATING EXPENSES		(262,942)	(164,150)
Net income for the year before zakat		278,005	118,532
Net income for the year attributable to takaful operations	27.2	(26,159)	(9,647)
Net income for the year before zakat attributable to the shareholders		251,846	108,885
Provision for zakat	21	(24,800)	(22,700)
Net income for the year after zakat attributable to the shareholders		227,046	86,185
Earnings per share (EPS)		5.68	2.15
Basic and diluted EPS	25		

Naser Abdullah Aloufi
Member-Board

Mahmoud Salim Dahduli
Chief Executive Officer - Acting


Robert Pereira
Chief Financial Officer

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


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

	SAR '000	
	2020	2019
Net income for the year after zakat attributable to the shareholders	227,046	86,185
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	10 (b) 16,340	21,974
- Remeasurement of EOSB	16.2 (6,224)	(1,341)
Total comprehensive income for the year	237,162	106,818

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Naser Abdullah Aloufi
Member-Board


 Mahmoud Salim Dahduli

Mahmoud Salim Dahduli
Chief Executive Officer - Acting



Robert Pereira
Chief Financial Officer

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

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, 2020	400,000	113,082	335,138	(1,528)	28,527	875,219
Total comprehensive income attributable to the shareholders :						
- Net income for the year after zakat attributable to the shareholders	-	-	227,046	-	-	227,046
- Net fair value changes on investments designated as FVOCI	-	-	-	-	16,340	16,340
- Remeasurement of EOSB	-	-	-	(6,224)	-	(6,224)
	-	-	227,046	(6,224)	16,340	237,162
Transfer to statutory reserve	-	45,409	(45,409)	-	-	-
Balance as at December 31, 2020	400,000	158,491	516,775	(7,752)	44,867	1,112,381

	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

عن المكتب المحاسب الزعيم



Naser Abdullah Aloufi
Member-Board



Mahmoud Salim Dahduli
Chief Executive Officer - Acting



Robert Pereira
Chief Financial Officer

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

STATEMENT OF CASH FLOWS

For the year ended December 31

	Notes	SAR '000	
		2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before zakat		278,005	118,532
Adjustments for non-cash items:			
Depreciation of property and equipment, net	8	9,113	8,105
Depreciation of right-of-use assets	7	6,629	5,667
Allowance for doubtful debts-contributions and re-takaful / reinsurance balances receivable	6	30,233	17,759
Unrealized gain on investments mandatorily measured at FVSI	10 (a)	(12,774)	(6,390)
Reversal of impairment loss		(361)	(134)
Finance cost		1,905	449
Provision for end-of-service benefits (EOSB)	16	5,947	4,136
		<u>318,697</u>	<u>148,124</u>
Changes in operating assets and liabilities:			
Contributions and re-takaful / reinsurance balances receivable	6	(258,272)	102,667
Re-takaful / reinsurance share of unearned contributions	11.2	(98,553)	(23,412)
Re-takaful / reinsurance share of outstanding claims	11.1 (a)	24,711	261,400
Re-takaful / reinsurance share of claims incurred but not reported	11.1 (a)	(13,544)	(2)
Re-takaful / reinsurance share of mathematical reserve at FVSI	11.1 (a)	(2)	88
Deferred policy acquisition costs	11.3	(43,079)	16,356
Prepayments and other assets	13	43,275	(86,604)
Accrued income on statutory deposit		(1,283)	(1,307)
Payable, accruals and other liabilities	14	151,499	(3,404)
Unit linked liabilities at FVSI	11.1 (a), 22	54,272	34,485
Re-takaful / reinsurance balances payable		82,805	38,510
Unearned contributions	11.2	81,747	(179,463)
Unearned re-takaful / reinsurance commission		6,110	2,790
Gross outstanding claims	11.1(a)	(45,072)	(210,495)
Claims incurred but not reported	11.1(a)	95,332	45,248
Contribution deficiency reserve	11.1(a)	48,649	17,269
Deposit against guarantees	12	1,383	(8,019)
Payables to SAMA		1,283	1,308
		<u>449,958</u>	<u>155,539</u>
Zakat paid	21	(17,828)	(15,457)
Takaful operations' surplus paid		(34,726)	-
End-of-service benefits paid (EOSB)		(3,111)	(1,976)
Net cash generated from operating activities		<u>394,293</u>	<u>138,106</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments mandatorily measured at FVSI	10 (a)	(2,249,378)	(1,764,416)
Disposals of investments mandatorily measured at FVSI	10 (a)	1,911,991	1,751,078
Purchase of investments designated as FVOCI	10 (b)	(65,084)	(99,450)
Disposals of investments designated as FVOCI	10 (b)	31,776	-
Movement in cash balance in equity share portfolio	10 (b)	(104)	190
Purchase of investments held at amortised cost	10 (c)	(889,833)	(1,795,001)
Disposal of investments held at amortised cost	10 (c)	1,325,000	1,770,000
Additions in property and equipment	8	(57,754)	(14,655)
Net cash generated from / (used in) investing activities		<u>6,614</u>	<u>(152,254)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease liability paid	15	(6,675)	(8,912)
Net cash used in financing activities		<u>(6,675)</u>	<u>(8,912)</u>
Net change in cash and cash equivalents		394,232	(23,060)
Cash and cash equivalents, at the beginning of the year	5	453,880	476,940
Cash and cash equivalents, at the end of the year	5	<u>848,112</u>	<u>453,880</u>
NON-CASH INFORMATION			
Changes in fair value of investments designated as FVOCI		16,340	21,974
Remeasurement of end-of-service benefits (EOSB)		6,224	1,341

في المجلس الاداري

Naser Abdullah Aloufi
Member-Board



Mahmoud Salim Dahduli
Chief Executive Officer - Acting



Robert Pereira
Chief Financial Officer

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

Notes to the financial information

For the year ended December 31, 2020

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 Central Bank ("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 statement of the Company as at and for the year ended 31 December 2020, has 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)."

2. BASIS OF PREPARATION

a) Basis of presentation and measurement

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 27). 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.

AL RAJHI COMPANY FOR COOPERATIVE INSURANCE

(A SAUDI JOINT STOCK COMPANY)

2. BASIS OF PREPARATION (continued)

a) Basis of presentation and measurement (continued)

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 27 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.

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

The Company has reviewed the key sources of estimation uncertainties disclosed in the annual financial statements against the backdrop of the COVID-19 pandemic. Management will continue to assess the situation, and reflect any required changes in future reporting periods.

On 11 March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews. In Saudi Arabia, the government has imposed a nationwide curfew for a certain period all in a bid to stem the spread of COVID-19 with the exception of some business sectors during the lockdown period. The curfew was lifted on 21 June 2020.

In response to the spread of the Covid-19 virus in the Country where the Company operates and its consequential disruption to the social and economic activities in those markets, the Company's management has proactively assessed its impacts on its operations and has taken a series of proactive and preventative measures and processes to ensure:

- the health and safety of its employees and the wider community where it is operating
- the continuity of its business throughout the Kingdom is protected and kept intact.

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2. BASIS OF PREPARATION (continued)

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

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

Medical technical reserves

Based on the management's assessment, the management believes that the Government's decision to assume the medical treatment costs for both Saudi citizens and expatriates has helped in reducing any unfavourable impact. During the lockdown, the Company saw a decline in medical reported claims (majorly elective and non-chronic treatment claims) which resulted in a drop in claims experience. However, subsequent to the lifting of lockdown since June 21, 2020, the Company is experiencing a surge in claims which is in line with the expectations of the Company's management. The Company's management has duly considered the impact of surge in claims in the current estimate of future contractual cashflows of the insurance contracts in force as at December 31, 2020 for its liability adequacy test. Based on the results, the Company has booked an amount of SR 21.6 mn (December 31, 2019: Nil) as a contribution deficiency reserve.

Motor technical reserves

In response to the Covid-19 pandemic, SAMA issued a circular 189 (the "circular") dated 08 May 2020 to all insurance companies in the Kingdom of Saudi Arabia. Amongst other things, the circular instructed insurance companies to extend the period of validity of all existing retail motor insurance policies by further two months as well as providing a two-month additional coverage for all new retail motor policies written within one month of this circular.

The Management, in conjunction with its appointed actuary, deliberated on a variety of internal factors and concluded, that the Company considers the extension of two months in exiting motor policies as new policy and record a premium deficiency reserve based on the expected claims for the extended 2 months period.

For new retail motor policies issued as per above circular, the premium is earned over the period of 12 month as the impact of earnings over the period of coverage. i.e 14 month are not considered significant by the management as no significant policies were written during that period.

The Company has performed a liability adequacy test using current estimates of future cash flows under its insurance contracts at segmented level for motor line of business and recorded a Contribution deficiency reserve amounting to SR 52.3 mn as at December 31, 2020 (December 31, 2019: Nil)

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2. BASIS OF PREPARATION (continued)

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

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 28.1.1, 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, 2020, the Company has unlisted equity investments of SAR 7.54 million (December 31, 2019 SAR 7.54 million).

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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, 2019, except for adoption of the following amendments to IFRS mentioned below which become applicable for annual reporting periods commencing on or after January 1, 2020. The management has assessed that the below amendments have no significant impact on the Company's financial statements.

a. New IFRS standards, interpretations and amendments

The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting of Standards Board (IASB) have been effective from January 1, 2020, and accordingly adopted by the Company, as applicable:

Amendments to IFRS 3 - Definition of a Business

Amendments to IAS 1 and IAS 8 - Definition of Material

Amendments to References to the Conceptual Framework in IFRS Standards

Amendments to IFRS 9, IAS 39 and IFRS 7L Interest rate Benchmark Reform

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 financial 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, 2023, and will supersede IFRS 4 - "Insurance contracts"

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, 2023. 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.

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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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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.

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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 28.1.1. 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 2020.

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 risk 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 28.1.1 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 Contributions and re-takaful/ reinsurance balances receivable are 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 rewards.

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 pertain to individual Protection and Saving insurance contracts which insure 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).

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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:

	<u>Year</u>
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 Central Bank ("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 by 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.

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

Last three months 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 27.2 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 Central Bank ("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.

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5. CASH AND CASH EQUIVALENTS

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

	Takaful operations	
	December 31, 2020	December 31, 2019
SAR'000		
Bank balances and cash	185,564	319,609
Deposits maturing within 3 months from the acquisition date	625,000	100,000
Cash and cash equivalents in the statement of cash flow	810,564	419,609
Less : Impairment loss	(169)	(27)
Cash and bank balances, net	810,395	419,582
Deposits against letters of guarantee	21,073	22,456
Total	831,468	442,038
	Shareholders' operations	
	December 31, 2020	December 31, 2019
SAR'000		
Bank balances and cash	38,194	34,271
Cash balance with Al Rajhi Capital	(646)	-
Cash and cash equivalents in the statement of cash flow	37,548	34,271
Cash at banks (statutory deposit income)	4,709	4,709
Total	42,257	38,980
Total	873,725	481,018

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

Receivables comprise amounts due from the following:

	December 31, 2020	December 31, 2019
SAR'000		
Policyholders	204,041	147,344
Brokers and agents	150,716	132,590
Related parties	311,989	143,711
Receivables from re-takaful / reinsurance	23,636	8,465
	690,382	432,110
Provision for doubtful receivables	(126,194)	(95,961)
Contributions and re-takaful / reinsurance balances receivable – net	564,188	336,149

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

	2020	2019
	SAR'000	
Balance, January 1	95,961	78,202
Provision for the year	44,143	17,759
Write-offs	(13,910)	-
Balance, December 31	126,194	95,961

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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'	204,041	59,806	26,651	27,103	19,801	5,237	65,443
- Brokers and agents	150,716	28,202	82,389	10,147	8,839	8,130	13,009
- Due from related parties	311,989	3,037	74,936	218,978	12,937	537	1,564
- Receivable from Re-Takaful/ Reinsurance	23,636	-	9,574	6,740	5,262	215	1,845
2020	690,382	91,045	193,550	262,968	46,839	14,119	81,861

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

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 64.5% of the premiums receivable as at December 31, 2020 (December 31, 2019: 61.2%).

7. RIGHT -OF-USE ASSETS

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

	Offices	Vehicles	Equipments	Total 2020	Total 2019
At the beginning of the year	7,213	1,370	1,189	9,772	14,011
Additions	40,506	-	-	40,506	1,428
Depreciation	(5,691)	(409)	(529)	(6,629)	(5,667)
At the end of the year	42,028	961	660	43,649	9,772

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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	Capital work in progress SAR'000	Total 2020 SAR'000	Total 2019 SAR'000
Cost:								
At the beginning of the year	3,971	33,192	1,719	13,239	37,818	26,394	116,333	75,284
Additions during the year	477	27,125	-	2,011	10,671	17,470	57,754	41,049
At the end of the year	4,448	60,317	1,719	15,250	48,489	43,864	174,087	116,333
Accumulated depreciation:								
At the beginning of the year	3,167	18,656	1,588	10,717	30,548	-	64,676	56,571
Charge for the year (note 18)	378	3,725	93	1,453	3,464	-	9,113	8,105
At the end of the year	3,545	22,381	1,681	12,170	34,012	-	73,789	64,676
Net book value as at								
December 31, 2020	903	37,936	38	3,080	14,477	43,864	100,298	
December 31, 2019	804	14,536	131	2,522	7,270	26,394		51,657

9. STATUTORY DEPOSIT

Statutory deposit amounting to SAR 40 million (December 2019: 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 Central Bank ("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 (2019: SAR 0.03 million)

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10. INVESTMENTS

Investments are classified as follows:

SAR'000	Notes	Takaful operations	
		December 31, 2020	December 31, 2019
- Investments mandatorily measured at FVSI (mutual funds)*	10 (a)	461,621	170,552
- Investments designated as FVOCI (equity shares)	10 (b)	30,107	29,982
- Investments held at amortised cost (deposits and sukuks)	10 (c)	1,229,030	1,598,708
Total		1,720,758	1,799,242

* The above investments include Unit linked investments of SAR 139.14 mn. (December 31, 2019: SAR 85.71 mn).

SAR'000		Shareholders' operations	
		December 31, 2020	December 31, 2019
- Investments mandatorily measured at FVSI (mutual funds)	10 (a)	72,098	13,004
- Investments designated as FVOCI (equity shares)	10 (b)	296,341	246,714
- Investments held at amortised cost (deposits and sukuks)	10 (c)	150,009	214,997
Total		518,448	474,715

Movement in the investment balance is as follows:

a) Investments mandatorily measured at FVSI (mutual

SAR'000	Takaful operations	
	December 31, 2020	December 31, 2019
At the beginning of the year	170,552	129,853
Purchased during the year	1,326,378	1,219,416
Sold during the year	(1,047,936)	(1,185,249)
Net change in fair values during the year	12,627	6,532
At the end of the year	461,621	170,552

SAR'000	Shareholders' operations	
	December 31, 2020	December 31, 2019
At the beginning of the year	13,004	33,975
Purchased during the year	923,000	545,000
Sold during the year	(864,053)	(565,829)
Net change in fair values during the year	147	(142)
At the end of the year	72,098	13,004
Total	533,719	183,556

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10. INVESTMENTS (continued)

b) Investments designated as FVOCI (equity shares)

SAR'000	Takaful operations	
	December 31, 2020	December 31, 2019
Opening balance	29,982	25,327
Changes in fair value of investments	125	4,655
Closing balance	30,107	29,982
SAR'000	Shareholders' operations	
	December 31, 2020	December 31, 2019
At the beginning of the year		
Balance of equity shares portfolio with Al Rajhi Capital	239,276	122,507
Cash balance with Al Rajhi Capital	(104)	86
Equity - unlisted shares	7,542	7,542
Total at the beginning of the year	246,714	130,135
Movement during the year		
Purchased during the year	65,084	99,450
Sold during the year	(31,776)	-
Net change in fair values during the year	16,215	17,319
Net change in cash balance with Al Rajhi Capital	104	(190)
Closing balance of equity shares portfolio	296,341	246,714
Portfolio balance with Al Rajhi Capital at the end of the year	288,799	239,276
Cash balance with Al Rajhi Capital	-	(104)
Equity - unlisted shares	7,542	7,542
At the end of the year	296,341	246,714
Total	326,448	276,696

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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	SAR' 000	
	Takaful operations	
	December 31, 2020	December 31, 2019
At the beginning of the year		
Murabaha deposits	1,550,000	1,655,000
Sukuk	50,000	50,000
Purchases	629,834	1,250,000
Disposals / maturities	(1,000,000)	(1,355,000)
At the end of the year, gross	1,229,834	1,600,000
Less: Impairment loss	(804)	(1,292)
At the end of the year, net	1,229,030	1,598,708
SAR'000	SAR' 000	
	Shareholders' operations	
	December 31, 2020	December 31, 2019
At the beginning of the year		
Murabaha deposits	175,001	65,000
Sukuk	40,074	20,074
Purchased during the year	260,000	545,001
Maturities during the year	(325,000)	(415,000)
At the end of the year, gross	150,075	215,075
Less: Impairment loss	(66)	(78)
At the end of the year, net	150,009	214,997
Total	1,379,039	1,813,705

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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

December 31, 2020

Financial statement line item	Stage 1	Stage 2	Stage 3	Total	December
	12-month ECL SAR'000	Lifetime ECL SAR'000	Lifetime ECL SAR'000		31, 2019
Bank balances	831,468	-	-	831,468	442,038
Investments held at amortised cost	1,229,834	-	-	1,229,834	1,600,000
Gross carrying amount	2,061,302	-	-	2,061,302	2,042,038
Loss allowance	(971)	-	-	(971)	(1,319)
Carrying amount	2,060,331	-	-	2,060,331	2,040,719

December 31, 2020

Credit grade	Stage 1	Stage 2	Stage 3	Total	December
	12-month ECL SAR'000	Lifetime ECL SAR'000	Lifetime ECL SAR'000		31, 2019
Investment grade	2,061,302	-	-	2,061,302	2,042,038
Gross carrying amount	2,061,302	-	-	2,061,302	2,042,038
Loss allowance	(971)	-	-	(971)	(1,319)
Carrying amount	2,060,331	-	-	2,060,331	2,040,719

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.

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

ii) Shareholders' operations

December 31, 2020

Financial statement line item	December 31, 2020			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	SAR'000
Bank balances	42,257	-	-	42,257	38,980
Investments held at amortised cost	150,075	-	-	150,075	215,075
Statutory deposit	40,000	-	-	40,000	40,000
Gross carrying amount	232,332	-	-	232,332	294,055
Loss allowance	(96)	-	-	(96)	(109)
Carrying amount	232,236	-	-	232,236	293,946

December 31, 2020

Credit grade	December 31, 2020			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	SAR'000
Investment grade	232,332	-	-	232,332	294,055
Non investment grade	-	-	-	-	-
Gross carrying amount	232,332	-	-	232,332	294,055
Loss allowance	(96)	-	-	(96)	(109)
Carrying amount	232,236	-	-	232,236	293,946

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.

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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, 2020	1,319	-	-	1,319
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	485	-	-	485
Net re-measurement of loss allowance	-	-	-	-
Financial assets derecognised during the year	(833)	-	-	(833)
Write-offs	-	-	-	-
Total loss allowance for the year	(348)	-	-	(348)
Loss allowance as at December 31, 2020	971	-	-	971

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, 2020	109	-	-	109
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	344	-	-	344
Net re-measurement of loss allowance	-	-	-	-
Financial assets derecognised during the year	(357)	-	-	(357)
Write-offs	-	-	-	-
Total loss allowance for the year	(13)	-	-	(13)
Loss allowance as at December 31, 2020	96	-	-	96

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11. TECHNICAL RESERVES

11.1 Net outstanding claims and reserves

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

SAR'000	December 31, 2020	December 31, 2019
Outstanding claims	436,979	458,876
Less: Realizable value of salvage and subrogation	<u>(128,450)</u>	<u>(105,275)</u>
	308,529	353,601
Claims incurred but not reported	872,294	776,962
Contribution deficiency reserve	<u>74,952</u>	<u>26,303</u>
	1,255,775	1,156,866
Unit linked liabilities at FVSI	<u>141,093</u>	<u>86,821</u>
	1,396,868	1,243,687
Less:		
Re-takaful / reinsurance share of outstanding claims	85,469	110,180
Re-takaful / reinsurance share of claims incurred but not reported	<u>26,957</u>	<u>13,413</u>
	112,426	123,593
Net outstanding claims and reserves	<u>1,284,442</u>	<u>1,120,094</u>

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 2020:

<i>Accident year</i>	<i>2016 & prior years SAR'000</i>	<i>2017 SAR'000</i>	<i>2018 SAR'000</i>	<i>2019 SAR'000</i>	<i>2020 SAR'000</i>	<i>Total SAR'000</i>
Estimate of ultimate claims cost at end of accident year	3,408,902	2,211,659	2,589,445	2,349,162	1,703,121	1,703,121
One year later	3,400,823	2,285,646	2,561,928	2,294,880	-	2,294,880
Two years later	3,371,621	2,242,740	2,522,616	-	-	2,522,616
Three years later	3,379,089	2,213,678	-	-	-	2,213,678
Four years later	3,374,393	-	-	-	-	3,374,393
Current estimate of cumulative claims incurred	<u>3,374,393</u>	<u>2,213,678</u>	<u>2,522,616</u>	<u>2,294,880</u>	<u>1,703,121</u>	<u>12,108,688</u>
Cumulative payments to date	<u>3,316,834</u>	<u>2,084,920</u>	<u>2,398,203</u>	<u>1,976,112</u>	<u>1,076,844</u>	<u>10,852,913</u>
Total gross insurance outstanding claims provision per the statement of financial position	<u>57,559</u>	<u>128,758</u>	<u>124,413</u>	<u>318,768</u>	<u>626,277</u>	<u>1,255,775</u>

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11. TECHNICAL RESERVES

11.1 Net outstanding claims and reserves (Continued)

b) Claim development: (continued)

Gross insurance contract outstanding claims provision for 2019:

<i>Accident year</i>	<i>2015 & prior years SAR'000</i>	<i>2016 SAR'000</i>	<i>2017 SAR'000</i>	<i>2018 SAR'000</i>	<i>2019 SAR'000</i>	<i>Total SAR'000</i>
Estimate of ultimate claims cost at end of accident year	2,737,879	1,186,908	2,211,659	2,589,445	2,349,162	2,349,162
One year later	2,221,994	1,214,811	2,285,646	2,561,928	-	2,561,928
Two years later	2,186,012	1,233,430	2,242,741	-	-	2,242,741
Three years later	2,138,191	1,231,526	-	-	-	1,231,526
Four years later	2,104,935	-	-	-	-	2,104,935
Current estimate of cumulative claims incurred	2,104,935	1,231,526	2,242,741	2,561,928	2,349,162	10,490,292
Cumulative payments to date	2,104,799	1,201,893	2,075,310	2,366,822	1,584,602	9,333,426
Total gross insurance outstanding claims provision per the statement of financial position	136	29,633	167,431	195,106	764,560	1,156,866

11.2 Movement in unearned contributions

Movement in unearned contributions comprise of the following:

Year ended December 31, 2020

SAR'000	Gross	Re-takaful (Reinsurance)	XOL	Net
Balance at the beginning of the year	1,123,170	(111,870)	-	1,011,300
Contribution written during the year	2,732,873	(408,465)	(8,256)	2,316,152
Contribution earned during the year	(2,651,126)	309,912	8,256	(2,332,958)
Balance at the end of the year	1,204,917	(210,423)	-	994,494

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

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11. TECHNICAL RESERVES (Continued)

11.3 Movement in deferred policy acquisition costs

SAR '000	December 31, 2020	December 31, 2019
Balance at the beginning of the year	44,512	60,868
Incurred during the year	192,594	93,996
Amortized / written off during the year	(149,515)	(110,352)
Balance at the end of the year	87,591	44,512

11.4 Movement in unearned Re-takaful commission income

SAR '000	December 31, 2020	December 31, 2019
Balance at the beginning of the year	8,792	6,002
Incurred during the year	28,775	12,451
Amortized during the year	(22,665)	(9,661)
Balance at the end of the year	14,902	8,792

12. COMMITMENTS AND CONTIGENCIES

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

SAR'000	December 31, 2020	December 31, 2019
Letters of guarantee	21,073	22,456
Total	21,073	22,456

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, however management has made provisions to cover any eventualities.

c) The company has embarked into a digital transformation phase which comprises of multiple projects. As none of the projects are completed and duly handed over to the business, it has been classified as capital work in progress. Relating to these projects the company has a commitment of SAR 69.02 mn and out of which SAR 43.86 mn (December 31, 2019: SAR 26.4 mn) is already paid and classified as capital work in progress.

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13. PREPAYMENTS AND OTHER ASSETS

SAR '000	December 31, 2020	December 31, 2019
Accrued investment income	24,440	25,101
Advances to network hospitals	17,032	25,868
Prepayments to GAZT and others	14,123	17,027
Prepayments to workshops	6,715	21,506
Prepayments to computer software	6,232	6,281
Prepayments to staff medical policy	4,945	8,808
Advance to employees	4,394	4,793
Prepaid rent	1,992	4,138
Other assets	6,664	16,290
	86,537	129,812

14. PAYABLE, ACCRUALS AND OTHER LIABILITIES

SAR '000	December 31, 2020	December 31, 2019
Payables to policyholders against claims	70,504	12,345
Accrued expenses	78,760	51,257
Marketing representative commissions	9,837	9,900
Provision for leave encashment	1,562	1,537
Payable to GAZT	51,577	19,211
Other liabilities	67,961	34,452
	280,201	128,702

15. LEASE LIABILITIES

	December 31, 2020	December 31, 2019
As at 1 January 2020	6,978	13,810
Additions	40,506	1,631
Finance cost	1,905	449
Lease payments	(6,675)	(8,912)
As at 31 December 2020	42,714	6,978

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16. END OF SERVICE BENEFITS (EOSB)

16.1 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".

16.2 Movement of defined benefit obligation

	December 31, 2020	December 31, 2019
	SAR'000	
Opening balance	18,620	15,119
Charge to statement of income	5,947	4,136
Charge to statement of comprehensive income	6,224	1,341
Payment of benefits during the year	(3,111)	(1,976)
Closing balance	<u>27,680</u>	<u>18,620</u>

	December 31, 2020	December 31, 2019
	SAR'000	
Present value of defined benefit obligation as at January 1	18,620	15,119
Current service costs	5,249	3,495
Financial costs	698	641
Remeasurement gain from experience adjustments	6,224	1,341
Benefits paid during the year	(3,111)	(1,976)
Present value of defined benefit obligation as at December 31	<u>27,680</u>	<u>18,620</u>

16.3 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, 2020	December 31, 2019
Valuation discount rate	2.50%	3.75%
Expected rate of increase in salary level across different age	3.00%	5.00%

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 actuarial assumptions, holding other assumptions constant, the amount of defined benefit obligations would have been:

	December 31, 2020	
	SAR'000	
	Increase	Decrease
Discount rate (1.0% movement)	25,943	29,639
Future salary growth (1.0% movement)	29,746	25,815

	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

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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Determination of fair value and fair value hierarchy (continued)

a. Carrying amounts and fair value (continued)

SAR'000s	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
December 31, 2020					
Financial assets measured at fair value					
- Investments mandatorily measured at FVSI	465,047	465,047	68,672	-	533,719
- Investments designated as FVOCI – Quoted securities	318,906	318,906	-	-	318,906
- Investments designated as FVOCI – Unquoted securities	7,542	-	-	7,542	7,542
	<u>791,495</u>	<u>783,953</u>	<u>68,672</u>	<u>7,542</u>	<u>860,167</u>

Financial assets not measured at fair value

- Cash and cash equivalents	873,725	-	-	-	873,725
- Investments held at amortised cost	1,379,039	-	-	-	1,379,039
- Statutory deposit	39,969	-	-	-	39,969
- Other assets	24,440	-	-	-	24,440
	<u>2,317,173</u>	-	-	-	<u>2,317,173</u>

SAR'000s	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
December 31, 2019					
Financial assets measured at fair value					
- Investments mandatorily measured at FVSI	115,103	115,103	68,453	-	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
	<u>391,799</u>	<u>384,257</u>	-	<u>7,542</u>	<u>460,252</u>

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 deposits at amortised cost	39,969	-	-	-	39,969
- Other assets	17,152	-	-	-	17,152
	<u>2,351,844</u>	-	-	-	<u>2,351,844</u>

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

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Determination of fair value and fair value hierarchy (continued)

a. Carrying amounts and fair value (continued)

SAR'000s	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
December 31, 2020					
Financial liabilities measured at fair					
- Unit linked liabilities at FVSI	141,093	141,093	-	-	141,093
	141,093	141,093	-	-	141,093

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

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

Shareholders' operations

SAR'000s	Financial assets at FVOCI – Unquoted securities
Balance at January 1, 2020	7,542
Balance at December 31, 2020	7,542

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i) Level 3 fair values (continued)

Reconciliation of Level 3 fair values

Shareholders' operations

SAR'000s	Financial assets at FVOCI – Unquoted securities
Balance at January 1, 2020	7,542
Balance at December 31, 2020	7,542

18. GENERAL AND ADMINISTRATIVE EXPENSES

		December 31, 2020	December 31, 2019
	Notes	SAR'000	
Employee costs		193,061	167,271
Office expenses		16,357	12,851
Depreciation	8	9,114	8,105
Legal and professional fees		34,125	26,957
Information technology expenses		21,849	13,240
Advertising and marketing expenses		6,500	7,379
Communication expenses		1,272	1,475
Travel and lodging expenses		1,968	3,508
Others		13,773	409
		298,019	241,195

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19. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's Board of directors in their function as chief operating decision maker 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, 2019.

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, 2020 and December 31, 2019, its total revenues, expenses, and net income for period ended, are as follows:

For the year ended December 31, 2020

Customers' category	Medical	Motor	Property & casualty	Protection & Savings	Total
			SAR'000		
<u>GROSS CONTRIBUTION WRITTEN</u>					
Retail	23,986	884,820	1,521	76,576	986,903
Very small	11,216	-	-	-	11,216
Small	46,138	12,197	257	-	58,592
Medium	45,612	124,339	-	-	169,951
Corporate	145,680	885,658	393,613	81,260	1,506,211
<u>TOTAL GROSS CONTRIBUTION WRITTEN</u>	<u>272,632</u>	<u>1,907,014</u>	<u>395,391</u>	<u>157,836</u>	<u>2,732,873</u>

For the year ended December 31, 2019

Customers' category	Medical	Motor	Property & casualty	Protection & Savings	Total
			SAR'000		
<u>GROSS CONTRIBUTION WRITTEN</u>					
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
<u>TOTAL GROSS CONTRIBUTION WRITTEN</u>	<u>499,276</u>	<u>1,821,057</u>	<u>145,602</u>	<u>103,869</u>	<u>2,569,804</u>

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19. OPERATING SEGMENTS (continued)

As at December 31, 2020

Operating segments	Takaful operations					Total	
	Medical	Motor	Property & Casualty	Protection & Savings	Total - Takaful operations		Shareholders' operations
	SAR'000						
Assets:							
Cash and cash equivalents	-	-	-	-	831,468	42,257	873,725
Contributions and re-takaful / reinsurance balances receivable	-	-	-	-	564,188	-	564,188
Re-takaful / reinsurance share of unearned contributions	-	19,311	187,507	3,605	210,423	-	210,423
Re-takaful / reinsurance share of outstanding claims	-	15,523	54,168	15,778	85,469	-	85,469
Re-takaful / reinsurance share of claims incurred but not reported	-	-	11,409	15,548	26,957	-	26,957
Deferred policy acquisition costs	10,037	71,043	5,978	533	87,591	-	87,591
Investments mandatorily measured at FVSI	-	-	-	-	461,621	72,098	533,719
Investments designated as FVOCI	-	-	-	-	30,107	296,341	326,448
Investments held at amortised cost	-	-	-	-	1,229,030	150,009	1,379,039
Right-of-use assets	-	-	-	-	-	43,649	43,649
Unallocated assets	-	-	-	-	(470,838)	699,892	229,054
Total assets	10,037	105,877	259,062	35,464	3,056,016	1,304,246	4,360,262
Liabilities, accumulated surplus & equity							
Unearned contributions	116,788	878,934	204,007	5,188	1,204,917	-	1,204,917
Unearned re-takaful / reinsurance commission	-	548	14,354	-	14,902	-	14,902
Gross outstanding claims	2,919	223,442	59,295	22,873	308,529	-	308,529
Claims incurred but not reported	95,645	738,659	16,628	21,362	872,294	-	872,294
Contribution deficiency reserve	21,603	52,784	565	-	74,952	-	74,952
Lease obligations	-	-	-	-	-	42,714	42,714
Unallocated liabilities, equity and surplus	-	-	-	-	580,422	1,261,532	1,841,954
Total liabilities, accumulated surplus and equity	236,955	1,894,367	294,849	49,423	3,056,016	1,304,246	4,360,262

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19. OPERATING SEGMENTS (continued)

As at December 31, 2019

Operating segments	Takaful operations					Total - Takaful operations	Shareholders' operations	Total
	Medical	Motor	Property & casualty	Protection & Savings	Total - Takaful operations			
	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	-	-	-	-	-	(238,916)	461,319	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

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19. OPERATING SEGMENTS (continued)

For the year ended December 31, 2020

Operating segments	Medical	Motor	Property & Casualty	Protection & Savings	Total
			SAR'000		
REVENUES					
Gross contributions written	272,632	1,907,014	395,391	157,836	2,732,873
Re-takaful / reinsurance contributions ceded	-	(3,663)	(360,290)	(44,512)	(408,465)
Excess of loss expenses (XOL)	-	(4,863)	(3,393)	-	(8,256)
Net contributions written	272,632	1,898,488	31,708	113,324	2,316,152
Changes in unearned contributions, net	76,930	(62,488)	1,508	856	16,806
Net contributions earned	349,562	1,836,000	33,216	114,180	2,332,958
Re-takaful / reinsurance commission income	-	1,658	21,007	-	22,665
Other underwriting income	(59)	754	53	2,299	3,047
TOTAL REVENUES	349,503	1,838,412	54,276	116,479	2,358,670
UNDERWRITING COSTS AND EXPENSES					
Gross claims paid and loss adjustment expenses	(404,636)	(1,006,076)	(29,339)	(53,165)	(1,493,216)
Surrender and maturities	-	-	-	(14,657)	(14,657)
Expenses incurred related to claims	(1,182)	(50,704)	(32)	-	(51,918)
Re-takaful / re-insurance share of claims paid	-	1,743	27,699	35,959	65,401
Net claims and other benefits paid	(405,818)	(1,055,037)	(1,672)	(31,863)	(1,494,390)
Changes in outstanding claims, net	20,253	3,561	(985)	(2,468)	20,361
Changes in incurred but not reported (IBNR) claims, net	78,350	(154,056)	(3,580)	(2,502)	(81,788)
Contribution deficiency reserve	3,689	(52,784)	446	-	(48,649)
Net claims and other benefits incurred	(303,526)	(1,258,316)	(5,791)	(36,833)	(1,604,466)
Change in unit linked liabilities at FVSI, net	-	-	-	(42,219)	(42,219)
Policy acquisition costs	(26,829)	(94,882)	(12,691)	(15,113)	(149,515)
Other underwriting expenses	2,569	(18,048)	(3,937)	(2,107)	(21,523)
TOTAL UNDERWRITING COSTS AND EXPENSES	(327,786)	(1,371,246)	(22,419)	(96,272)	(1,817,723)
NET UNDERWRITING INCOME	21,717	467,166	31,857	20,207	540,947
OTHER OPERATING EXPENSES					
Allowance for doubtful debts - contribution and re-takaful / reinsurance balances receivable	-	-	-	-	(44,143)
General and administrative expenses	-	-	-	-	(298,019)
Special commission income	-	-	-	-	56,610
Net gains on investments mandatorily measured at FVSI	-	-	-	-	13,691
Dividend income	-	-	-	-	7,696
Impairment loss on financial assets	-	-	-	-	361
Other income	-	-	-	-	862
NET INCOME FOR THE YEAR BEFORE ZAKAT					278,005

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19. 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 / reinsurance 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)
Change in contribution 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	-	-	-	(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

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20. RELATED PARTY TRANSACTIONS AND BALANCES

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

	Transactions for the year ended		Balance receivable / (payable) as at	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
SAR'000				
<u>Major shareholders</u>				
Gross contribution written	720,610	861,880	309,825	142,152
Claims paid	465,270	615,901	-	(3,348)
Claims incurred and notified during the period	440,395	662,212	(169,437)	(194,312)
Reimbursement from related party	-	-	-	-
Bank Balance	-	-	206,432	332,713
Investment in shares of Al Rajhi Banking and Investment Corporation	-	-	33,517	29,783
<u>Entities controlled, jointly controlled or significantly influenced by related parties</u>				
Gross contribution written	12,990	2,235	2,165	1,559
Claims paid	2,751	1,534	-	-
Claims incurred and notified during the period	2,550	1,749	(367)	(568)
Investments managed by affiliates	5,011	6,921	345,047	115,228
Income received from sale of investment in Al Rajhi Capital commodity fund	5,388	6,772	-	-
Investment management fee paid to Al Rajhi Capital	3,089	2,829	-	-
Commission to Al Rajhi Takaful Agency	7,504	4,739	(3,029)	(6,815)

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

	For the year ended	
	December 31, 2020	December 31, 2019
SAR'000		
Salaries and other allowances	7,300	7,070
End of service benefits	3,934	3,461
	11,234	10,531
Board remuneration	1,676	2,069
Shariah committee remuneration	270	248

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21. ZAKAT AND INCOME TAX

A summary of Movement in the Zakat and income tax accrued during the year ended 31 December 2020 and the year ended 31 December 2019 are as follows:

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

	December 31, 2020	December 31, 2019
	SAR'000	SAR'000
Equity	875,219	768,401
Opening allowances and other	227,685	184,623
Book value of long term assets	(191,536)	(117,317)
	911,368	835,707
Zakatable income for the year	175,392	72,293
Zakat base	1,086,760	908,000
Zakat @ 2.5%	27,169	22,700
Reversal of Zakat Provision	(2,369)	-
	24,800	22,700

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, 2020	December 31, 2019
	SR '000	SR '000
Balance at beginning of the year	40,932	33,689
Provided during the year	24,800	22,700
Payments during the year	(17,828)	(15,457)
Balance at end of the year	47,904	40,932

Shareholdings

Following are the shareholding structure of the Company as on:

	December 31, 2020	December 31, 2019
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 2019.

GAZT has issued assessments for the years 2015 to 2018, demanding an additional Zakat as assessed by GAZT amounting to SAR 11.73 million pertains to these years. The Company has filed objections in this regard with the Authority, however, the Company has kept the provision in the financial statements for any possible outcome against the Company.

22. 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, 2020	December 31, 2019
	SAR'000	SAR'000
At the beginning of the year	86,821	52,336
Net changes in reserve during the year	42,220	27,946
Net change in fair values during the year	12,052	6,539
At the end of the year	<u>141,093</u>	<u>86,821</u>

23. SHARE CAPITAL

The authorized, issued and paid up capital of the Company was SAR 400 million at December 31, 2020 (December 31, 2019: SAR 400 million) consisting of 40 million shares (December 31, 2019: 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, 2020		
	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
	<u>40,000,000</u>	<u>400,000</u>	<u>400,000</u>
	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
	<u>40,000,000</u>	<u>400,000</u>	<u>400,000</u>

24. 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 December 31, 2020 consists of paid-up share capital of SAR 400 million, statutory reserves of SAR 163.4 million and retained earnings of SAR 511.8 million (December 31, 2019: paid-up share capital of SAR 400 million, statutory reserves of SAR 113.1 million and retained earnings of SAR 335.1 million.) in the statement of financial position

25. EARNINGS PER SHARE ("EPS")

Earnings per share for the year ended December 31, 2020 and year ended December 31, 2019 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, 2020 and December 31, 2019.

26. TAKAFUL OPERATIONS' SURPLUS

	December 31, 2020	December 31, 2019
	<u>SAR'000</u>	<u>SAR'000</u>
Opening surplus distribution payable at beginning of the year	56,883	47,236
Total income attributed to the insurance operations during the year	26,159	9,647
Surplus paid to policy holders	<u>(34,726)</u>	-
Closing surplus distribution payable at the end of the year	<u>48,316</u>	<u>56,883</u>

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27. SUPPLEMENTARY INFORMATION

27.1 Statement of financial position

SAR '000

	December 31, 2020		December 31, 2019		Total
	Takaful operations	Shareholders' operations	Takaful operations	Shareholders' operations	
ASSETS:					
Cash and cash equivalents	831,468	42,257	442,038	38,980	481,018
Contributions and re-takaful / reinsurance balances receivable - net	564,188	-	336,149	-	336,149
Re-takaful / reinsurance share of unearned contributions	210,423	-	111,870	-	111,870
Re-takaful / reinsurance share of outstanding claims	85,469	-	110,180	-	110,180
Re-takaful / reinsurance share of outstanding claims IBNR	26,957	-	13,413	-	13,413
Re-takaful / reinsurance share of mathematical reserve at FVSI	23	-	21	-	21
Deferred policy acquisition costs	87,591	-	44,512	-	44,512
Investments mandatorily measured at FVSI	461,621	72,098	170,552	13,004	183,556
Investments designated as FVOCI	30,107	296,341	29,982	246,714	276,696
Due (to) / from shareholders' / takaful operations	(533,451)	533,451	(328,011)	328,011	-
Investments held at amortised cost	1,229,030	150,009	1,598,708	214,997	1,813,705
Prepayments and other assets	62,590	23,947	89,074	40,738	129,812
Property and equipment, net	-	100,298	-	51,657	51,657
Statutory deposit	-	39,969	-	39,969	39,969
Accrued income on statutory deposit	-	2,227	-	944	944
Right-of-use assets	-	43,649	-	9,772	9,772
TOTAL ASSETS	3,056,016	1,304,246	2,618,488	984,786	3,603,274

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27. SUPPLEMENTARY INFORMATION (continued)
27.1 Statement of financial position (continued)

SAR '000

	December 31, 2020		December 31, 2019			
	Takaful operations	Shareholders' operations	Total	Takaful operations	Shareholders' operations	Total
LIABILITIES:						
Payables, accruals and other liabilities	214,502	65,699	280,201	92,374	36,328	128,702
Re-takaful / reinsurance balances payable	177,442	-	177,442	94,637	-	94,637
Unearned contributions	1,204,917	-	1,204,917	1,123,170	-	1,123,170
Unearned re-takaful / reinsurance commission income	14,902	-	14,902	8,792	-	8,792
Gross outstanding claims	308,529	-	308,529	353,601	-	353,601
Claim Incurred but not reported	872,294	-	872,294	776,962	-	776,962
Contribution deficiency reserve	74,952	-	74,952	26,303	-	26,303
Unit linked liabilities at FVSI	141,093	-	141,093	86,821	-	86,821
End-of-service benefits (EOSB)	-	27,680	27,680	-	18,620	18,620
Provision for zakat and income tax	-	47,904	47,904	-	40,932	40,932
Payables to SAMA	-	6,937	6,937	-	5,654	5,654
Lease obligations	-	42,714	42,714	-	6,978	6,978
	3,008,631	190,934	3,199,565	2,562,660	108,512	2,671,172
Takaful operations' surplus payable	48,316	-	48,316	56,883	-	56,883
TOTAL LIABILITIES AND ACCUMULATED SURPLUS	3,056,947	190,934	3,247,881	2,619,543	108,512	2,728,055
EQUITY:						
Share capital	-	400,000	400,000	-	400,000	400,000
Statutory reserve	-	158,491	158,491	-	113,082	113,082
Retained earnings	-	516,775	516,775	-	335,138	335,138
Remeasurement reserve for EOSB	-	(7,752)	(7,752)	-	(1,528)	(1,528)
Fair value reserve - Investments designated as FVOCI	(931)	45,798	44,867	(1,055)	29,582	28,527
TOTAL EQUITY	(931)	1,113,312	1,112,381	(1,055)	876,274	875,219
TOTAL LIABILITIES, ACCUMULATED SURPLUS AND EQUITY	3,056,016	1,304,246	4,360,262	2,618,488	984,786	3,603,274
COMMITMENTS AND CONTINGENCIES	21,073	-	21,073	22,456	-	22,456

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27. SUPPLEMENTARY INFORMATION (continued)

27.2 Statement of income (continued)

For the year ended December 31

	SAR '000					
	2020			2019		
	Takaful operations	Shareholders' operations	Total	Takaful operations	Shareholders' operations	Total
REVENUES						
Gross contributions written	2,732,873	-	2,732,873	2,569,804	-	2,569,804
Re-takaful / reinsurance contributions ceded - domestic	(9,728)	-	(9,728)	(3,748)	-	(3,748)
Re-takaful / reinsurance contributions ceded - foreign	(398,737)	-	(398,737)	(122,087)	-	(122,087)
Excess of loss expenses – foreign	(8,256)	-	(8,256)	(7,833)	-	(7,833)
Net contributions written	2,316,152	-	2,316,152	2,436,136	-	2,436,136
Changes in unearned contributions, net	16,806	-	16,806	202,875	-	202,875
Net contributions earned	2,332,958	-	2,332,958	2,639,011	-	2,639,011
Re-takaful / reinsurance commission income	22,665	-	22,665	9,661	-	9,661
Other underwriting income	3,047	-	3,047	2,000	-	2,000
TOTAL REVENUES	2,358,670	-	2,358,670	2,650,672	-	2,650,672
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid and loss adjustment expenses	(1,493,216)	-	(1,493,216)	(2,331,524)	-	(2,331,524)
Surrenders and maturities	(14,657)	-	(14,657)	(7,924)	-	(7,924)
Expenses incurred related to claims	(51,918)	-	(51,918)	(67,450)	-	(67,450)
Reinsurers' / Retakaful share of claims paid	65,401	-	65,401	311,941	-	311,941
Net claims and other benefits paid	(1,494,390)	-	(1,494,390)	(2,094,957)	-	(2,094,957)
Changes in outstanding claims, net	20,361	-	20,361	(50,905)	-	(50,905)
Changes in incurred but not reported (IBNR) claims, net	(81,788)	-	(81,788)	(45,246)	-	(45,246)
Change in contribution deficiency reserve	(48,649)	-	(48,649)	(17,269)	-	(17,269)
Net claims and other benefits incurred	(1,604,466)	-	(1,604,466)	(2,208,377)	-	(2,208,377)
Change in unit linked liabilities at FVSI, net	(42,219)	-	(42,219)	(28,034)	-	(28,034)
Policy acquisition costs	(149,515)	-	(149,515)	(110,352)	-	(110,352)
Other underwriting expenses	(21,523)	-	(21,523)	(21,227)	-	(21,227)
TOTAL UNDERWRITING COSTS AND EXPENSES	(1,817,723)	-	(1,817,723)	(2,367,990)	-	(2,367,990)
NET UNDERWRITING INCOME	540,947	-	540,947	282,682	-	282,682
OTHER OPERATING (EXPENSES)/ INCOME						
Allowance for doubtful debts - contribution and retakaful / reinsurance balances receivable	(44,143)	-	(44,143)	(17,759)	-	(17,759)
Management fee for administration of takaful operations	(298,019)	298,019	-	(241,195)	241,195	-
General and administrative expenses	-	(298,019)	(298,019)	-	(241,195)	(241,195)
Special commission income	51,816	4,794	56,610	60,602	11,449	72,051
Net gains on investments mandatorily measured at FVSI	10,641	3,050	13,691	12,027	2,028	14,055
Dividend income	-	7,696	7,696	-	7,016	7,016
Reversal / (Impairment loss) of impairment loss	348	13	361	109	25	134
Other income	-	862	862	-	1,548	1,548
TOTAL OTHER OPERATING (EXPENSES)/ INCOME	(279,357)	16,415	(262,942)	(186,216)	22,066	(164,150)
NET INCOME FOR THE YEAR BEFORE ATTRIBUTION OF MANAGEMENT FEE	261,590	16,415	278,005	96,466	22,066	118,532
Management fee attributable to shareholders' operations	(235,431)	235,431	-	(86,819)	86,819	-
NET INCOME FOR THE YEAR AFTER ATTRIBUTION OF MANAGEMENT FEE	26,159	251,846	278,005	9,647	108,885	118,532
Provision for zakat	-	(24,800)	(24,800)	-	(22,700)	(22,700)
Net income for the year after zakat	26,159	227,046	253,205	9,647	86,185	95,832

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27. SUPPLEMENTARY INFORMATION (continued)

27.3 Statement of comprehensive income

For the year ended December 31

	SAR '000					
	2020			2019		
	Takaful operations	Shareholders' operations	Total	Takaful operations	Shareholders' operations	Total
Net income for the year after attribution of management fee to shareholders' operations	26,159	227,046	253,205	9,647	86,185	95,832
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	125	16,215	16,340	4,655	17,319	21,974
- Remeasurement of EOSB	-	(6,224)	(6,224)	-	(1,341)	(1,341)
Total comprehensive income for the year	26,284	237,037	263,321	14,302	102,163	116,465
Reconciliation:						
Less: Net income attributable to takaful operations			(26,159)	9,647		
Total comprehensive income for the year			237,162			126,112

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27. SUPPLEMENTARY INFORMATION (continued)

27.4 Statement of cash flows

	SAR '000					
	Takaful operations	Shareholders' operations	Total	Takaful operations	Shareholders' operations	Total
	For the year ended December 31, 2020			For the year ended December 31, 2019		
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income for the year before zakat	26,159	251,846	278,005	9,647	108,885	118,532
Adjustments for non-cash items:						
Depreciation of property and equipment	-	9,114	9,114	-	8,105	8,105
Depreciation of right-of-use assets	-	6,629	6,629	-	5,667	5,667
Management fee for administration of takaful operations	298,019	(298,019)	-	241,195	(241,195)	-
Management fee attributable to shareholders' operations	235,432	(235,432)	-	86,816	(86,816)	-
Allowance for doubtful debts - contribution and retakaful / reinsurance balances receivable	30,233	-	30,233	17,759	-	17,759
Unrealized gain on investments mandatorily measured at FVSI	(12,627)	(147)	(12,774)	(6,532)	142	(6,390)
Reversal of impairment of investments held at amortised cost	(348)	(13)	(361)	(109)	(25)	(134)
Finance cost	-	1,905	1,905	-	449	449
Provision for end-of-service benefits	-	5,947	5,947	-	4,136	4,136
	576,868	(258,170)	318,698	348,776	(200,652)	148,124
Changes in operating assets and liabilities:						
Contributions and re-takaful balances receivable	(258,272)	-	(258,272)	102,667	-	102,667
Re-takaful / reinsurance share of unearned contributions	(98,553)	-	(98,553)	(23,412)	-	(23,412)
Re-takaful / reinsurance share of outstanding claims	24,711	-	24,711	261,400	-	261,400
Re-takaful / reinsurance share of claims incurred but not reported	(13,544)	-	(13,544)	(2)	-	(2)
Re-takaful / reinsurance share of financial liabilities at FVSI	(2)	-	(2)	88	-	88
Deferred policy acquisition costs	(43,079)	-	(43,079)	16,356	-	16,356
Prepayments and other assets	26,484	16,791	43,275	(49,289)	(37,315)	(86,604)
Accrued income on statutory deposit	-	(1,283)	(1,283)	-	(1,307)	(1,307)
Payable to SAMA	-	1,283	1,283	-	1,308	1,308
Payable, accruals and other liabilities	122,128	29,371	151,499	(1,670)	(1,734)	(3,404)
Financial liabilities at FVSI	54,272	-	54,272	34,485	-	34,485
Re-takaful / reinsurance balances payable	82,805	-	82,805	38,510	-	38,510
Unearned contributions	81,747	-	81,747	(179,463)	-	(179,463)
Unearned re-takaful / reinsurance commission	6,110	-	6,110	2,790	-	2,790

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27. SUPPLEMENTARY INFORMATION (continued)

27.4 Statement of cash flows (continued)

	SAR '000					
	Takaful operations	Shareholders' operations	Total	Takaful operations	Shareholders' operations	Total
	For the year ended December 31, 2020			For the year ended December 31, 2019		
Gross outstanding claims	(45,072)	-	(45,072)	(210,495)	-	(210,495)
Claims incurred but not reported	95,332	-	95,332	45,248	-	45,248
Contribution deficiency reserve	48,649	-	48,649	17,269	-	17,269
Deposit against letters of guarantee	1,383	-	1,383	(8,019)	-	(8,019)
	661,967	(212,008)	449,959	395,239	(239,700)	155,539
Management fee (paid) / received	(328,011)	328,011	-	(401,888)	401,888	-
Zakat paid	-	(17,828)	(17,828)	-	(15,457)	(15,457)
Takaful operations' surplus paid	(34,726)	-	(34,726)	-	-	-
End-of-service benefits paid	-	(3,111)	(3,111)	-	(1,976)	(1,976)
Net cash generated from operating activities	299,230	95,064	394,294	(6,649)	144,755	138,106
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments mandatorily measured at FVSI	(1,326,378)	(923,000)	(2,249,378)	(1,219,416)	(545,000)	(1,764,416)
Disposals of investments mandatorily measured at FVSI	1,047,936	864,055	1,911,991	1,185,249	565,829	1,751,078
Purchase of investments designated as FVOCI	-	(65,084)	(65,084)	-	(99,450)	(99,450)
Disposals of investments designated as FVOCI	-	31,776	31,776	-	-	-
Movement in cash balance in equity share portfolio	-	(104)	(104)	-	190	190
Purchase of investments held at amortised cost	(629,833)	(260,000)	(889,833)	(1,250,000)	(545,001)	(1,795,001)
Disposal of investments held at amortised cost	1,000,000	325,000	1,325,000	1,355,000	415,000	1,770,000
Additions in property and equipment	-	(57,755)	(57,755)	-	(14,655)	(14,655)
Net cash (used in) investing activities	91,725	(85,112)	6,613	70,833	(223,087)	(152,254)
CASH FLOWS FROM FINANCING ACTIVITIES						
Lease liability paid	-	(6,675)	(6,675)	-	(8,912)	(8,912)
Net cash used in financing activities	-	(6,675)	(6,675)	-	(8,912)	(8,912)
Net change in cash and cash equivalents	390,955	3,277	394,232	64,184	(87,244)	(23,060)
Cash and cash equivalents, beginning of the year	419,609	34,271	453,880	355,425	121,515	476,940
Cash and cash equivalents, end of the year	810,564	37,548	848,112	419,609	34,271	453,880
NON-CASH INFORMATION						
Changes in fair value of investments designated as FVOCI	125	16,215	16,340	4,655	17,319	21,974
Remeasurement of end-of-service benefits (EOSB)	-	6,224	6,224	-	1,341	1,341

28. 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.

28.1 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.

28.1.1 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.

28. FINANCIAL RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

28.1.1 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

- 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

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.

28. FINANCIAL RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

28.1.1 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

Financial statement line item	December 31, 2020			Total SAR'000	December 31, 2019 SAR'000
	Stage 1	Stage 2	Stage 3		
	12-month ECL SAR'000	Lifetime ECL SAR'000	Lifetime ECL SAR'000		
Bank balances	831,468	-	-	831,468	442,038
Investments held at amortised cost	1,229,834	-	-	1,229,834	1,600,000
Gross carrying amount	2,061,302	-	-	2,061,302	2,042,038
Loss allowance	(971)	-	-	(971)	(1,319)
Carrying amount	2,060,331	-	-	2,060,331	2,040,719

Credit grade	December 31, 2020			Total SAR'000	December 31, 2019 SAR'000
	Stage 1	Stage 2	Stage 3		
	12-month ECL SAR'000	Lifetime ECL SAR'000	Lifetime ECL SAR'000		
Investment grade	2,061,302	-	-	2,061,302	2,042,038
Gross carrying amount	2,061,302	-	-	2,061,302	2,042,038
Loss allowance	(971)	-	-	(971)	(1,319)
Carrying amount	2,060,331	-	-	2,060,331	2,040,719

28. FINANCIAL RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

28.1.1 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, 2020				December 31,
	Stage 1	Stage 2	Stage 3	Total	2019
	12-month ECL SAR'000	Lifetime ECL SAR'000	Lifetime ECL SAR'000	SAR'000	SAR'000
Bank balances	42,257	-	-	42,257	38,980
Investments held at amortised cost	150,075	-	-	150,075	215,075
Statutory deposit	40,000	-	-	40,000	40,000
Gross carrying amount	232,332	-	-	232,332	294,055
Loss allowance	(96)	-	-	(96)	(109)
Carrying amount	232,236	-	-	232,236	293,946

Credit grade	December 31, 2020				December 31,
	Stage 1	Stage 2	Stage 3	Total	2019
	12-month ECL SAR'000	Lifetime ECL SAR'000	Lifetime ECL SAR'000	SAR'000	SAR'000
Investment grade	232,332	-	-	232,332	294,055
Gross carrying amount	232,332	-	-	232,332	294,055
Loss allowance	(96)	-	-	(96)	(109)
Carrying amount	232,236	-	-	232,236	293,946

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;

28. FINANCIAL RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

28.1.1 Credit risk measurement (continued)

b) Loss allowance (continued)

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, 2020	1,319	-	-	1,319
Movements with the statement of income				
Transfers:				
New financial assets originated or purchased	485	-	-	485
Net re-measurement of loss allowance	-	-	-	-
Financial assets derecognised during the year	(833)	-	-	(833)
Write-offs	-	-	-	-
Total loss allowance for the year	(348)	-	-	(348)
Loss allowance as at December 31, 2020	971	-	-	971
	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
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

28. FINANCIAL RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

28.1.1 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, 2020	109	-	-	109
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	344	-	-	344
Net re-measurement of loss allowance	-	-	-	-
Financial assets derecognised during the year	(357)	-	-	(357)
Write-offs	-	-	-	-
Total reversal of loss allowance for the year	(13)	-	-	(13)
Loss allowance as at December 31, 2020	96	-	-	96
	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

28. FINANCIAL RISK MANAGEMENT (continued)

28.2 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.

28.3 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.

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 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 (2019: 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 policies 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 5,000 thousand (2019: SAR 3,250 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 (2019: 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 117 million (2019: SAR 132 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.

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 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, 2020 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 4,825 thousand (2019: SAR 4,950 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 10,295 thousand (2019: SAR 1,476 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 14,440 thousand (2019: SAR 11,964 thousand).

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 Risk management structure

f) Credit risk

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

	December 31, 2020	
	Takaful operations SAR'000	Shareholders' operations SAR'000
S & P equivalent (A+)	11,167	99,974
S & P equivalent (A-)	264,928	-
S & P equivalent (BBB+)	952,935	50,035
	1,229,030	150,009
	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

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
- 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

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 Risk management structure (continued)

g) Liquidity risk (continued)

Maturity profiles (continued)

	December 31, 2020 - SAR '000			December 31, 2019 - 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	831,468	-	831,468	442,038	-	442,038
Contributions and re-takaful balances receivable - net	564,188	-	564,188	336,149	-	336,149
Re-takaful share of outstanding claims	85,469	-	85,469	110,180	-	110,180
Re-takaful share of mathematical reserve at FVSI	23	-	23	21	-	21
Investments mandatorily measured at FVSI	461,621	-	461,621	170,552	-	170,552
Investments designated as FVOCI	-	30,107	30,107	-	29,982	29,982
Due (to)/ from shareholders' / takaful operations	(533,451)	-	(533,451)	(328,011)	-	(328,011)
Investments held at amortised cost	1,229,030	-	1,229,030	1,598,708	-	1,598,708
TOTAL ASSETS	2,638,348	30,107	2,668,455	2,329,637	29,982	2,359,619
LIABILITIES, TAKAFUL OPERATIONS						
Re-takaful balances payable	177,442	-	177,442	94,637	-	94,637
Gross outstanding claims	308,529	-	308,529	353,601	-	353,601
Claims incurred but not reported	872,294	-	872,294	776,962	-	776,962
Unit linked liabilities at FVSI	-	141,093	141,093	-	86,821	86,821
Takaful operations' surplus payable	48,316	-	48,316	56,883	-	56,883
TOTAL LIABILITIES AND SURPLUS	1,406,581	141,093	1,547,674	1,282,083	86,821	1,368,904

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 Risk management structure (continued)

g) Liquidity risk (continued)

Maturity profiles (continued)

	December 31, 2020 - SAR '000			December 31, 2019 - SAR '000		
	Less than one	More than one	Total	Less than one	More than one	Total
	year	year		year	year	
<u>ASSETS, SHAREHOLDERS' OPERATIONS</u>						
Cash and cash equivalents	42,257	-	42,257	38,980	-	38,980
Investments mandatorily measured at FVSI	72,098	-	72,098	13,004	-	13,004
Investments designated as FVOCI	296,341	-	296,341	246,714	-	246,714
Due (to)/ from shareholders'/ takaful operations	533,451	-	533,451	328,011	-	328,011
Investments held at amortised cost	150,009	-	150,009	214,997	-	214,997
Statutory deposit	39,969	-	39,969	39,969	-	39,969
Accrued income on statutory deposit	2,227	-	2,227	944	-	944
TOTAL ASSETS	1,136,352	-	1,136,352	882,619	-	882,619
<u>LIABILITIES, SHAREHOLDERS' OPERATIONS</u>						
Payables to SAMA	2,227	-	2,227	944	-	944
TOTAL LIABILITIES AND SURPLUS	2,227	-	2,227	944	-	944

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.

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 Risk management structure (continued)

g) Liquidity risk (continued)

Liquidity profile (continued)

	December 31, 2020 - SAR '000			
	Up to 1 year	1-3 years	above 3 years	Total
ASSETS, TAKAFUL OPERATIONS				
Cash and cash equivalents	831,468	-	-	831,468
Contributions and re-takaful/ reinsurance balances receivable - net	564,188	-	-	564,188
Re-takaful/ reinsurance share of outstanding claims	85,469	-	-	85,469
Re-takaful share of mathematical reserve at FVSI	23	-	-	23
Investments mandatorily measured at FVSI	461,621	-	-	461,621
Investments designated as FVOCI	-	-	30,107	30,107
Due (to)/ from shareholders'/ takaful operations	(533,451)	-	-	(533,451)
Investments held at amortised cost	1,229,030	-	-	1,229,030
TOTAL ASSETS	2,638,348	-	30,107	2,668,455

	December 31, 2020 - SAR '000			
	Up to 1 year	1-3 years	above 3 years	Total
LIABILITIES, TAKAFUL OPERATIONS				
Re-takaful / reinsurance balances payable	177,442	-	-	177,442
Gross outstanding claims	308,529	-	-	308,529
Claims incurred but not reported	872,294	-	-	872,294
Unit linked liabilities at FVSI	-	-	141,093	141,093
Takaful operations' surplus payable	48,316	-	-	48,316
TOTAL LIABILITIES AND SURPLUS	1,406,581	-	141,093	1,547,674

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 Risk management structure (continued)

g) Liquidity risk (continued)

Liquidity profile (continued)

	December 31, 2020 - SAR '000			Total
	Up to 1 year	1-3 years	above 3 years	
ASSETS, SHAREHOLDERS' OPERATIONS				
Cash and cash equivalents	42,257	-	-	42,257
Investments mandatorily measured at FVSI	72,098	-	-	72,098
Investments designated as FVOCI	296,341	-	-	296,341
Due (to) / from shareholders' / takaful operations	533,451	-	-	533,451
Investments held at amortised cost	150,009	-	-	150,009
Statutory deposit	39,969	-	-	39,969
Accrued income on statutory deposit	2,227	-	-	2,227
TOTAL ASSETS	1,136,352	-	-	1,136,352
LIABILITIES, SHAREHOLDERS' OPERATIONS				
Payables to SAMA	2,227	-	-	2,227
TOTAL LIABILITIES AND SURPLUS	2,227	-	-	2,227

29. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current year presentation. (refer note 8 and 13). The impact of this reclassification is not considered significant. Also there is no material impact of this reclassification as of 1 January 2019 and therefore third statement of financial position is not presented.

Statement of financial position	Amount	Amount	Amount after
	previously stated	reclassified	reclassification
	SAR'000		
Assets			
Prepayments and other assets	67,132	(26,394)	40,738
Property and equipment, net	25,263	26,394	51,657
	92,395	-	92,395

30. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors of the Company, on Rajab 16, 1442, corresponding February 28, 2021.