
ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
As at 31 December 2020

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY (A SAUDI JOINT STOCK COMPANY)

Opinion

We have audited the financial statements of AlJazira Takaful Taawuni 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, comprising summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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.

Key audit matters	How the matter was addressed in our audit
<p>Valuation of technical insurance reserves</p> <p>The technical insurance reserves include the following:</p> <ul style="list-style-type: none">• Outstanding claims, consisting of:<ul style="list-style-type: none">○ Reported claims○ Incurred But Not Reported (IBNR) claims• Unit reserve• Mathematical reserve <p>The Company has technical insurance reserves amounting to SAR 1,426 million as of 31 December 2020 (2019: SAR 229 million).</p>	<p>We understood, evaluated and tested key controls over the claims administration and the valuation of technical insurance reserves to confirm the operating effectiveness of key controls.</p>

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

Key Audit Matters (continued)

Key audit matters	How the matter was addressed in our audit
<p>Valuation of technical insurance reserves (continued)</p> <p>The estimation of the ultimate liability arising from insurance contracts is the Company's critical accounting estimate given the level of subjectivity inherent in estimating the impact of claim events that have occurred and incurred but not reported for which the ultimate outcome remains uncertain. These liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not. The Company uses a range of actuarial methodologies to estimate these claims. In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgments. A range of methods were used by the actuary to determine these claims. Underlying these methodologies are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>The mathematical and unit reserves represent the investment portion of technical insurance reserves and the amount the Company expects to pay to contract holders and is highly judgmental in particular, mathematical reserve because it requires a number of assumptions to be made with high estimation uncertainty. Small changes in the assumptions, which includes mortality, lapses etc., used to value the reserves can lead to material impact on the valuation of the reserves.</p> <p>Due to significance of amount involved and the exercise of significant judgment by management in the process for valuation of technical insurance reserves, we have determined it to be a key audit matter. The Company with involvement of its appointed actuary calculates the technical insurance reserves.</p> <p><i>Please refer to notes 3(c) for the accounting policy adopted by the Company and note 2(d) for the significant accounting judgements, estimates and assumptions involved in the initial recognition and subsequent measurement of reserve for insurance activities and outstanding claims. Also, refer to note 10, 11 and 13 for movements in unit reserve, mathematical reserve and outstanding claims respectively.</i></p>	<p>We evaluated the competence, capabilities and objectivity of the management's expert by considering their professional qualifications and experience and assessing their relationship with the entity.</p> <p>In obtaining sufficient audit evidence to assess the integrity of data used as inputs in to the actuarial valuations, we tested the completeness and accuracy of the underlying data used in estimating the technical insurance reserves by performing reconciliations of the underlying data to the financial ledger and the actuarial data used by the Company's appointed actuary while calculating the reserves.</p> <p>In order to challenge management's methodologies and assumptions, we were assisted by our actuarial specialist to understand and evaluate the Company's actuarial practices and provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuarial specialist performed the following:</p> <ul style="list-style-type: none"> • Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years, we sought sufficient justification for any significant differences; • Assessed the reasonableness of key actuarial assumptions and judgments used by management in calculating the reserves; and • Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed. <p>We have also reviewed the reconciliation between Available for sale investments held to cover unit-linked liabilities and the unit reserve liability.</p> <p>We assessed the adequacy and appropriateness of the related disclosures in the financial statements.</p>



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**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include 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 annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management 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 ISAs that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



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**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

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

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

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

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

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.



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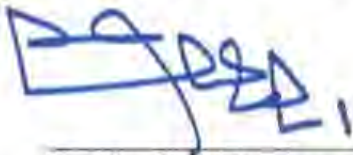
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CPAs & Consultants
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**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

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

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.

for KPMG Professional Services



Ebrahim Oboud Baeshen
License No. 382

for Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountants



Abdullah M. Al Azem
License No. 335



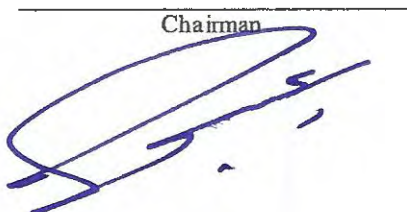
28 March 2021
Corresponding to 15 Shaban 1442H



ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Notes	2020 SAR'000	2019 SAR'000
ASSETS			
Cash and cash equivalents	4	106,032	19,687
Contributions receivable, net	5	2,503	2,094
Reinsurers' share of unearned contributions	12	17,423	12,923
Reinsurers' share of outstanding claims	13	43,483	29,422
Reinsurers' share of claims incurred but not reported	13	15,164	5,669
Available for sale investments held to cover unit-linked liabilities	6	1,343,823	185,178
Investments	7	451,811	411,414
Due from related parties	19	26	30,367
Prepayments and other assets		3,760	2,473
Fixtures, furniture and equipment	8	1,730	809
Statutory deposit	9	35,000	35,000
TOTAL ASSETS		2,020,755	735,036
LIABILITIES			
Accrued expenses and other liabilities	15	51,430	18,651
Reinsurance balances payable		15,300	10,775
Unearned contributions	12	34,533	35,087
Outstanding claims	13	49,226	33,525
Claims incurred but not reported	13	17,835	7,023
Unit reserve	10	1,349,364	187,979
Mathematical reserve	11.1	9,160	360
Other reserves	11.2	322	-
Employee benefits	16	3,518	2,624
Zakat and income tax	22	1,282	1,110
Surplus from Insurance Operations		15,837	3,355
TOTAL LIABILITIES		1,547,807	300,489
EQUITY			
Share capital	17	350,000	350,000
Statutory reserve	18	38,348	30,595
Retained earnings		85,012	54,001
TOTAL SHAREHOLDERS' EQUITY		473,360	434,596
Remeasurement reserve of defined benefit obligation - related to Insurance operations		(412)	(49)
TOTAL EQUITY		472,948	434,547
TOTAL LIABILITIES AND EQUITY		2,020,755	735,036

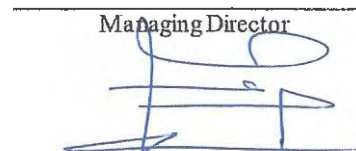
Chairman



Chief Financial Officer



Managing Director



ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME
For the year ended 31 December 2020

	<i>Notes</i>	2020 SAR'000	2019 SAR'000
REVENUES			
Gross written contributions	12	233,934	130,283
Contributions ceded:			
Local		-	-
Foreign	12	(35,414)	(20,815)
Net written contributions	12	198,520	109,468
Change in unearned contributions, net		5,054	(8,396)
Net contribution earned	12	203,574	101,072
Other underwriting income		20,176	1,594
TOTAL REVENUES		223,750	102,666
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	13	(29,139)	(11,845)
Reinsurers' share of claims paid	13	26,300	9,920
Net claims paid		(2,839)	(1,925)
Changes in outstanding claims, net		(1,640)	(2,006)
Changes in claims incurred but not reported, net		(1,317)	1,554
Net claims incurred		(5,796)	(2,377)
Investible contributions, net	10	(143,767)	(57,466)
Changes in mathematical reserve	11	2,180	197
Changes in other reserves		(322)	-
Policy acquisition costs		(10,047)	(3,910)
Supervision and inspection fees		(1,170)	(651)
TOTAL UNDERWRITING COSTS AND EXPENSES		(158,922)	(64,207)
NET UNDERWRITING INCOME		64,828	38,459



Chairman




Chief Financial Officer



Managing Director

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME (continued)
For the year ended 31 December 2020

	Notes	2020 SAR'000	2019 SAR'000
NET UNDERWRITING INCOME		64,828	38,459
OTHER OPERATING (EXPENSES)/INCOME			
Reversal of / (increase in) provision for impairment of receivables	5	36	(183)
General and administrative expenses	20	(45,413)	(10,243)
Commission from held to maturity investments	7.1	12,236	10,076
Commission income on deposits		45	56
Unrealized gain on FVIS investments	7.2	809	735
Realized gain on FVIS investments		1,809	1,164
Dividends from FVIS investments		220	-
Other income	21	9,548	1,046
TOTAL OTHER OPERATING (EXPENSES) / INCOME, NET		(20,710)	2,651
Income before surplus, Zakat and income tax		44,118	41,110
Net income attributed to the Insurance Operations		(4,129)	(3,355)
Income for the year attributable to the shareholders before Zakat and income tax		39,989	37,755
Zakat	22	(1,109)	(947)
Income tax	22	(116)	(100)
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		38,764	36,708
Weighted average number of ordinary shares outstanding (in thousands)		35,000	35,000
Earnings per share for the year (SAR) (Basic and diluted)	23	1.108	1.049



Chairman



Chief Financial Officer



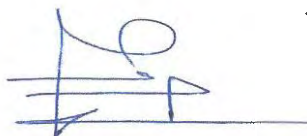
Managing Director

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

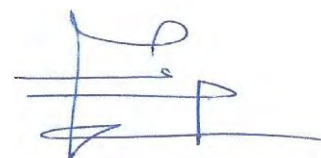
	2020 SAR'000	2019 SAR'000
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS	38,764	36,708
Other comprehensive loss		
<i>Items that will not be reclassified to statement of income in subsequent years</i>		
Actuarial loss on defined benefit obligation – related to Insurance operations (note 16)	(363)	(131)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	38,401	36,577



Chairman



Chief Financial Officer



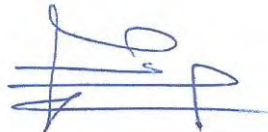
Managing Director

ALJAZIRA TAKAFUL TAAWUNI COMPANY
 (A SAUDI JOINT STOCK COMPANY)
 STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 December 2020

	Shareholders' equity				Remeasurement reserve of defined benefit obligation – related to Insurance operations	Total equity
	Share capital SAR'000	Statutory reserve SAR'000	Retained earnings SAR'000	Total shareholders' equity SAR'000	SAR'000	SAR'000
Balance at 01 January 2020	350,000	30,595	54,001	434,596	(49)	434,547
Net income for the year	-	-	38,764	38,764	-	38,764
Other comprehensive loss (note 16)	-	-	-	-	(363)	(363)
Total comprehensive income	-	-	38,764	38,764	(363)	38,401
Transfer to statutory reserve (note 18)	-	7,753	(7,753)	-	-	-
Balance as at 31 December 2020	350,000	38,348	85,012	473,360	(412)	472,948



Chairman



Managing Director




Chief Financial Officer


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

ALJAZIRA TAKAFUL TAAWUNI COMPANY
 (A SAUDI JOINT STOCK COMPANY)
 STATEMENT OF CHANGES IN EQUITY (continued)
 For the year ended 31 December 2020


	Shareholders' equity				Remeasurement reserve of defined benefit obligation – related to	
	Share capital SAR'000	Statutory reserve SAR'000	Retained earnings SAR'000	Total shareholders' equity SAR'000	Insurance operations SAR'000	Total equity SAR'000
Balance at 01 January 2019	350,000	23,253	24,635	397,888	82	397,970
Net income for the year	-	-	36,708	36,708	-	36,708
Other comprehensive loss (note 16)	-	-	-	-	(131)	(131)
Total comprehensive income	-	-	36,708	36,708	(131)	36,577
Transfer to statutory reserve (note 18)	-	7,342	(7,342)	-	-	-
Balance as at 31 December 2019	350,000	30,595	54,001	434,596	(49)	434,547



Chairman



Chief Financial Officer



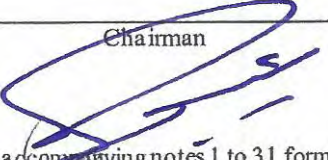
Managing Director

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

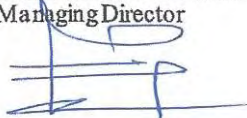
ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOW

For the year ended 31 December 2020

	Notes	2020 SAR'000	2019 SAR'000
OPERATING ACTIVITIES			
Income for the year attributable to the shareholders before Zakat and income tax		39,989	37,755
Adjustments for non-cash items:			
Net income attributed to the insurance operations		4,129	3,355
Reinsurers' share of unearned contributions		(4,500)	(3,917)
Unearned contributions		(554)	12,313
(Reversal of) / Increase in provision for impairment of receivables	5	(36)	183
Commission from held to maturity investments	7.1	(12,236)	(10,076)
Unrealized gain on FVIS investments	7.2	(809)	(735)
Realized gain on FVIS investments		(1,809)	(1,164)
Dividends from FVIS investments		(220)	-
Depreciation	8 & 20	279	141
Employee benefits	16	837	706
		<u>25,070</u>	<u>38,561</u>
<u>Changes in operating assets and liabilities:</u>			
Contributions receivable		(373)	(644)
Reinsurers' share of outstanding claims		(9,120)	(21,504)
Reinsurers' share of claims incurred but not reported		(9,495)	2,420
Available for sale investments held to cover unit-linked liabilities, net		(161,718)	(56,948)
Due from related parties		83,893	(22,876)
Prepayments and other assets		(1,287)	(1,753)
Accrued expenses and other liabilities		30,333	2,104
Reinsurers' balances payable		4,525	(5,350)
Outstanding claims		10,760	23,510
Claims incurred but not reported		10,812	(3,974)
Unit reserve		164,458	57,689
Mathematical reserve		(2,180)	(197)
Other reserves		(11,336)	-
Cash from operations		<u>134,342</u>	<u>11,038</u>
Employee benefits paid	16	(306)	(263)
Surplus distributed to policyholders		(20,115)	(2,827)
Zakat and income tax paid	22	(1,053)	(976)
Net cash generated from operating activities		<u>112,868</u>	<u>6,972</u>
INVESTING ACTIVITIES			
Purchase of held to maturity investments	7.1	(30,000)	(197,800)
Proceeds from disposal of held to maturity investments	7.1	23,000	145,423
Proceeds from disposal of FVIS investments		56,972	52,269
Purchase of FVIS investments	7.2	(82,820)	(4,919)
Commission received from held to maturity investments	7.1	7,305	1,417
Dividends from FVIS investments		220	-
Purchase of fixtures, furniture and equipment	8	(1,200)	(690)
Net cash used in investing activities		<u>(26,523)</u>	<u>(4,300)</u>
Net increase in cash and cash equivalents		<u>86,345</u>	<u>2,672</u>
Cash and cash equivalents at the beginning of the year		19,687	17,015
Cash and cash equivalents at the end of the year	4	<u>106,032</u>	<u>19,687</u>


Chairman


Chief Financial Officer


Managing Director

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

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOW (continued)
For the year ended 31 December 2020

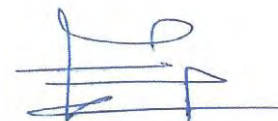
	2020 SAR'000	2019 SAR'000
Supplemental non-cash information (refer note 1)		
Reinsurers' share of outstanding claims	(4,941)	-
Available for sale investments held to cover unit-linked liabilities	(996,927)	-
Due from related parties	(53,552)	-
Accrued expenses and other liabilities	14,104	-
Outstanding claims	4,941	-
Unit reserves	996,927	-
Mathematical reserve	10,980	-
Surplus from Insurance Operations	28,468	-



Chairman



Chief Financial Officer



Managing Director

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

1. GENERAL

AlJazira Takaful Taawuni Company (the "Company"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia pursuant to the Council of Ministers' resolution No. 137 dated 27 Rabi' Al-Thani 1431H (corresponding to 12 April 2010) and Royal Decree No. M/23 dated 28 Rabi' Al-Thani 1431H corresponding to 13 April 2010. The Company obtained its Commercial Registration 4030251980 on 2 Ramadan 1434H corresponding to 10 July 2013 and Ministry of Commerce and Industry's Resolution dated 24 Sha'baan 1434H corresponding to 03 July 2013. The Company operates only in the Kingdom of Saudi Arabia. The Company has the following branches and the assets, liabilities and results of operations of the Branches are included in these financial statements:

<u>Branch</u>	<u>CR Number</u>	<u>Date</u>
Riyadh	1010519290	24 Jumada Al-Awal 1440
Madinah	4650081845	21 Rabi' Al-Awal 1438
AlKhobar	2051224259	24 Jumada Al-Awal 1440

The registered office address of the Company is:
Al Musadia Plaza (3), Al Madinah Road,
P.O. Box 5215, Jeddah 21422, Kingdom of Saudi Arabia.

The objectives of the Company are to engage in providing insurance products that includes protection and saving insurance products and related services in accordance with its By-Laws and applicable regulations in the Kingdom of Saudi Arabia. Subsequent to the year end, on 13 Jumada al-Thani 1442H (corresponding to 26 January 2021), the Company amended its By-Laws to include the objective of practicing general insurance and health insurance business. The Company received licence number TMN/34/201312 dated 15 Safar 1435H (corresponding to 18 December 2013) from the Saudi Central Bank (SAMA) to conduct insurance business. The Company is owned 99.33% by Saudi founding shareholders and general public subject to Zakat and 0.67% by non-Saudi founding shareholders subject to income tax.

The insurance portfolio and related assets and liabilities have been acquired from a founding shareholder by the Company on the completion of valuation and approval by SAMA. During the year ended 31 December 2019, the Company and Bank AlJazira have received a no objection certificate from SAMA to transfer the insurance portfolio through letter dated 26 Rabi' Al-Thani 1441H (corresponding to 23 December 2019). The insurance portfolio has been transferred with effect from 01 January 2020 and the financial impact of transfer are as follows:

	<u>Carrying value of assets and liabilities</u> <u>SAR'000</u>
Assets	
Available for sale investments held to cover unit-linked liabilities (note 6)	996,927
Due from Bank AlJazira ("the founding shareholder") (note 19)	53,552
Reinsurers' share of outstanding claims (note 13)	4,941
Total assets	<u>1,055,420</u>
Liabilities	
Outstanding claims (note 13)	4,941
Unit reserves (note 10)	996,927
Mathematical reserve (note 11)	10,980
Accrued expenses and other liabilities	14,104
Surplus from Insurance Operations	28,468
Total liabilities	<u>1,055,420</u>

Furthermore, in accordance with the Transitional Agreement (the "Agreement") between the Company and Bank AlJazira ("the founding shareholder"), all the general and administrative costs up to the transfer of the insurance portfolio will be shared by the Company and the founding shareholder in the ratio of 17% and 83%, respectively. Currently, the Company is also using fixtures, furniture and equipment of a founding shareholder. Moreover, in accordance with the Agreement, the Company was receiving a management fee for managing the insurance portfolio of the founding shareholder, at a rate ranging from 10% to 20% of total revenue of the founding shareholder's portfolio ("Portfolio Management fee"). As per the agreement, the management fee is not effective for the period subsequent to 01 April 2015. However, with effect from 01 January 2020, these provisions of the Agreement are not applicable.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
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1. GENERAL (continued)

The Company signed a non-binding Memorandum of Understanding (the "MOU") with Solidarity Saudi Takaful Company ("Solidarity") on 23 Shawwal 1440H (corresponding to 26 June 2019) to evaluate a potential merger between the two companies. On 04 Muharram 1442H (corresponding to 23 August 2020), the Company announced entry into a binding merger agreement with Solidarity (the "Merger Agreement") in an effort to acquire all shares held by the shareholders in Solidarity through the submission of an offer to exchange shares without any cash consideration, such exchange to be effected by way of increasing the capital of the Company through the issuance of new ordinary shares to all shareholders in Solidarity (the "Merger"). The Company received approval from Saudi Central Bank (SAMA) and Capital Market Authority on the merger transaction on 15 Rabi' al-Thani 1442H (corresponding to 30 November 2020) and 08 Jumada al-Awwal 1442H (corresponding to 23 December 2020) respectively.

2. BASIS OF PREPARATION

(a) Basis of presentation and measurement

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

The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: fixtures, furniture and equipment, statutory deposit, employee benefits, outstanding claims, claims incurred but not reported, unit reserve, other reserves and mathematical reserve. All other financial statement line items would generally be classified as current unless, stated otherwise.

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

During 2018, under the supervision of SAMA, the insurance companies' management prepared and adopted the illustrative financial statements for the insurance sector in the Kingdom of Saudi Arabia. In preparing the Company level financial statements in compliance with IFRS as endorsed in the Kingdom of Saudi Arabia, the balances and transactions of insurance operations are combined with those of shareholders' operations. Inter-operation balances and transactions, if any, are eliminated in full. The accounting policies adopted for the insurance and shareholders' operations are uniform for like transactions and events in similar circumstances.

These financial statements are prepared under the historical cost basis except for the measurement at fair value of available-for-sale investments, measurement at fair value of Fair Value through Income Statement (FVIS) and defined benefit obligations based on actuarial valuation techniques.

(b) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SAR), which is the Company's functional currency. All financial information presented in SAR has been rounded to the nearest thousand except where otherwise indicated.

(c) Fiscal year

The Company follows a fiscal year ending 31 December.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

(d) Critical judgments, accounting 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 ultimately may differ from those estimates.

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In preparing these financial statements, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended December 31, 2019. However, the Company has reviewed the key sources of estimation uncertainties disclosed in the last 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.

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

Provision for outstanding claims

Judgement by management is required in the estimation of amounts due to participants arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually.

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. The Company uses a range of actuarial methodologies to estimate these claims such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

Management reviews its provisions for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of income for that year. The provision for outstanding claims, as at 31 December, is also verified and certified by an independent actuary.

Impairment of receivables

A provision for impairment of contributions and reinsurance 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 receivable. 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.

Classification of investments

The management designates at the time of acquisition of investment securities whether these should be classified as FVIS or held to maturity or available for sale securities. In judging whether investment in securities are classified as at fair value or amortised cost, management has considered the detailed criteria for determination of such classification as set out in IFRS.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

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

Fair values of financial instruments

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

Impairment of financial assets

The Company exercise judgement to consider impairment on financial assets at each reporting date. The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows. The Company considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, which is recognised in the statement of income as impairment charge on investments. Prolonged decline represents a decline below cost that persists for 1 year or longer irrespective of the amount and is recognised in the statement of income accordingly as an impairment charge on investments. The previously recognised impairment loss in respect of investments cannot be reversed through the statement of income.

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(e) Seasonality of operations

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019. Based on the adoption of amendments to existing standard and in consideration of current economic environment, the following accounting policies are applicable effective 01 January 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual financial statements.

a) Amendments to existing accounting standards

The Company has adopted the following amendments and revisions to existing standards and interpretations, which were issued by the International Accounting Standards Board (IASB) have been effective from 01 January 2020 and accordingly adopted by the Company:

<u>Standard/ Amendments</u>	<u>Description</u>
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform

The adoption of the amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Amendments to existing accounting standards (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Company.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Company, but may impact future periods when the Company enters into business combinations.

Amendments to References to the Conceptual Framework in IFRS Standards

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Company.

Amendments to IFRS 9, IAS 39 and IFRS 7: Profit Rate Benchmark Reform

These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally, cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the Statement of Profit or Loss. These amendments had no impact on the financial statements of the Company.

b) Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company’s annual financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they are effective. Further, the Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect date in future dates.

<u>Standard/ Interpretation</u>	<u>Description</u>
IFRS 9	Financial Instruments
IFRS 17	Insurance Contracts
IAS 1	Classification of Liabilities as Current or Non-current
IFRS 16	Leases for COVID-19 rent related concessions
IAS 37	Onerous contracts: Cost of Fulfilling a contract
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
IFRS 3	Reference to Conceptual Framework
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 9 - Financial Instruments

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

Classification and measurement

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

- i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and;
- ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI”).

The financial asset is measured at fair value through other comprehensive income and realized gains or losses would be recycled through profit or loss upon sale, if both conditions are met:

- i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and for sale and;
- ii) the contractual terms of cash flows are SPPI.

Assets not meeting either of these categories are measured at fair value through profit or loss. Additionally, at initial recognition, an entity can use the option to designate a financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

For equity instruments that are not held for trading, an entity can also make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of the instruments (including realized gains and losses), dividends being recognized in profit or loss.

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

Impairment

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

Hedge accounting

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

Effective date

The published effective date of IFRS 9 was 01 January 2018. However, amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts, published on 12 September 2016, changes the existing IFRS 4 to allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 before the IASB’s new insurance contract standard (IFRS 17 – Insurance Contracts) becomes effective.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 9 - Financial Instruments (continued)

Effective date (continued)

The amendments introduce two alternative options:

- 1) apply a temporary exemption from implementing IFRS 9 until the earlier of
 - a) the effective date of a new insurance contract standard; or
 - b) annual reporting periods beginning on or after 01 January 2023. On 17 March 2020, the International Accounting Standards Board (IASB) decided to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 from 01 January 2021 to 01 January 2023. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominantly connected with insurance and have not applied IFRS 9 previously; or,
- 2) adopt IFRS 9 but, for designated financial assets, remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contract standard is implemented. During the interim period, additional disclosures are required.

The Company has performed a detailed assessment beginning 01 January 2020 which included below:

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

Impact assessment

As at 31 December 2020, the Company has total financial assets and insurance related assets amounting to SAR 2,015,265 thousand (2019: SAR 731,754 thousand) and SAR 78,753 thousand (2019: SAR 50,108 thousand), respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SAR 614,679 thousand (2019: SAR 518,579 thousand). Other financial assets consist of available for sale investments amounting to SAR 1,343,823 thousand (2019: SAR 185,178 thousand). The Company expects to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Investment in funds classified under available for sale investments will be at FVOCI under IFRS 9. As at 31 December 2020 these securities are measured at fair value of SAR 1,343,823 thousand (2019: SAR 185,178 thousand) with changes in fair value during the year of SAR 163,461 thousand (2019: SAR 21,963 thousand). Other financial assets have a fair value as at 31 December 2020 of SAR 56,463 thousand (2019: 27,997 thousand) with a fair value change during the year of SAR 809 thousand (2019: SAR 735 thousand). Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 27.

The Company's financial assets have low credit risk as at 31 December 2020 and 2019. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9: However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review. The management is in the process of building non-performance risk quantification for certain reinsurance held arrangements based on IFRS 9 ECL simplified approach.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts

Overview

This standard has been published on 18 May 2017, it establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 – Insurance contracts. The new standard applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features provided the entity also issues insurance contracts. It requires to separate the following components from insurance contracts:

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

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

Measurement

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

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

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

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

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.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

Effective date

The Company intends to apply the Standard on its effective date i.e. 01 January 2023. The IASB issued an Exposure Draft Amendments to IFRS 17 proposing certain amendments to IFRS 17 during June 2019 and received comments from various stakeholders. On 17 March 2020, the IASB completed its discussion on the amendments to IFRS 17 Insurance Contracts that were proposed for public consultation in June 2019. It decided that the effective date of the Standards will be deferred to annual reporting periods beginning on or after 01 January 2023. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customer and IFRS 9 have also been applied.

Transition

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

Presentation and Disclosures

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

Impact

The Company is currently in design phase of IFRS 17 implementation which requires developing and designing new processes and procedures for the business including any system developments required under IFRS 17 and detailed assessment of business requirements. Following are the main areas under design phase and status of the progress made so far by the Company:

Impact Area	Summary of Impact
Governance and control framework	The Company has put in place a comprehensive IFRS 17 governance program which includes establishing oversight steering committee for monitoring the progress of implementation and assigning roles and responsibilities to various stakeholders.
Operational area	The Company is in progress of designing operational aspects of the design phase which includes establishing comprehensive data policy and data dictionary. Also, the Company is finalizing architectural designs for various sub-systems. The Company has progressed through assessment of business requirements and currently working on vendor selection while finalizing various process needed for transition and assessment of new resources needed.
Technical and financial area	The Company has completed various policy papers encompassing various technical and financial matters after concluding on policy decisions required under the IFRS 17 standard. The policy decisions are taken after due deliberations among various stakeholders. Currently majority of policy papers have been approved by the Company's IFRS 17 project steering committee.
Assurance plan	The Company is working along with other stakeholders to finalize the assurance plan for transitional and post-implementation periods.
Systems	The Company is considering acquisition of IFRS 17 calculation system to accommodate calculation of Insurance contracts and Reinsurance held contracts in-line with IFRS 17.
Financial Impact	Work is in progress to calculate the Financial impact of IFRS 17 in comparison to IFRS 4.

The Company has started its implementation process and has set up a project team, supervised by a steering committee.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- i. What is meant by a right to defer settlement
- ii. That a right to defer must exist at the end of the reporting period
- iii. That classification is unaffected by the likelihood that an entity will exercise its deferral right
- iv. That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 01 January 2023 and must be applied retrospectively. Earlier application is permitted.

Amendments to IFRS 16 - Leases for COVID-19 rent related concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

Amendments to IAS 37 – Onerous contracts: Cost of Fulfilling a contract

The amendments made to IAS 37 specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. The amendments are effective for annual reporting periods beginning on or after 01 January 2022 and must be applied to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Accordingly, comparatives will not be restated. Earlier application is permitted.

Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use

These amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. The amendments are effective for annual reporting periods beginning on or after 01 January 2022 and must be applied retrospectively. Earlier application is permitted.

Amendments to IFRS 3 - Reference to Conceptual Framework

These amendments updated a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are effective for annual reporting periods beginning on or after 01 January 2022. Earlier application is permitted.

c) The significant accounting policies used in the preparation of these financial statements are set out below:

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and murabaha deposits with an original maturity of three months or less at the date of acquisition. Murabaha deposits represent deposits with local banks that has original maturity of less than three months at the date of acquisition. These are carried at amortised cost and the respective returns are accounted for using an effective profit rate basis.

Contributions receivable

Contributions receivable are recognised when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of contribution receivables are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recorded in the statement of income. Contribution receivables are derecognised when the de recognition criteria for financial assets have been met. Subsequent recoveries of amounts previously written off are credited in the statement of income.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Reserve for insurance activities

The provision for investment contract liabilities is calculated on the basis of an actuarial valuation method by independent appointed actuary through the use of the current unit fund price. The actuarial valuation includes a provision for participation which is the amount the Company expects to pay investment contract holders.

Available for sale investments held to cover unit-linked liabilities

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. These investments are initially recorded at fair value. After initial measurement available for sale investments are measured at fair value. Financial assets held to cover unit-linked liabilities represent assets associated with certain contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in units of mutual funds, which are readily marketable. Fair value gains and losses are reported as a separate component and included under the reserve for insurance activities.

Held to maturity investments

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

Fair Value through Income Statement (FVIS) Investments

Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investment classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the statement of shareholders' operations.

Fair values of investments are based on quoted prices for the marketable securities.

Fixtures, furniture and equipment

Fixtures, furniture and equipment are initially recorded in the statement of financial position at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

	<u>Years</u>
Furniture, fixtures	10
Computer equipment	4

Residual values, useful lives and the method of depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the year is recognised in the statement of income on an actual basis. Similarly, impairment losses, if any, are recognised in the statement of income. Expenditure for repairs and maintenance is charged to the statement of income. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Gain / loss on sale of fixtures, furniture and equipment are included in statement of income.

The Company's management determines the estimated useful lives of its fixtures, furniture and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews residual values and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

Prepayments and other assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statement of insurance operations and accumulated surplus or statement of shareholders' operations as they are consumed or expire with the passage of time.

Accruals and other liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. It also includes non-actuarial liabilities booked in respect of the old portfolio which are verified and certified by an independent actuary as at the year end.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employee benefits

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 the expected future wages 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 it falls due. Re-measurement (actuarial gains / losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in the statement of comprehensive income.

Reinsurance balances payable

Reinsurance balances payable comprise of the amounts payable to various reinsurance companies in respect of reinsurance share of contribution net of reinsurance share of paid claims.

Contributions deposit

Contributions deposit is taken from potential policy holders in respect of initial contribution. On completion of mandatory documentation and medical examination of potential policy holder, this deposit transfers to gross written contribution.

Zakat and income tax

Zakat

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

Income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made

Withholding tax

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Value Added Tax (VAT)

Output VAT related to revenue is payable to tax authorities on the earlier of:

- (a) collection of receivables from customers or
- (b) delivery of services to customers.

Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales/services and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and a liability.

VAT that is not recoverable is charged to the statement of income as expense

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Zakat and income tax (continued)

Deferred income tax

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

IFRIC Interpretation 23 Uncertainty over income tax treatment

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

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

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

The Company applies significant judgement in identifying uncertainties over income tax treatments.
The Interpretation did not have an impact on the financial statements of the Company.

Impairment of financial assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations.
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- (c) For assets carried at amortized cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's (CGU), fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of income.

For assets, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statements of income.

Fair values

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the financial reporting date. If quoted market prices are not available, reference is made to broker or dealer price quotations.

For financial assets where there is not an active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar assets. The principal or the most advantageous market must be accessible to by the Company. Fair value hierarchy levels are defined in note 25.

Financial instruments – recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instrument consists of financial assets and financial liabilities.

Financial assets consist of Cash and cash equivalents, contribution receivables, statutory deposit, available for sale investments held to cover unit-linked liabilities, held to maturity investments, FVIS investments, due from insurance operations and other receivables. Financial liabilities consist of outstanding claims, reinsurance balances payable, due to shareholders' operations and certain other liabilities.

Date of recognition

Regular way sale and purchases of financial instruments are recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial instruments that require settlement of instrument within the time frame generally established by regulation or convention in the marketplace.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Recognition and measurement of financial instruments

Financial instruments are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Subsequent to initial measurement, financial instruments are carried at amortised cost except for available for sale investments held to cover unit-linked liabilities and FVIS investments, which are carried at fair value.

Financial instruments – De-recognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting

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

Trade date accounting

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

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities. In performing these tests, management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of insurance operations and accumulated surplus by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Revenue recognition

Contributions are taken into statement of income over the terms of the policies to which they relate on a pro-rata basis. Unearned contributions represent the portion of contributions written relating to the unexpired period of coverage at the reporting date. The change in the provision for unearned contributions is taken to the statement of income in order that revenue is recognised over the period of risk.

Rebates pertaining to unit-linked investments are calculated in accordance with the terms of agreement with the Fund Manager and are accounted for on an accrual basis.

Portfolio management fee is calculated in accordance with the terms of agreement with the founding shareholder and is accounted for on an accrual basis.

Subsidy from Human Resources Development Fund and profit commission from reinsurance contracts are recognized as income on receipt basis.

Contributions ceded

Contributions ceded are recognized as an expense when payable.

Reinsurance

The Company cedes its insurance risk in the normal course of business for all of its segments. Reinsurance contracts are contracts entered into by the Company under which the Company is compensated for losses on insurance contracts issued. The Company only deals with reinsurers approved by the management, which are rated at least BBB or above by international rating agencies. Reinsurance arrangements do not relieve the Company from its obligations to policyholders. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

These assets consist of the reinsurance share of settlement of claims and other receivables such as profit commissions and the reinsurance share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Reinsurance liabilities represent balances due to reinsurance companies.

Amounts recoverable from or due to reinsurance companies are recognised consistently with the amounts associated with the underlying Insurance contracts and in accordance with the terms of each reinsurance contract.

Claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, are charged to the Statement of Insurance Operations and accumulated surplus as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

The Company generally estimates its claims based on actuarial input. This includes a provision based on management's judgment and the cost of settling claims incurred but not reported at the statement of financial position date. The ultimate liability may be in excess of or less than the amount provided.

The Company does not discount its liability for unpaid claims as substantially all the claims are expected to be paid within one year of the statement of financial position date.

Acquisition fees

Acquisition fees are paid to the distributing shareholder and are charged to expense as and when they are due, as per the terms of the contract.

Surrenders and maturities

Surrenders refer to the partial or full termination of the individual insurance contract. Surrenders are accounted for on the basis of notifications received and are charged to statement of Insurance Operations and accumulated surplus in the year in which they are notified. Maturities refer to the amount given to the insured towards the end of the maturity period of the individual insurance contract. Surrenders and maturities are calculated based on the terms and conditions of the respective individual insurance contract.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) The significant accounting policies used in the preparation of these financial statements are set out below (continued):

Product classification

The Company issues life insurance contracts which are linked to investment contracts. Where a contract contains both an investment component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Any contributions relating to the insurance component are accounted for through the statement of Insurance Operations and accumulated surplus and the remaining element is accounted through the insurance operations' statement of financial position.

Insurance contracts

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance 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 determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Amounts collected under the contracts are accounted for through the statement of income, and the investible portion of the contribution collected is shown as a deduction from the gross contributions from insurance operations, and transferred to unit linked liabilities. Contribution in respect of insurance contracts, are recognised as revenue over the contribution paying period of the related policy.

Investment contracts

Any contracts with customers not considered insurance contracts under International Financial Reporting Standards are classified as investment contracts. Amounts collected under investment contracts are accounted for through the statement of insurance operations and accumulated surplus, and the investible portion of the contribution collected is shown as a deduction from the gross contributions for the year from insurance operations and transferred to investment contract liabilities (unit-linked contracts).

Foreign currencies

The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of financial position date.

Segment reporting

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	2020			2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
Cash at banks	9,020	3,532	12,552	15,454	4,233	19,687
Short term deposits	63,480	30,000	93,480	-	-	-
Total	<u>72,500</u>	<u>33,532</u>	<u>106,032</u>	<u>15,454</u>	<u>4,233</u>	<u>19,687</u>

Cash and cash equivalents, except for an amount of SAR 500 thousand (2019: SAR 500 thousand) are held with Bank AlJazira "the founding shareholder".

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5. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net comprise of the following:

	2020 SAR'000	2019 SAR'000
Gross contributions receivable – Related parties (note 19 (c))	2,356	1,732
Gross contributions receivable – Policy holders	349	600
Less: Provision for impairment of receivables	(202)	(238)
Contributions receivable, net	2,503	2,094

During the year, a reversal / (impairment) of SAR 36 thousand (2019: SAR (183) thousand) was created in respect of gross contribution receivable. The age analysis of contributions receivable, net arising from insurance contracts is as follows:

	<i>Past due but not impaired</i>		<i>Past due and impaired</i>			<i>Total</i>
	<i>Neither past due nor impaired</i>	<i>From 1 to 3 months</i>	<i>Above 3 and up to 6 months</i>	<i>Above 6 and up to 12 months</i>	<i>Above 12 months</i>	
	<i>SAR'000</i>					
2020	2	2,354	52	35	60	2,503
2019	1,295	-	184	615	-	2,094

The Company enters into insurance contracts with recognized, creditworthy 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.

6. AVAILABLE FOR SALE INVESTMENTS HELD TO COVER UNIT-LINKED LIABILITIES

Insurance Operations

Investment of Insurance operations comprises of units of mutual funds denominated in Saudi Riyal (SAR) and United States Dollars (USD) managed by AlJazira Capital "the founding shareholder".

		2020 SAR'000	2019 SAR'000
<i>Insurance Operations</i>	<i>Denomination</i>		
AlJazira Saudi Riyal Murabaha Fund	SAR	153,738	750
AlJazira Diversified Aggressive Fund	SAR	185,453	140,697
AlJazira Diversified Balanced Fund	SAR	51,320	37,217
AlJazira Diversified Conservative Fund	SAR	11,610	6,514
AlJazira International Equities Fund	USD	222,209	-
AlJazira Saudi Equities Fund	SAR	289,910	-
AlJazira European Equities Fund	USD	175,771	-
AlJazira Japanese Equities Fund	USD	253,812	-
Total		1,343,823	185,178

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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6. AVAILABLE FOR SALE INVESTMENTS HELD TO COVER UNIT-LINKED LIABILITIES (continued)

The movement in the available for sale investments held to cover unit-linked liabilities during the year is as follows:

	2020 SAR'000	2019 SAR'000
Balance at the beginning of the year	185,178	128,230
Insurance portfolio transfer (note 1)	996,927	-
(Redemption) / Investments during the year, net	(1,743)	34,985
Changes in fair value during the year (note 10)	163,461	21,963
Balance at the end of the year	1,343,823	185,178

7. INVESTMENTS

	2020			2019		
	Insurance operations SAR'000	Shareholders' operations SAR'000	Total SAR'000	Insurance operations SAR'000	Shareholders' operations SAR'000	Total SAR'000
Held to maturity investments (7.1)	16,370	378,978	395,348	15,914	367,503	383,417
FVIS investments (7.2)	53,479	2,984	56,463	27,997	-	27,997
Total	69,849	381,962	451,811	43,911	367,503	411,414

7.1 Held to maturity investments

Held to maturity investments represents Murabaha deposit of SAR 167,774 thousand (2019: SAR 185,153 thousand) with a maturity of one to three years made with Bank AlJazira "the founding shareholder", Sukuks of SAR 197,360 thousand (2019: SAR 198,264 thousand) with a maturity of 12 to 30 years made with Ministry of Finance and Sukuks of SR 30,214 thousand (2019: nil) with a maturity of 5 years made with a bank listed on Tadawul. The average commission rate on Murabaha deposit at 31 December 2020 is 3.00% to 3.30% per annum (2019: 3.00% to 3.30% per annum) and coupon rate on Sukuks is 4.01% to 4.64% per annum (2019: 4.01% to 4.10% per annum).

The movement in the held to maturity investments during year ended 31 December is as follows:

	Insurance operations SAR'000	Shareholders' operations SAR'000	Total SAR'000
2020			
Balance at the beginning of the year	15,914	367,503	383,417
Placements during the year	-	30,000	30,000
Commission from held to maturity investments	456	11,780	12,236
Disposals during the year	-	(23,000)	(23,000)
Commission received from held to maturity investments	-	(7,305)	(7,305)
Balance at the end of the year	16,370	378,978	395,348
2019			
Balance at the beginning of the year	15,458	306,923	322,381
Placements during the year	-	197,800	197,800
Maturities during the year	-	(145,423)	(145,423)
Commission from held to maturity investments	456	9,620	10,076
Commission received from held to maturity investments	-	(1,417)	(1,417)
Balance at the end of the year	15,914	367,503	383,417

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7. INVESTMENTS (continued)

7.2 FVIS investments

The fair value through income statement ("FVIS") investments represent investments in 'AlJazira Capital' managed by a founding shareholder, amounting to SAR 53,479 thousand (2019: SAR 27,997 thousand), and investment in shares of companies listed on Tadawul, amounting to SAR 2,984 thousand (31 December 2019: SAR nil).

Movement in FVIS investments year ended 31 December 2020 is as follows:

	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>Total SAR'000</i>
2020			
Balance at beginning of the year	27,997	-	27,997
Purchases during the year	55,000	27,820	82,820
Disposals during the year	(29,965)	(25,198)	(55,163)
Changes in fair value	447	362	809
Balance at the end of the year	53,479	2,984	56,463
	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>Total SAR'000</i>
2019			
Balance at beginning of the year	43,072	30,376	73,448
Purchases during the year	-	4,919	4,919
Disposals during the year	(15,810)	(35,295)	(51,105)
Changes in fair value	735	-	735
Balance at the end of the year	27,997	-	27,997

8. FIXTURES, FURNITURE AND EQUIPMENT

	<i>Computer equipment SAR'000</i>	<i>Furniture and fixtures SAR'000</i>	<i>Total 2020 SAR'000</i>	<i>Total 2019 SAR'000</i>
Cost:				
At the beginning of the year	711	281	992	302
Additions	162	1,038	1,200	690
As at 31 December	873	1,319	2,192	992
Accumulated depreciation:				
At the beginning of the year	156	27	183	42
Charge for the year	209	70	279	141
As at 31 December	365	97	462	183
Net book value				
As at 31 December 2020	508	1,222	1,730	-
As at 31 December 2019	555	254	-	809

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9. STATUTORY DEPOSIT

As required by the Implementation Regulations, the Company deposited 10% of its paid-up capital, amounting to SAR 35,000 thousand in a bank designated by SAMA. The Company cannot withdraw this deposit without SAMA's approval. This deposit is held with Bank AlJazira "the founding shareholder".

10. UNIT RESERVE

	2020 SAR'000	2019 SAR'000
Balance at beginning of the year	187,979	130,290
Investible contributions, net	143,767	57,466
Insurance portfolio transfer (note 1)	996,927	-
Surrenders and partial withdrawals	(112,937)	(21,740)
Maturities	(29,833)	-
Change in fair value of available for sale investments (note 6)	163,461	21,963
Balance at the end of the year	1,349,364	187,979

11. MATHEMATICAL AND OTHER RESERVES

	2020 SAR'000	2019 SAR'000
Mathematical reserve (note 11.1)	9,160	360
Other reserves (note 11.2)	322	-
	9,482	360

Mathematical and other reserves are created, as per the report received from the Independent Actuary, as detailed below:

11.1 Mathematical reserve

	2020 SAR'000	2019 SAR'000
Balance at beginning of the year	360	557
Insurance portfolio transfer (note 1)	10,980	-
Changes in mathematical reserve	(2,180)	(197)
Balance at the end of the year	9,160	360

11.2 Other reserves

	2020 SAR'000	2019 SAR'000
Balance at beginning of the year	-	-
Changes in other reserves	322	-
Balance at the end of the year	322	-

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12. MOVEMENT IN UNEARNED CONTRIBUTION

	2020			2019		
	<u>Gross</u>	<u>Reinsurers'</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurers'</u>	<u>Net</u>
	<u>SAR'000</u>	<u>share</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>share</u>	<u>SAR'000</u>
Balance at beginning of the year	35,087	(12,923)	22,164	22,774	(9,006)	13,768
Contributions written/(ceded) during the year	233,934	(35,414)	198,520	130,283	(20,815)	109,468
	269,021	(48,337)	220,684	153,057	(29,821)	123,236
Investible contributions and contributions earned during the year	(234,488)	30,914	(203,574)	(117,970)	16,898	(101,072)
Balance at the end of the year	34,533	(17,423)	17,110	35,087	(12,923)	22,164

13. OUTSTANDING CLAIMS INCLUDING IBNR

	2020			2019		
	<u>Gross</u>	<u>Reinsurers'</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurers'</u>	<u>Net</u>
	<u>SAR'000</u>	<u>share</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>share</u>	<u>SAR'000</u>
At 01 January						
Reported claims	33,525	(29,422)	4,103	10,015	(7,918)	2,097
IBNR	7,023	(5,669)	1,354	10,997	(8,089)	2,908
	40,548	(35,091)	5,457	21,012	(16,007)	5,005
Incurred during the year	50,711	(44,915)	5,796	31,381	(29,004)	2,377
Insurance portfolio transfer (note 1)	4,941	(4,941)	-	-	-	-
(Paid)/recovered during the year	(29,139)	26,300	(2,839)	(11,845)	9,920	(1,925)
At 31 December	67,061	(58,647)	8,414	40,548	(35,091)	5,457
At 31 December						
Reported claims	49,226	(43,483)	5,743	33,525	(29,422)	4,103
IBNR	17,835	(15,164)	2,671	7,023	(5,669)	1,354
	67,061	(58,647)	8,414	40,548	(35,091)	5,457

14. CLAIMS DEVELOPMENT TABLE

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

The Company aims to maintain adequate reserves in respect of its takaful business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which result in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company will transfer much of this release to the current accident year reserves when the development of claim is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

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14. CLAIMS DEVELOPMENT TABLE (continued)

Claims triangulation analysis by accident year spanning a number of financial years is as follows:

<i>Gross</i> <i>Accident year</i>	<i>2015 and</i> <i>earlier</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>Total</i>
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
At end of accident year	22,859	12,429	10,248	6,226	20,746	32,521	
One year later	38,686	15,938	15,366	22,132	25,661	-	
Two years later	40,141	16,571	15,783	23,490	-	-	
Three years later	40,769	17,182	19,800	-	-	-	
Four years later	41,178	17,913	-	-	-	-	
Five years later	41,220	-	-	-	-	-	
Current estimate of cumulative claims incurred	41,220	17,913	19,800	23,490	25,661	32,521	160,605
Cumulative payments to date	(39,631)	(16,334)	(12,115)	(16,271)	(13,894)	(13,134)	(111,379)
Total reported claims	<u>1,589</u>	<u>1,579</u>	<u>7,685</u>	<u>7,219</u>	<u>11,767</u>	<u>19,387</u>	<u>49,226</u>
IBNR (note 13)							<u>17,835</u>
Total outstanding claims (note 13)							<u><u>67,061</u></u>
<i>Net</i> <i>Accident year</i>	<i>2015 and</i> <i>earlier</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>Total</i>
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
At end of accident year	998	1,686	2,023	906	2,142	3,736	
One year later	2,289	2,309	2,749	2,718	2,851	-	
Two years later	2,507	2,474	2,901	2,870	-	-	
Three years later	2,537	2,654	3,141	-	-	-	
Four years later	2,673	2,758	-	-	-	-	
Five years later	2,673	-	-	-	-	-	
Current estimate of cumulative claims incurred	2,673	2,758	3,141	2,870	2,851	3,736	18,029
Cumulative payments to date	(2,493)	(2,423)	(2,367)	(2,098)	(1,730)	(1,175)	(12,286)
Total reported claims	<u>180</u>	<u>335</u>	<u>774</u>	<u>772</u>	<u>1,121</u>	<u>2,561</u>	<u>5,743</u>
IBNR, net (note 13)							<u>2,671</u>
Total outstanding claims (note 13)							<u><u>8,414</u></u>

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15. ACCRUED EXPENSES AND OTHER LIABILITIES

	2020			2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
Accrued expenses	6,413	2,497	8,910	9,372	2,641	12,013
Contribution deposit	5,136	-	5,136	1,104	-	1,104
Advance contribution	1,560	-	1,560	938	-	938
Non actuarial liabilities pertaining to old portfolio	13,777	-	13,777	-	-	-
Other liabilities	16,992	5,055	22,047	4,541	55	4,596
Total	43,878	7,552	51,430	15,955	2,696	18,651

16. EMPLOYEE BENEFITS

Accruals are made in accordance with the actuarial valuation under the projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

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

	2020	2019
	SAR'000	SAR'000
Present value of employee benefit obligation	3,518	2,624

16.2 Movement of defined benefit obligation

	2020	2019
	SAR'000	SAR'000
Opening balance	2,624	2,050
Charge to statement of income	837	706
Actuarial loss from experience adjustments	363	131
Benefits paid during the year	(306)	(263)
Closing balance	3,518	2,624

16.3 Reconciliation of present value of defined benefit obligation

	2020	2019
	SAR'000	SAR'000
Balance at beginning of the year	2,624	2,050
Current service costs	47	586
Past service costs	701	44
Financial costs	89	76
Actuarial loss from experience adjustments	363	131
Benefits paid during the year	(306)	(263)
Balance at end of the year	3,518	2,624

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16 EMPLOYEE BENEFITS (continued)

16.4 Principal actuarial assumptions

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

	2020	2019
Discount rate	2.85%	2.80%
Expected rate of increase in salary level across different age bands	5.00%	5.00%
Normal retirement age	60 years	60 years
Number of employees	108	113

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

	2020 SAR'000	2019 SAR'000
Discount rate		
- Increase by 1%	(326)	(241)
- Decrease by 1%	381	268
Expected rate of increase in salary level across different age bands		
- Increase by 1%	366	245
- Decrease by 1%	(320)	(227)
Projected future benefit payment (6 years)	2020 SAR'000	2019 SAR'000
2021	180	258
2022	200	251
2023	167	249
2024	176	267
2025	189	312
2026	223	-

The average duration of the employee benefits at the end of the reporting period is 7.7 years (2019: 2.7 years).

17. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SAR 350 million consisting of 35 million shares (2019: 35 million shares) of SAR 10 each and subscribed by the following:

	<u>% holding</u>		2020	2019
	2020	2019	SAR'000	SAR'000
Founding Shareholders	44.71	49.29	156,500	172,515
General public	55.29	50.71	193,500	177,485
	100	100	350,000	350,000

18. STATUTORY RESERVE

As required by Saudi Arabian Insurance Laws and Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. The Company makes this transfer on an annual basis at 31 December. As at 31 December 2020, SAR 7,753 thousand (2019: SAR 7,342 thousand) had been set aside as a statutory reserve.

The statutory reserve is not available for distribution.

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19. TRANSACTIONS WITH RELATED PARTIES

Related parties represent major shareholders, Board members 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. Contract pricing policies and terms are conducted on an arm's length basis and transactions approved by the Company's management, or where required and applicable the Company's Board of Directors.

- a) In addition to the disclosures set out in notes 1, 4, 6, 7, 9, 20 and 21 following are the details of major related party transactions during the year ended:

<u>Related party</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>	
		<u>2020</u> <u>SAR'000</u>	<u>2019</u> <u>SAR'000</u>
<i>Bank AlJazira</i>	Commission earned from held to maturity investment	5,620	8,300
	Commission income on deposits	45	56
	Policy acquisition costs	5,400	
	Gross written contribution	48,796	55,523
	Claims paid	25,290	10,729
	Insurance portfolio transfer (note 1)	53,552	-
	Surplus distributed	957	1,169
	Investment in equity shares	1,692	-
	Disposal of equity shares	567	-
	Purchase of sukuk	-	175,447
<i>Founding shareholders</i>	Board of directors' remuneration and fee	918	1,335
<i>AlJazira Capital</i>	Profit earned on mutual funds	711	2,597
	Other income	9,230	936
<i>Aman Insurance Agency Company</i>	Policy acquisition costs	2,785	1,991
<i>Board of directors & committee members</i>	Gross written contribution	55	55
<i>Key management personnel</i>	Short-term employee benefits	7,166	1,102
	Gross contribution written	57	91

- b) Amount due from related parties

	<u>2020</u> <u>SAR'000</u>	<u>2019</u> <u>SAR'000</u>
<i>Bank AlJazira (see note 1)</i>	-	28,176
<i>AlJazira Capital</i>	26	2,191
	<u>26</u>	<u>30,367</u>

- c) Contributions receivable shown in statement of financial position includes SAR 2,356 thousand (2019: SAR 1,732 thousand) from Bank AlJazira "the founding shareholder".
- d) Outstanding claims shown in statement of financial position includes SAR 41,250 thousand (2019: SAR 33,268 thousand) to Bank AlJazira "the founding shareholder".

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20. GENERAL AND ADMINISTRATIVE EXPENSES, NET

	2020			2019		
	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>Total SAR'000</i>	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>Total SAR'000</i>
Employee related expenses	25,393	-	25,393	27,583	-	27,583
Legal and professional fees	2,505	3,795	6,300	1,392	1,168	2,560
Repair and maintenance	1,777	-	1,777	1,100	-	1,100
VAT Expenses	1,500	-	1,500	792	-	792
Committees' expenses (refer note (a) below)	-	1,153	1,153	-	846	846
Computer expenses	1,014	-	1,014	1,932	-	1,932
Board remuneration (refer note (b) below)	-	798	798	-	900	900
Utilities, postage and telecommunications	582	-	582	1,325	-	1,325
Rent	466	-	466	409	-	409
Depreciation	279	-	279	141	-	141
Travelling, hotel and conveyance	193	63	256	685	-	685
Advertising and marketing	223	-	223	1,026	-	1,026
Board attendance fees (refer note (c) below)	-	120	120	-	435	435
Printing and Stationery	75	-	75	85	-	85
Rent for use of furniture and fixtures	-	-	-	544	-	544
Other expenses	298	5,179	5,477	184	357	541
	34,305	11,108	45,413	37,198	3,706	40,904
Allocated to the founding shareholder (note 1)	-	-	-	(30,064)	(597)	(30,661)
Total	34,305	11,108	45,413	7,134	3,109	10,243

- a) Committee expenses include fees of non-board members for attending the committee meetings and other related expenses.
b) Board remuneration is paid in accordance with By-Laws of the Company.
c) Board attendance fee represents allowances for attending board meetings and committee meetings.

21. OTHER INCOME

	2020 SAR'000	2019 SAR'000
Rebate income from AlJazira Capital "the founding shareholder"	9,234	1,000
Others	314	46
	9,548	1,046

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22. ZAKAT AND INCOME TAX

The Zakat and income tax payable by the Company has been calculated in accordance with Zakat and tax regulations in the Kingdom of Saudi Arabia.

(a) Zakat

The Zakat provision for the year, attributable to the Saudi shareholders, is based on the following:

	<i>2020</i> <i>SAR'000</i>	<i>2019</i> <i>SAR'000</i>
Equity	428,968	392,736
Provisions and other adjustments	2,825	2,078
Book value of long-term assets	(1,643,034)	(441,456)
	<u>(1,211,241)</u>	<u>(46,642)</u>
Zakat base (A)	(1,211,241)	(46,642)
Zakatable income for the year (B)	43,709	38,381
Higher of A and B	43,709	38,381
Attributable to Saudi shareholders	43,143	37,884

The differences between the financial and the “Zakatable” results are mainly due to certain adjustments in accordance with the relevant fiscal regulations. The movement in the Zakat payable during the year ended 31 December is as follows:

	<i>2020</i> <i>SAR'000</i>	<i>2019</i> <i>SAR'000</i>
Balance at the beginning of the year	982	907
Zakat for the year	1,109	947
Zakat paid during the year	(954)	(872)
Balance at the end of the year	1,137	982

(b) Income tax

Income tax has been provided based on the adjusted income attributable to the non-Saudi shareholders. The movement in income tax payable during the year ended 31 December is as follows:

	<i>2020</i> <i>SAR'000</i>	<i>2019</i> <i>SAR'000</i>
Balance at the beginning of the year	128	132
Income tax for the year	116	100
Income tax paid during the year	(99)	(104)
Balance at the end of the year	145	128
Zakat at the end of the year	1,137	982
Income Tax at the end of the year	145	128
Total Zakat and Income tax at the end of the year	1,282	1,110

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22. ZAKAT AND INCOME TAX (continued)

(c) Status of assessments

The Company has submitted its Zakat and income tax returns for the years 2014 to 2019 with General Authority of Zakat and Tax ("GAZT") and obtained restricted certificates.

During 2019, GAZT has issued initial assessments for the years 2014 through 2018 disallowing investments from the Zakat base and withholding tax liability with additional Zakat liability of SAR 41,166 thousand. The Company has filed an appeal against these initial assessments. The Preliminary Appeal Committee ("PAC") issued their decision upholding GAZT's treatment. The Company has filed an appeal against the PAC decision with the Higher Appeal Committee ("HAC"). The management and their independent Zakat and income tax consultant strongly believe that the Company is in a strong position with respect to the aforementioned appeal.

23. EARNINGS PER SHARE

The basic earnings per share have been calculated by dividing the net income for the year attributable to the shareholders by the weighted average number of ordinary shares issued and outstanding at the year end. Diluted earnings per share is not applicable to the Company.

	<i>2020</i> <i>SAR'000</i>	<i>2019</i> <i>SAR'000</i>
Net income for the year attributable to the shareholders	38,764	36,708
Weighted average number of ordinary shares	35,000	35,000
Earnings per share (in SAR)	1.108	1.049

24. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to contingencies disclosed in note 22, as at the statement of financial position date, the Company had no contingent liabilities and commitments (2019: nil).

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

- a) 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 Company's financial assets consist of cash and cash equivalents, contribution receivables, available for sale investments held to cover unit-linked liabilities, FVIS investments, held to maturity investments, other assets, statutory deposit, due from related parties and its financial liabilities consist of other liabilities, reinsurance balances payable and outstanding claims. The fair values of financial instruments are not materially different from their carrying values. As at 31 December 2020, apart from the investments which are carried at fair value (notes 6 and 7), there were no other financial instruments held by the Company that were measured at fair value.

- b) 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 (i.e. without modification or repackaging);

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.

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25. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

- b) The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments (continued):

The following table presents the Company's financial assets that are measured at fair values:

			2020 (SAR'000)		
	<u>Carrying Value</u>	<u>Amortised cost</u>	<u>Fair Value</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Financial assets measured at fair value:</u>					
Available for sale investments held to cover unit-linked liabilities	1,343,823	-	-	1,343,823	1,343,823
Held to maturity investments	395,348	227,574	167,774	238,497	406,271
FVIS investments	56,463	-	2,984	53,479	56,463
Total	1,795,634	227,574	170,758	1,635,799	1,806,557

			2019 (SAR'000)		
	<u>Carrying Value</u>	<u>Amortised cost</u>	<u>Fair Value</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Financial assets measured at fair value:</u>					
Available for sale investments held to cover unit-linked liabilities	185,178	-	-	185,178	185,178
Held to maturity investments	383,417	198,264	185,153	197,948	383,101
FVIS investments	27,997	-	-	27,997	27,997
Total	596,592	198,264	185,153	411,123	596,276

There are no financial assets where fair value is measurable as Level 3 fair value.

There are no transfers between Level 1, Level 2 and Level 3 during the year.

- c) Measurement of fair value

Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 fair value at 31 December 2020 and 31 December 2019, as well as the significant unobservable inputs used.

<u>Type</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Sukuks and mutual funds	Valuations are based on quotations as received by the custodians at the end of each period and on published Net Asset Value (NAV) closing prices.	Not applicable	Not applicable

26. OPERATING SEGMENTS

Operating segments are reported in manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Managing Director that makes strategic decisions. For management purposes, the activities of Insurance Operations, which are all in the Kingdom of Saudi Arabia, are reported under three business units, as detailed below: Insurance – individual segment offers life insurance products on an individual basis including unit-linked investment-oriented products.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
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26. OPERATING SEGMENTS (continued)

Insurance – group life has segment offers life protection programs to the members of organizations on a group basis, and credit protection benefits in respect of personal loan given by financing organization. This segment also includes protection benefits in respect of various credit facilities other than personal loans extended by the financing organizations to its customers.

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

	2020		
	Individual	Group	Total
	SAR'000	SAR'000	SAR'000
ASSETS			
Contributions receivable, net	-	2,503	2,503
Reinsurers' share of unearned contributions	-	17,423	17,423
Reinsurers' share of outstanding claims	6,212	37,271	43,483
Reinsurers' share of claims incurred but not reported	-	15,164	15,164
Available for sale investments held to cover unit link liabilities	1,343,823	-	1,343,823
	1,350,035	72,361	1,422,396
Unallocated assets:			
Cash and cash equivalents			106,032
Investments			451,811
Due from related parties			26
Prepayments and other assets			3,760
Fixtures, furniture and equipment			1,730
Statutory deposit			35,000
TOTAL ASSETS			2,020,755
LIABILITIES			
Reinsurance balances payable	1,333	13,967	15,300
Unearned contributions	-	34,533	34,533
Outstanding claims	6,439	42,787	49,226
Claims incurred but not reported	-	17,835	17,835
Unit reserve	1,349,364	-	1,349,364
Mathematical reserve	9,160	-	9,160
Other reserves	322	-	322
	1,366,618	109,122	1,475,740
Unallocated liabilities and surplus:			
Accrued expenses and other liabilities			51,430
Employee benefits			3,518
Zakat and income tax			1,282
Surplus from Insurance Operations			15,837
TOTAL LIABILITIES			1,547,807
EQUITY			
Share capital			350,000
Statutory reserve			38,348
Retained earnings			85,012
TOTAL SHAREHOLDERS' EQUITY			473,360
Remeasurement reserve of defined benefit obligation - related to insurance operations			(412)
TOTAL EQUITY			472,948
TOTAL LIABILITIES AND EQUITY			2,020,755

ALJAZIRA TAKAFUL TAAWUNI COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)
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26. OPERATING SEGMENTS (continued)

	2019		
	<i>Individual</i>	<i>Group</i>	<i>Total</i>
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
ASSETS			
Contributions receivable, net	-	2,094	2,094
Reinsurers' share of unearned contributions	-	12,923	12,923
Reinsurers' share of outstanding claims	77	29,345	29,422
Reinsurers' share of claims incurred but not reported	-	5,669	5,669
Available for sale investments held to cover unit link liabilities	185,178	-	185,178
	<u>185,255</u>	<u>50,031</u>	<u>235,286</u>
Unallocated assets:			
Cash and cash equivalents			19,687
Investments			411,414
Due from related parties			30,367
Prepayments and other assets			2,473
Fixtures, furniture and equipment			809
Statutory deposit			35,000
TOTAL ASSETS			<u><u>735,036</u></u>
LIABILITIES			
Reinsurance balances payable	160	10,615	10,775
Unearned contributions	-	35,087	35,087
Outstanding claims	257	33,268	33,525
Claims incurred but not reported	-	7,023	7,023
Unit reserve	187,979	-	187,979
Mathematical reserve	360	-	360
Other reserves	-	-	-
	<u>188,756</u>	<u>85,993</u>	<u>274,749</u>
Unallocated liabilities and surplus:			
Accrued expenses and other liabilities			18,651
Employee benefits			2,624
Zakat and income tax			1,110
Surplus from Insurance Operations			3,355
TOTAL LIABILITIES			<u><u>300,489</u></u>
EQUITY			
Share capital			350,000
Statutory reserve			30,595
Retained earnings			54,001
TOTAL SHAREHOLDERS' EQUITY			<u>434,596</u>
Remeasurement reserve of defined benefit obligation - related to insurance operations			(49)
TOTAL EQUITY			<u><u>434,547</u></u>
TOTAL LIABILITIES AND EQUITY			<u><u>735,036</u></u>

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
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26. OPERATING SEGMENTS (continued)

Year ended 31 December 2020	Individual SAR'000	Group SAR'000	Total SAR'000
REVENUES			
Gross written contributions:			
Individual	184,787	-	184,787
Small & Medium enterprises	-	103	103
Corporate	-	49,044	49,044
Total gross written contributions	184,787	49,147	233,934
Contributions ceded:			
Local	-	-	-
Foreign	(10,662)	(24,752)	(35,414)
Net written contributions	174,125	24,395	198,520
Change in unearned contributions, net	-	5,054	5,054
Net contribution earned	174,125	29,449	203,574
Other underwriting income	19,370	806	20,176
TOTAL REVENUES	193,495	30,255	223,750
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	(3,319)	(25,820)	(29,139)
Reinsurers' share of claims paid	3,177	23,123	26,300
Net claims paid	(142)	(2,697)	(2,839)
Changes in outstanding claims, net	(47)	(1,593)	(1,640)
Changes in claims incurred but not reported, net	-	(1,317)	(1,317)
Net claims incurred	(189)	(5,607)	(5,796)
Investible contributions, net	(143,767)	-	(143,767)
Changes in mathematical reserve	2,180	-	2,180
Changes in other reserves	(322)	-	(322)
Policy acquisition costs	(9,970)	(77)	(10,047)
Supervision and inspection fees	(1,141)	(29)	(1,170)
TOTAL UNDERWRITING COSTS AND EXPENSES	(153,209)	(5,713)	(158,922)
NET UNDERWRITING INCOME	40,286	24,542	64,828
OTHER OPERATING (EXPENSES)/ INCOME			
Reversal of provision for impairment of receivables			36
General and administrative expenses			(45,413)
Commission from held to maturity Investments			12,236
Commission income on deposits			45
Dividends from FVIS investments			220
Unrealized gain on FVIS investments			809
Realized gain on FVIS investments			1,809
Other income			9,548
TOTAL OTHER OPERATING EXPENSES, NET			(20,710)
Income before surplus, Zakat and income tax			44,118
Net income attributed to the Insurance Operations			(4,129)
Income for the year attributable to the shareholders before Zakat and income tax			39,989
Zakat			(1,109)
Income tax			(116)
Net income for the year attributable to the shareholders			38,764

ALJAZIRA TAKAFUL TAAWUNI COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)
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26. OPERATING SEGMENTS (continued)

Year ended 31 December 2019	<i>Individual SAR'000</i>	<i>Group SAR'000</i>	<i>Total SAR'000</i>
REVENUES			
Gross written contributions:			
Individual	73,680	-	73,680
Small & Medium enterprises	-	445	445
Corporate	-	56,158	56,158
Total gross written contributions	73,680	56,603	130,283
Contributions ceded:			
Local	-	-	-
Foreign	(882)	(19,933)	(20,815)
Net written contributions	72,798	36,670	109,468
Change in unearned contributions, net	-	(8,396)	(8,396)
Net contribution earned	72,798	28,274	101,072
Other underwriting income	1,594	-	1,594
TOTAL REVENUES	74,392	28,274	102,666
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	(128)	(11,717)	(11,845)
Reinsurers' share of claims paid	38	9,882	9,920
Net claims paid	(90)	(1,835)	(1,925)
Changes in outstanding claims, net	(81)	(1,925)	(2,006)
Changes in claims incurred but not reported, net	-	1,554	1,554
Net claims incurred	(171)	(2,206)	(2,377)
Investible contributions, net	(57,466)	-	(57,466)
Changes in mathematical reserve	197	-	197
Changes in other reserves	-	-	-
Policy acquisition costs	(3,655)	(255)	(3,910)
Supervision and inspection fees	(368)	(283)	(651)
TOTAL UNDERWRITING COSTS AND EXPENSES	(61,463)	(2,744)	(64,207)
NET UNDERWRITING INCOME	12,929	25,530	38,459
OTHER OPERATING INCOME/(EXPENSES)			
Increase in provision for impairment of receivables			(183)
General and administrative expenses			(10,243)
Commission from held to maturity Investments			10,076
Commission income on deposits			56
Unrealized gain on FVIS investments			735
Realized gain on FVIS investments			1,164
Other income			1,046
TOTAL OTHER OPERATING INCOME, NET			2,651
Income before surplus, Zakat and income tax			41,110
Net income attributed to the insurance operations			(3,355)
Income for the year attributable to the shareholders before Zakat and income tax			37,755
Zakat			(947)
Income tax			(100)
Net income for the year attributable to the shareholders			36,708

ALJAZIRA TAKAFUL TAAWUNI COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)
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27. RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of on-going identifications, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risk through strategic planning process. The strategy considers the impact of market conditions and available expertise on inherent risks to which the Company is exposed.

Risk management structure

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

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Senior management

Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's Board authorised risk appetite parameters.

Audit Committee

The Audit Committee is elected by the General Assembly. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company.

Risk Committee

The Risk Committee is elected by the Board of Directors. The Risk Committee is responsible for the Company's risk management strategy to ensure that the Company's exposure to risks is minimal.

Internal Audit

All key operational, financial and risk management processes are audited by Internal Audit. Internal Audit examines the adequacy of the relevant policies and procedures, the Company's compliance with internal policies and regulatory guidelines. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

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

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from factors other than credit, market and liquidity risks such as those arising from regulatory requirements. Operational risks arise from all of the Company's activities. The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

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

Insurance risk

Insurance risk is the risk that actual claims payable to policyholders exceed the carrying amount of reserve for insurance activities. This is influenced by the frequency and amounts of claims paid and subsequent development of long-term claims. Therefore, the objective of the Insurance Operations is to ensure that sufficient reserves are available to cover these liabilities. The Insurance Operations manages this risk by ensuring that adequate reinsurance cover is taken to restrict the maximum loss payable for any individual claim.

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27. RISK MANAGEMENT (continued)

Insurance risk (continued)

Concentration of insurance risk

The Company's insurance risk exposure relating to contract holders is concentrated in Kingdom of Saudi Arabia.

Key assumptions

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risk, civil riots, etc. The Company manages these risks through conservative underwriting strategies and effective use of reinsurance arrangements.

Frequency and amount of claims

For individual life business, the main risk is the mortality and morbidity (permanent or temporary disability) of the insured. This is managed through an effective and clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/ consultants and comprehensive medical tests. The Company also assesses financial, lifestyle and occupational information to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

For group life and group credit protection, the main risks are mortality and morbidity (permanent or temporary disability) of the insured. The mortality risk is compounded due to the concentration of lives, for e.g. employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/ consultants and comprehensive medical tests. The Company also looks at the nature of activity carried out by the group, group size, mix of lives by geographical regions, cultural background and manual/non-manual worker split.

The individual life business and group credit protection portfolios are protected through an efficient reinsurance arrangement. This protects the Company from adverse mortality/morbidity experience.

Sensitivity of claims

Insurance claim liabilities are sensitive to the various assumptions mentioned above. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. A hypothetical 5% change in the net claims ratio, with other variable held constant, would impact net underwriting income for the year by approximately SAR ± 10,179 thousand (2019: SAR ± 5,054 thousand) in aggregate.

Independent actuarial review of claims and claims reserve.

In further mitigation of the insurance risk, the Company utilizes an independent actuary who performs periodical reviews of the Company's claims modeling and claims projections as well as verifying that the annual closing claims are adequate.

Reinsurance risk

In common with other insurance companies, in order to minimise the financial exposure arising from large claims, the Company in normal course of business, enters into reinsurance arrangements with the reinsurers. Such reinsurance arrangements provide for greater diversification of business, allow the management to control exposure potential losses arising from large risk, and provide additional capacity for growth. All of the reinsurance is affected under treaty, Quota share and Surplus reinsurance contracts.

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

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

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

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27. RISK MANAGEMENT (continued)

Reinsurance risk (continued)

The exception to this rule is in respect of local companies which do not carry any such credit rating. This, however, is limited to those companies registered and approved by the Local Insurance Regulators. Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and matched against a list of requirements pre-set by the Company's management before approving them for exchange of reinsurance business.

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

The ratings of its reinsurance counterparties are as follows:

<u>Reinsurer</u>	<u>Standard & Poor's (S&P)</u>	<u>Moody's</u>	<u>Fitch</u>	<u>A.M. Best</u>
Swiss Re Asia Pte. Ltd	AA-	Aa3	-	A+
RGA International Reinsurance	AA-	A1	-	A+
Munich Re	AA-	Aa3	AA	A+

Regulatory framework risk

The operations of the Company are also subject to regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise.

Capital management (solvency) risk

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise 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 new shares.

The Company is required to maintain solvency margin in accordance with the calculation described under Article 67 of the Implementing Insurance Regulations. The Company complied with the relevant regulations.

Financial risk

The Company's principal financial instruments are cash and cash equivalents, available for sale investments held to cover unit-linked liabilities, contribution receivable, reinsurance share of outstanding claims, other assets, held to maturity investments, FVIS investments, due from related parties, statutory deposit, reinsurance balances payable, accrued expenses and other liabilities, due to Shareholders' operations and other payables. The Company does not enter into derivative transactions.

The main risks arising from the financial instruments of Insurance Operations and Shareholders' Operations are foreign currency risk, commission rate risk, credit risk, liquidity risk and fund price risk. The management reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

Foreign 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 losses due to exchange rate fluctuations as the Insurance Operations and Shareholders' Operations primarily deal in Saudi Riyals and in US Dollar. Saudi Riyal which is pegged to the US Dollar.

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27. RISK MANAGEMENT (continued)

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 is exposed to commission rate risk on its murabaha deposits and sukuks.

The sensitivity of the income is the effect of assumed changes in commission rates, with all other variables held constant, on the Company's profit for one year, based on the floating rate financial assets held at 31 December 2020. A hypothetical 50 basis points change in the weighted average commission rates of the floating rate financial assets balances at 31 December 2020 would impact commission income on murabaha deposits and sukuks by approximately SAR 1,977 thousand (2019: SAR 1,917 thousand) over the remaining period of maturity.

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.

The Company issues unit linked investment policies. In unit linked business the plan holder bears the investment risk on the assets held in the unit linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on the unit linked financial assets.

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

- To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurance counterparties. Accordingly, as a pre-requisite, the parties with whom reinsurance is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- Contributions receivable are only receivable from corporate customers. The Company seeks to limit the credit risk by setting credit limits and monitoring outstanding receivables. In respect of contribution receivable, one of the policy holders account for 87% of the balance as at 31 December 2020 (2019: 74%).

The Company's investments comprise of murabaha securities, sukuks and mutual funds. The Company limits its credit risk on investments by setting out a minimum acceptable security rating level affirming their financial strength. The table below shows the maximum exposure to credit risk for the components of the financial position:

	2020 SAR'000	2019 SAR'000
Cash and cash equivalents	106,032	19,687
Investments	451,811	411,414
Contributions receivable	2,705	2,332
Reinsurance share of outstanding claims	43,483	29,422
Reinsurers' share of claims incurred but not reported	15,164	5,669
Due from related parties	26	30,367
Other assets	2,913	2,291
Statutory deposit	35,000	35,000
	657,134	536,182

ALJAZIRA TAKAFUL TAAWUNI COMPANY
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27. RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a timely basis and management ensures that sufficient funds are available to meet any commitments as they arise. All assets of Insurance Operations and Shareholders' Operations are current, except for investments, statutory deposit and fixtures, furniture and equipment which is non-current in nature.

The insurance operations' financial liabilities consist of outstanding claims, reinsurance balances payable, accrued expenses and other liabilities and the shareholders' financial liabilities consist of accrued expenses and other liabilities. All these financial liabilities are expected to be settled within 12 months from the date of statement of financial position except employee benefits.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Insurance Operations and Shareholders' Operations are exposed to market risk with respect to their investments in units of open-ended mutual funds. The underlying investments of the mutual funds are in equities, Sukuks and Murabaha purchased in the local and international markets and unit price of the fund is dependent on the movements in the market prices of these instruments. The fund manager limits market risk by monitoring the developments in the relevant markets for these instruments.

A 5% change in the net asset value of the funds, with all other variables held constant, would impact the net assets by SAR 69,865 thousand (2019: SAR 10,659 thousand).

Price risk

Price risk is the potential change in the fair value of financial instruments as a result of instrument-specific developments or systemic factors affecting the overall market in which the instrument is being traded.

The total size of FVIS investments which are exposed to market price risk are SAR 56,463 thousand (2019: SAR 27,997 thousand). The Company manages this risk conducting thorough due diligence on each instrument prior to investing as well as maintaining exposure limits guidelines to minimise the potential impact of marking to market on the overall portfolio.

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

	<u>Fair value change</u>	<u>Effect on Company's profit SAR'000</u>
2020	± 10%	± 5,646
2019	± 10%	± 2,800

The above sensitivity analysis is only on FVIS investments which directly impact the Company's profit.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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28. SUPPLEMENTARY INFORMATION

a) STATEMENT OF FINANCIAL POSITION

	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2020 SAR'000</i>	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2019 SAR'000</i>
ASSETS						
Cash and cash equivalents	72,500	33,532	106,032	15,454	4,233	19,687
Contributions receivable, net	2,503	-	2,503	2,094	-	2,094
Reinsurers' share of unearned contributions	17,423	-	17,423	12,923	-	12,923
Reinsurers' share of outstanding claims	43,483	-	43,483	29,422	-	29,422
Reinsurers' share of claims incurred but not reported	15,164	-	15,164	5,669	-	5,669
Available for sale investments held to cover unit-linked liabilities	1,343,823	-	1,343,823	185,178	-	185,178
Investments	69,849	381,962	451,811	43,911	367,503	411,414
Due from related parties	-	26	26	28,176	2,191	30,367
Prepayments and other assets	3,760	-	3,760	2,405	68	2,473
Fixtures, furniture and equipment	1,730	-	1,730	809	-	809
Due from Insurance Operations	-	31,674	31,674	-	29,407	29,407
Statutory deposit	-	35,000	35,000	-	35,000	35,000
	<u>1,570,235</u>	<u>482,194</u>	<u>2,052,429</u>	<u>326,041</u>	<u>438,402</u>	<u>764,443</u>
Less: Inter-operations eliminations	-	(31,674)	(31,674)	-	(29,407)	(29,407)
TOTAL ASSETS	<u>1,570,235</u>	<u>450,520</u>	<u>2,020,755</u>	<u>326,041</u>	<u>408,995</u>	<u>735,036</u>
LIABILITIES						
Accrued expenses and other liabilities	43,878	7,552	51,430	15,955	2,696	18,651
Reinsurance balances payable	15,300	-	15,300	10,775	-	10,775
Unearned contributions	34,533	-	34,533	35,087	-	35,087
Outstanding claims	49,226	-	49,226	33,525	-	33,525
Claims incurred but not reported	17,835	-	17,835	7,023	-	7,023
Unit reserve	1,349,364	-	1,349,364	187,979	-	187,979
Mathematical reserve	9,160	-	9,160	360	-	360
Other reserves	322	-	322	-	-	-
Employee benefits	3,518	-	3,518	2,624	-	2,624
Zakat and income tax	-	1,282	1,282	-	1,110	1,110
Due to Shareholders' Operations	31,674	-	31,674	29,407	-	29,407
Surplus from Insurance Operations	15,837	-	15,837	3,355	-	3,355
	<u>1,570,647</u>	<u>8,834</u>	<u>1,579,481</u>	<u>326,090</u>	<u>3,806</u>	<u>329,896</u>
Less: Inter-operations eliminations	(31,674)	-	(31,674)	(29,407)	-	(29,407)
TOTAL LIABILITIES	<u>1,538,973</u>	<u>8,834</u>	<u>1,547,807</u>	<u>296,683</u>	<u>3,806</u>	<u>300,489</u>
EQUITY						
Share capital	-	350,000	350,000	-	350,000	350,000
Statutory reserve	-	38,348	38,348	-	30,595	30,595
Retained earnings	-	85,012	85,012	-	54,001	54,001
Remeasurement reserve of defined benefit obligation – related to Insurance operations	(412)	-	(412)	(49)	-	(49)
TOTAL EQUITY	<u>(412)</u>	<u>473,360</u>	<u>472,948</u>	<u>(49)</u>	<u>434,596</u>	<u>434,547</u>
TOTAL LIABILITIES AND EQUITY	<u>1,538,561</u>	<u>482,194</u>	<u>2,020,755</u>	<u>296,634</u>	<u>438,402</u>	<u>735,036</u>

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28. SUPPLEMENTARY INFORMATION (continued)

b) STATEMENT OF INCOME

	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2020 SAR'000</i>	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2019 SAR'000</i>
REVENUES						
Gross written contributions:						
Individual	184,787	-	184,787	73,680	-	73,680
Small & Medium Enterprises	-	-	-	445	-	445
Corporate	49,147	-	49,147	56,158	-	56,158
Total Gross written contributions	233,934	-	233,934	130,283	-	130,283
Contributions ceded:						
Local	-	-	-	-	-	-
Foreign	(35,414)	-	(35,414)	(20,815)	-	(20,815)
Net written contributions	198,520	-	198,520	109,468	-	109,468
Change in unearned contributions, net	5,054	-	5,054	(8,396)	-	(8,396)
Net contribution earned	203,574	-	203,574	101,072	-	101,072
Other underwriting income	20,176	-	20,176	1,594	-	1,594
TOTAL REVENUES	223,750	-	223,750	102,666	-	102,666
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	(29,139)	-	(29,139)	(11,845)	-	(11,845)
Reinsurers' share of claims paid	26,300	-	26,300	9,920	-	9,920
Net claims paid	(2,839)	-	(2,839)	(1,925)	-	(1,925)
Changes in outstanding claims, net	(1,640)	-	(1,640)	(2,006)	-	(2,006)
Changes in claims incurred but not reported, net	(1,317)	-	(1,317)	1,554	-	1,554
Net claims incurred	(5,796)	-	(5,796)	(2,377)	-	(2,377)
Investible contributions, net	(143,767)	-	(143,767)	(57,466)	-	(57,466)
Change in mathematical reserve	2,180	-	2,180	197	-	197
Change in other reserves	(322)	-	(322)	-	-	-
Policy acquisition costs	(10,047)	-	(10,047)	(3,910)	-	(3,910)
Supervision and inspection fees	(1,170)	-	(1,170)	(651)	-	(651)
TOTAL UNDERWRITING COSTS AND EXPENSES	(158,922)	-	(158,922)	(64,207)	-	(64,207)
NET UNDERWRITING INCOME	64,828	-	64,828	38,459	-	38,459
OTHER OPERATING (EXPENSES)/ INCOME						
Reversal of / (Increase in) provision for impairment of receivables	36	-	36	(183)	-	(183)
General and administrative expenses	(34,305)	(11,108)	(45,413)	(7,134)	(3,109)	(10,243)
Commission from held to maturity investments	456	11,780	12,236	456	9,620	10,076
Commission income on deposits	45	-	45	49	7	56
Unrealised gain on FVIS investments	447	362	809	735	-	735
Realized gain on FVIS investments	236	1,573	1,809	189	975	1,164
Dividends from FVIS investments	-	220	220	-	-	-
Other income	9,544	4	9,548	981	65	1,046
TOTAL OTHER OPERATING (EXPENSES)/INCOME	(23,541)	2,831	(20,710)	(4,907)	7,558	2,651

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28. SUPPLEMENTRY INFORMATION (continued)

b) STATEMENT OF INCOME (continued)

	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2020 SAR'000</i>	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2019 SAR'000</i>
NET SURPLUS FROM OPERATIONS	41,287	2,831	44,118	33,552	7,558	41,110
Surplus transferred to Shareholders	(37,158)	37,158	-	(30,197)	30,197	-
NET INCOME FOR THE YEAR BEFORE ZAKAT AND INCOME TAX	4,129	39,989	44,118	3,355	37,755	41,110
Zakat	-	(1,109)	(1,109)	-	(947)	(947)
Income tax	-	(116)	(116)	-	(100)	(100)
NET INCOME FOR THE YEAR	4,129	38,764	42,893	3,355	36,708	40,063
Weighted average number of ordinary shares outstanding (in thousands)	-	35,000	-	-	35,000	-
Earnings per share for the year (SAR) (Basic and diluted)	-	1.108	-	-	1.049	-

c) STATEMENT OF COMPREHENSIVE INCOME

	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2020 SAR'000</i>	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2019 SAR'000</i>
NET INCOME FOR THE YEAR	4,129	38,764	42,893	3,355	36,708	40,063
Actuarial loss on defined benefit obligation – related to Insurance operations (note 16)	(363)	-	(363)	(131)	-	(131)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,766	38,764	42,530	3,224	36,708	39,932

Share of Insurance Operations surplus split in the ratio of 90/10 between Shareholders' and Insurance Operations and presented separately is now presented as an expense in statement of income.

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28. SUPPLEMENTARY INFORMATION (continued)

d) STATEMENT OF CASH FLOWS

	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2020 SAR'000</i>	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>2019 SAR'000</i>
OPERATING ACTIVITIES						
Net income for the year before zakat and income tax	4,129	39,989	44,118	3,355	37,755	41,110
Adjustments for non-cash items:						
Reinsurers' share of unearned contributions	(4,500)	-	(4,500)	(3,917)	-	(3,917)
Unearned contributions	(554)	-	(554)	12,313	-	12,313
(Reversal of) / Increase in provision for impairment of receivables	(36)	-	(36)	183	-	183
Commission from held to maturity investments	(456)	(11,780)	(12,236)	(456)	(9,620)	(10,076)
Unrealised gain on FVIS investments	(447)	(362)	(809)	(735)	-	(735)
Realised gain on FVIS investments	(236)	(1,573)	(1,809)	(189)	(975)	(1,164)
Dividends from FVIS investments	-	(220)	(220)	-	-	-
Depreciation	279	-	279	141	-	141
Employee benefits	837	-	837	706	-	706
	(984)	26,054	25,070	11,401	27,160	38,561
Changes in operating assets and liabilities:						
Contributions receivable	(373)	-	(373)	(644)	-	(644)
Reinsurers' share of outstanding claims	(9,120)	-	(9,120)	(21,504)	-	(21,504)
Reinsurers' share of claims incurred but not reported	(9,495)	-	(9,495)	2,420	-	2,420
Available for sale investments held to cover unit-linked liabilities, net	(161,718)	-	(161,718)	(56,948)	-	(56,948)
Due from related parties	81,728	2,165	83,893	(20,732)	(2,144)	(22,876)
Prepayments and other assets	(1,355)	68	(1,287)	(1,726)	(27)	(1,753)
Accrued expenses and other liabilities	25,477	4,856	30,333	2,198	(94)	2,104
Reinsurers' balances payable	4,525	-	4,525	(5,350)	-	(5,350)
Outstanding claims	10,760	-	10,760	23,510	-	23,510
Claims incurred but not reported	10,812	-	10,812	(3,974)	-	(3,974)
Unit reserve	164,458	-	164,458	57,689	-	57,689
Mathematical reserve	(2,180)	-	(2,180)	(197)	-	(197)
Other reserves	(11,336)	-	(11,336)	-	-	-
Due to Shareholders' Operations	2,267	-	2,267	3,885	-	3,885
Due from Insurance Operations	-	(2,267)	(2,267)	-	(3,885)	(3,885)
Cash generated from / (used in) operations	103,466	30,876	134,342	(9,972)	21,010	11,038
Employee benefits paid	(306)	-	(306)	(263)	-	(263)
Surplus distributed to policyholders	(20,115)	-	(20,115)	(2,827)	-	(2,827)
Zakat and income tax paid	-	(1,053)	(1,053)	-	(976)	(976)
Net cash generated from / (used in) operating activities	83,045	29,823	112,868	(13,062)	20,034	6,972
INVESTING ACTIVITIES						
Purchase of held to maturity investments	-	(30,000)	(30,000)	-	(197,800)	(197,800)
Proceeds from disposal of held to maturity investment	-	23,000	23,000	-	145,423	145,423
Proceeds from disposal of FVIS investment	30,201	26,771	56,972	15,998	36,271	52,269
Purchase of FVIS investment	(55,000)	(27,820)	(82,820)	-	(4,919)	(4,919)
Commission from held to maturity investments	-	7,305	7,305	-	1,417	1,417
Dividends from FVIS investments	-	220	220	-	-	-
Purchase of fixtures, furniture and equipment	(1,200)	-	(1,200)	(690)	-	(690)
Net cash (used in) / generated from investing activities	(25,999)	(524)	(26,523)	15,308	(19,608)	(4,300)
Net increase in cash and cash equivalents	57,046	29,299	86,345	2,246	426	2,672
Cash and cash equivalents at the beginning of the year	15,454	4,233	19,687	13,208	3,807	17,015
Cash and cash equivalents at the end of the year	72,500	33,532	106,032	15,454	4,233	19,687

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29. IMPACT OF COVID-19

The outbreak of novel coronavirus (Covid-19) since early 2020, its spread across mainland China and then globally including the Kingdom of Saudi Arabia and the declaration of this pandemic by the World Health Organization has resulted globally in governmental authorities imposing quarantines and travel restrictions of varying scope. This has led to significant disruptions in the retail, travel and hospitality industries, and in global trade. It has resulted in decreased economic activity and lowered estimates for future economic growth and has caused global financial markets to experience significant volatility. On 11 March 2020, the World Health Organisation (“WHO”) declared 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 response to the spread of the Covid-19 virus in the Kingdom of Saudi Arabia where the Company operates and its consequential disruption to the social and economic activities in the Saudi Arabia market, 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; and
- the continuity of its business throughout the Kingdom is protected and kept intact.

The Company has considered the following while assessing the impact of COVID-19 outbreak:

- **Financial assets**

The Company has performed an assessment in accordance with its accounting policy due to the Covid-19 pandemic to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. These include factors such as, significant financial difficulties of issuers or debtors, default or delinquency in payments, probability that the issuer or debtor will enter bankruptcy or other financial reorganization, etc. In case of sukuks classified under held to maturity, the Company has performed an assessment to determine whether there is a significant decline in the fair value of financial assets below their cost. Based on these assessments, the Company’s management believes that the Covid-19 pandemic has had no material effects on Company’s reported results for the year ended 31 December 2020. The Company’s management continues to monitor the situation closely.

- **Credit risk management**

The Company has strengthened its credit risk management policies to address the fast changing and evolving risks posed by the current circumstances. These include review of credit concentrations at granular economic sector, region, counterparty level and take appropriate action where required. Based on the review, the Company has identified the following sectors being impacted significantly by the Covid-19 pandemic and lower oil prices:

- Transportation
- Construction
- Entertainment

- **Liquidity Risk**

The Company is aware of the need to keep a close focus on liquidity management during this period and has enhanced its monitoring of current liquidity needs as well as the pandemic in its entirety. The Company regularly reviews and updates the liquidity forecast based on the individual liquidity balance as well as the continued development of external economic factors.

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29. IMPACT OF COVID-19 (continued)

• **Claims**

During the lockdown, the Company saw a decline in Covid-19 related death reported claims which resulted in a drop in claims experience. However, subsequent to the lifting of lockdown since 21 June 2020, the Company is experiencing a surge in claims due to Covid-19 related deaths which is in line with the expectations of the Company's management. The Company's management has duly considered the impact of surge in such claims in the current estimate of future contractual cash flows of the life insurance contracts in force as at December 31, 2020 for its liability adequacy test. Notwithstanding these challenges, management believes that the actuarial reserves remains largely unaffected as the overall mortality due to Covid-19 in the Kingdom of Saudi Arabia is very low.

Based on these assessments, the Company's management believes that the Covid-19 pandemic has had no material effects on Company's reported results for the year ended 31 December 2020. 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.

30. SUBSEQUENT EVENT

Subsequent to the year end, the shareholders of the Company and Solidarity Saudi Takaful Company ("Solidarity") in the Extra Ordinary General Meeting held on 13 Jumada al-Thani 1442H (corresponding to 26 January 2021) approved the proposed merger of the Company and Solidarity to be effected by way of a merger pursuant to Articles 191, 192, and 193 of the Companies Law issued under Royal Decree No. M3 dated 10 November 2015 (corresponding to 28 Muharram 1437H), through the issuance of 0.482656120 new shares in the Company for each share in Solidarity, subject to the terms and conditions of the Merger Agreement. The formalities to update legal documents are under process.

On 14 Rajab 1442 (corresponding to 26 February 2021), the objection period for creditors ended and there were no outstanding objections from the creditors of Solidarity as on this date. Further, on this date, the Company announced the enforcement of the decision to merge Solidarity into the Company and transfer all the assets and liabilities of Solidarity to the Company after both the Company and Solidarity had fulfilled the merger terms according to the merger agreement concluded between the two companies as described in the shareholders' circular and the offering document issued by the Company.

31. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors on 22 March 2021, corresponding to 9 Shaban 1442H.