

**Allianz Saudi Fransi Cooperative  
Insurance Company  
(A Saudi Joint Stock Company)**

**AUDITED FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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**Independent Auditors’ Report**

**To the shareholders of Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)**

*Opinion*

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

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

*Basis for Opinion*

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

*Key Audit Matters*

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

<b>Key audit matters</b>	<b>How the matter was addressed in our audit</b>
<p><b><i>Valuation of ultimate claim liabilities arising from insurance contracts</i></b></p> <p>As at 31 December 2020, gross outstanding claims, reserves including claims incurred but not reported (IBNR), premium deficiency reserve and additional premium reserves amounted to Saudi Riyals 708.4 million as reported in Note 14 to the financial statements.</p> <p>The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at</p>	<p>We performed the following procedures :</p> <ul style="list-style-type: none"> <li>• Understood, evaluated and tested key controls around the claims handling and provision setting processes.</li> <li>• Evaluated the competence, capabilities and objectivity of the management’s expert based on their professional qualifications and experience and assessed their independence.</li> <li>• Performed substantive tests on the amounts recorded for a sample of claims notified and paid; including</li> </ul>

Key audit matters	How the matter was addressed in our audit
<p>the reporting date, whether reported or not, together with the related claims handling costs.</p> <p>The Company principally uses an external actuary (“management’s expert”) to provide them with the estimate of such liabilities. A range of methods were used to determine these provisions which were based on a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>Due to the estimation uncertainty and subjectivity involved including uncertainties due to Covid 19 pandemic in the assessment of valuation of ultimate claim liabilities arising from insurance contracts, we have considered this as a key audit matter.</p> <p><i>Refer to notes 2 and 3 to the financial statements which explain the valuation methodology used by the Company and critical judgements and estimates.</i></p>	<p>comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves.</p> <ul style="list-style-type: none"> <li>• Obtained sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, and tested on sample basis, the accuracy of underlying claims data utilised by the management’s expert in estimating the IBNR by comparing it to the accounting and other records.</li> <li>• Challenged management’s methods and assumptions, through assistance of our internal actuarial expert to understand and evaluate the Company’s actuarial practices and provisions established and gained comfort over the actuarial report issued by management’s expert, by performing the following: <ul style="list-style-type: none"> <li>(i) Evaluated whether the Company’s actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;</li> <li>(ii) Assessed key actuarial assumptions including claims ratios and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company’s historical experience, current trends and our own industry knowledge; and</li> <li>(iii) Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivity analysis performed.</li> </ul> </li> <li>• Assessed the adequacy and appropriateness of the related disclosures in the financial statements.</li> </ul>

### Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially



inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

### ***Responsibilities of the Directors and Those Charged with Governance for the Financial Statements***

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

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

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

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

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

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

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

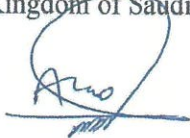
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If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

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

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

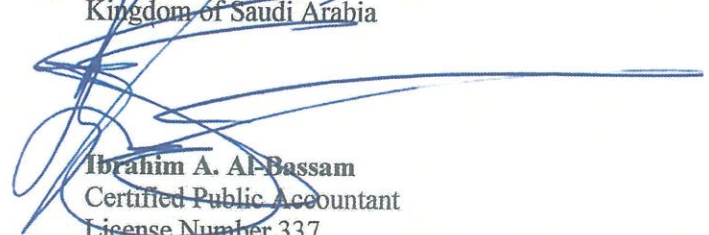
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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**Ali H. Al Basri**  
Certified Public Accountant  
License Number 409

**For Al-Bassam & Co.**  
P.O. Box 69658  
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Kingdom of Saudi Arabia



**Ibrahim A. Al-Bassam**  
Certified Public Accountant  
License Number 337



Date: 31 March 2021  
Corresponding to: 18 Sha'ban, 1442H

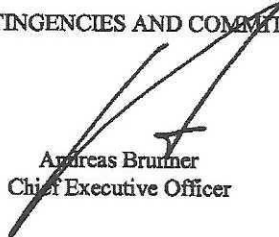


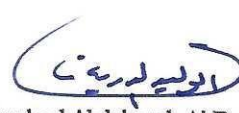
**Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)**


**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2020

	Notes	2020 SR	2019 SR
<b>ASSETS</b>			
Cash and cash equivalents	4	325,046,225	148,865,617
Prepaid expenses and other assets	5	144,090,776	72,490,204
Premiums receivable, net	6	404,388,790	420,586,277
Reinsurers' balance receivable, net	7(a)	74,029,044	70,535,901
Reinsurers' share of outstanding claims	14.1	501,314,767	432,328,207
Reinsurers' share of claims incurred but not reported	14.1	57,566,257	43,298,714
Reinsurers' share of unearned premiums	14.2	103,362,771	152,377,585
Deferred policy acquisition costs	14.3	12,903,209	26,919,550
Right-of-use assets	8.1	3,730,142	6,776,228
Financial assets at fair value through statement of income (unit linked investments)	9	524,059,821	538,113,858
Available for sale investments	10(a)	404,481,591	385,479,500
Deferred tax assets, net	11	5,825,970	6,961,507
Property and equipment, net	12	9,527,586	8,018,780
Statutory deposit	13	60,000,000	20,000,000
Accrued income on statutory deposit	13	1,572,445	1,485,295
<b>TOTAL ASSETS</b>		<b>2,631,899,394</b>	<b>2,334,237,223</b>
<b>LIABILITIES</b>			
Accrued and other liabilities	15	165,432,785	150,485,565
Surplus distribution payable	16	15,092,678	15,687,466
Reinsurers' balances payable	7(b)	202,216,042	195,599,123
Unearned premiums	14.2	266,364,432	408,698,330
Unearned reinsurance commission	17	2,829,659	7,347,773
Outstanding claims	14.1	574,233,568	533,066,753
Claims incurred but not reported	14.1	123,799,018	87,780,442
Lease liabilities	8.2	3,362,331	5,784,231
Premium deficiency reserve	14.1	9,039,013	11,731,333
Additional premium reserves	14.1	1,385,708	1,369,320
Unit linked liabilities	14.1	518,114,351	535,415,117
Employees' end-of-service obligations	18	19,019,582	16,847,898
Zakat and income tax	19	14,699,522	28,432,189
Accrued income payable to SAMA	13	1,572,445	1,485,295
<b>TOTAL LIABILITIES</b>		<b>1,917,161,134</b>	<b>1,999,730,835</b>
<b>EQUITY</b>			
Share capital	20	600,000,000	200,000,000
Share premium		16,310,624	22,711,315
Statutory reserve		20,743,607	20,743,607
Retained earnings		47,676,744	75,024,377
Actuarial reserve for employees' end-of-service obligations		3,597,830	3,828,488
Fair value reserve on investments	10(b)	26,409,455	12,198,601
<b>TOTAL EQUITY</b>		<b>714,738,260</b>	<b>334,506,388</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,631,899,394</b>	<b>2,334,237,223</b>
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Andreas Brunner  
Chief Executive Officer

  
Alwaleed Abdulrazak Al Dryaan  
Chairman

  
Waleed Bin Ateeq  
Finance Manager

The accompanying notes 1 to 32 form an integral part of these financial statements.


# Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

## STATEMENT OF INCOME

For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
<b>REVENUES</b>			
Gross premiums written	14.2	674,731,117	1,011,666,001
Reinsurance premiums ceded abroad	14.2	(233,697,568)	(302,757,400)
Reinsurance premiums ceded locally	14.2	(1,844,048)	(5,811,262)
Excess of loss expenses	14.2	(14,484,569)	(4,041,069)
Fee income from unit linked investments		1,242,769	1,169,709
<b>Net premiums written</b>		<b>425,947,701</b>	<b>700,225,979</b>
Changes in unearned premiums	14.2	142,333,898	(18,275,995)
Changes in reinsurers' share of unearned premiums	14.2	(49,014,814)	3,466,442
<b>Net premiums earned</b>		<b>519,266,785</b>	<b>685,416,426</b>
Reinsurance commissions	17	9,812,624	17,200,126
<b>NET REVENUES</b>		<b>529,079,409</b>	<b>702,616,552</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid		(441,541,109)	(545,223,347)
Surrenders and maturities		(96,326,838)	(120,421,643)
Expenses incurred related to claims		(23,615,412)	(34,142,147)
Reinsurers' share of claims paid		157,837,415	170,668,610
<b>Net claims and other benefits paid</b>		<b>(403,645,944)</b>	<b>(529,118,527)</b>
Changes in outstanding claims		(41,166,815)	(159,420,645)
Changes in reinsurers' share of outstanding claims		68,986,560	139,992,421
Changes in premium deficiency reserve		2,692,320	(6,878,778)
Changes in additional premium reserves		(16,388)	(362,501)
Changes in claims incurred but not reported		(36,018,576)	73,078,808
Changes in reinsurers' share of claims incurred but not reported		14,267,543	(33,198,493)
<b>Net claims and other benefits incurred</b>		<b>(394,901,300)</b>	<b>(515,907,715)</b>
Changes in unit linked liabilities		17,300,766	22,308,655
Unrealized gain on unit linked investments		14,182,293	19,650,078
Policy acquisition costs	14.3	(55,071,599)	(65,146,247)
Inspection and supervision fees		(5,136,631)	(7,033,412)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>		<b>(423,626,471)</b>	<b>(546,128,641)</b>
<b>NET UNDERWRITING INCOME</b>		<b>105,452,938</b>	<b>156,487,911</b>
<b>OTHER (EXPENSES) / INCOME</b>			
Provision of doubtful debts	6 & 7	(3,306,054)	(2,959,242)
General and administrative expenses	22	(136,339,356)	(123,276,726)
Investment income		11,442,114	10,352,872
Other income		5,117,953	4,995,396
<b>TOTAL OTHER EXPENSES</b>		<b>(123,085,343)</b>	<b>(110,887,700)</b>
<b>NET (LOSS) / INCOME FOR THE YEAR BEFORE ATTRIBUTION AND ZAKAT AND TAX</b>		<b>(17,632,405)</b>	<b>45,600,211</b>
Surplus attributed to the insurance operations	16	-	(3,986,295)
<b>NET (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS BEFORE ZAKAT AND TAX</b>		<b>(17,632,405)</b>	<b>41,613,916</b>
Zakat charge for the year	19	(10,267,741)	(4,517,818)
Income tax credit / (charge) for the year, net	19	552,513	(5,346,344)
<b>NET (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS AFTER ZAKAT AND TAX</b>		<b>(27,347,633)</b>	<b>31,749,754</b>
<b>(Loss) / earnings per share</b>			
Basic and diluted (loss) / earnings per share (restated)	26	(0.85)	0.91

  
 Andreas Brunner  
 Chief Executive Officer

  
 Alwaleed Abdulrazak Al Dryaan  
 Chairman

  
 Waleed Bin Ateeq  
 Finance Manager

The accompanying notes 1 to 32 form an integral part of these financial statements.




Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)


STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
Net (loss) / income for the year attributable to the shareholders after zakat and tax		(27,347,633)	31,749,754
<b>Other comprehensive income:</b>			
<i>Items that will not be reclassified to the statement of income in subsequent years</i>			
Re-measurement of defined benefit liability – employees' end-of-service obligations	18	(230,658)	3,287,651
<i>Items that may be reclassified to statement of income in subsequent years</i>			
Available for sale investments:			
- Net change in fair value	10(b)	15,898,904	25,252,589
- Deferred tax relating to change in fair value	11	(1,688,050)	(2,681,169)
<b>Total comprehensive (loss) / income for the year</b>		<b>(13,367,437)</b>	<b>57,608,825</b>

  
Andreas Brinner  
Chief Executive Officer

  
Alwaleed Abdulrazak Al Dryaan  
Chairman

  
Waleed Bin Ateeq  
Finance Manager

The accompanying notes 1 to 32 form an integral part of these financial statements.

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital SR	Share premium SR	Statutory reserve SR	Retained earnings SR	Actuarial reserve for employees' end-of- service obligations SR	Fair value reserve on investments SR	Total SR
Balance as at 1 January 2020	200,000,000	22,711,315	20,743,607	75,024,377	3,828,488	12,198,601	334,506,388
<b>Total comprehensive income for the year:</b>							
Net loss for the year attributable to shareholders after zakat and tax	-	-	-	(27,347,633)	-	-	(27,347,633)
Re-measurement of defined benefit liability – employees' end-of-service obligations	-	-	-	-	(230,658)	-	(230,658)
Changes in fair values of available for sale investments – (Note 10 (b))	-	-	-	-	-	15,898,904	15,898,904
Deferred tax relating to change in fair value – (Note 11)	-	-	-	-	-	(1,688,050)	(1,688,050)
Total comprehensive (loss)/ income for the year	-	-	-	(27,347,633)	(230,658)	14,210,854	(13,367,437)
Increase in share capital – (Note 20)	400,000,000	-	-	-	-	-	400,000,000
Transaction cost related to increase in share capital	-	(6,400,691)	-	-	-	-	(6,400,691)
<b>Balance as at 31 December 2020</b>	<b>600,000,000</b>	<b>16,310,624</b>	<b>20,743,607</b>	<b>47,676,744</b>	<b>3,597,830</b>	<b>26,409,455</b>	<b>714,738,260</b>
Balance as at 1 January 2019	200,000,000	22,711,315	14,393,656	49,624,574	540,837	(10,372,819)	276,897,563
<b>Total comprehensive income for the year:</b>							
Net income for the year attributable to shareholders after zakat and tax	-	-	-	31,749,754	-	-	31,749,754
Re-measurement of defined benefit liability – employees' end-of-service obligations	-	-	-	-	3,287,651	-	3,287,651
Changes in fair values of available for sale investments – (Note 10 (b))	-	-	-	-	-	25,252,589	25,252,589
Deferred tax relating to change in fair value – (Note 11)	-	-	-	-	-	(2,681,169)	(2,681,169)
Total comprehensive income for the year	-	-	-	31,749,754	3,287,651	22,571,420	57,608,825
Transfers to statutory reserve	-	-	6,349,951	(6,349,951)	-	-	-
<b>Balance as at 31 December 2019</b>	<b>200,000,000</b>	<b>22,711,315</b>	<b>20,743,607</b>	<b>75,024,377</b>	<b>3,828,488</b>	<b>12,198,601</b>	<b>334,506,388</b>

Andreas Brunner  
Chief Executive Officer

Alwalced Abdulrazak Al Dryaan  
Chairman

Walced Bin Ateeq  
Finance Manager

The accompanying notes 1 to 32 form an integral part of these financial statements.

# Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (loss) / income for the year before surplus, zakat and tax		(17,632,405)	45,600,211
Adjustments for non-cash and other items:			
Depreciation of property and equipment	12	3,257,176	2,125,362
Amortisation of right-of-use assets	8.1	3,046,086	3,073,302
Amortization of investments premium	10(b)	646,813	608,361
(Reversal) / provision of doubtful reinsurance receivables	7(a)	(1,375)	606,148
Gain on sale of property and equipment		(3,950)	(33,075)
Provision for doubtful receivables and write-offs	6	2,735,966	2,320,486
Provision for end-of-service obligations	18(a)	4,122,027	4,953,653
Unrealized gains on unit linked investments		(14,182,293)	(19,650,078)
Finance cost on lease liabilities	8.2	472,439	462,238
		(17,539,516)	40,066,608
<b>Changes in operating assets and liabilities:</b>			
Reinsurance balances receivable		(3,491,768)	511,391
Premiums receivable		13,461,521	(14,003,005)
Reinsurers' share of unearned premiums		49,014,814	(3,466,442)
Reinsurers' share of outstanding claims		(68,986,560)	(139,992,421)
Reinsurers' share of claims incurred but not reported		(14,267,543)	33,198,493
Deferred policy acquisition costs		14,016,341	82,743
Unit linked investments		28,236,330	41,302,249
Prepaid expenses and other assets		(71,600,571)	(21,294,005)
Accrued expenses and other liabilities		14,947,219	25,125,917
Reinsurers' balances payable		6,616,919	50,873,380
Unearned premiums		(142,333,898)	18,275,995
Unearned reinsurance commission		(4,518,114)	(261,507)
Unit linked liabilities		(17,300,766)	(22,308,655)
Outstanding claims		41,166,815	159,420,645
Claims incurred but not reported		36,018,576	(73,078,808)
Premium deficiency reserve		(2,692,320)	6,878,778
Additional premium reserves		16,388	362,501
		(139,236,133)	101,693,857
End-of-service obligations paid	18(a)	(2,181,001)	(1,568,453)
Surplus paid to policyholders	16	(594,788)	(643,702)
Zakat and income tax paid	19(c)	(24,000,408)	(5,571,134)
<b>Net cash (used in) / generated from operating activities</b>		<b>(166,012,330)</b>	<b>93,910,568</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions in available for sale investments	10(b)	(30,000,000)	(53,143,748)
Proceeds from sale of available for sale investments	10(b)	26,250,000	23,687,500
Proceeds from sale of property and equipment		3,950	33,075
Additions in property and equipment	12	(4,765,982)	(5,573,789)
<b>Net cash used in investing activities</b>		<b>(8,512,032)</b>	<b>(34,996,962)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Lease rental paid	8.2	(2,894,339)	(3,182,527)
Increase in statutory deposit		(40,000,000)	-
Transaction cost related to increase in share capital		(6,400,691)	-
Increase in share capital		400,000,000	-
<b>Net cash generated from financing activities</b>		<b>350,704,970</b>	<b>(3,182,527)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>176,180,608</b>	<b>55,731,079</b>
Cash and cash equivalents, beginning of the year		148,865,617	93,134,538
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	4	<b>325,046,225</b>	<b>148,865,617</b>
<b>Non-cash information:</b>			
Changes in fair value of available for sale investments	10(b)	(15,898,904)	(25,252,589)
Re-measurement of defined benefit liability – employees' end-of-service obligations	18	230,658	(3,287,651)
Deferred income tax	11	1,688,050	2,681,169

Andreas Brunner  
Chief Executive Officer

Alwaleed Abdulrazak Al Dryaan  
Chairman

Waleed Bin Ateeq  
Finance Manager

The accompanying notes 1 to 32 form an integral part of these financial statements.

# Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

### 1 GENERAL

Allianz Saudi Fransi Cooperative Insurance Company (a Joint Stock Company incorporated in Kingdom of Saudi Arabia), (the "Company"), was formed pursuant to Royal Decree No. 60/M dated 18 Ramadan 1427H (corresponding to 11 October 2006). The Company operates under Commercial Registration Number 1010235601 dated 26 Jumada Thani 1428H (corresponding to 11 July 2007). The Company operates through its eight branches in the Kingdom of Saudi Arabia. The registered address of the Company's head office is as follows:

Allianz Saudi Fransi Cooperative Insurance Company  
Al Safwa Commercial Building, Khurais Road  
P.O. Box 3540  
Riyadh 11481, Saudi Arabia

The Company's ultimate parent is Allianz SE, a European financial services company headquartered in Munich, Germany.

The purpose of the Company is to transact cooperative insurance operations and all related activities. Its principal lines of business include medical, protection and savings, motor, engineering, property and other general insurance lines.

On 31 July 2003, corresponding to 2 Jumada Thani 1424H, the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). During March 2008, the Saudi Central Bank ("SAMA"), as the principal authority responsible for the application and administration of the Insurance Law and its Implementing Regulations, granted the Company a license to transact insurance activities in the Kingdom of Saudi Arabia.

On 1 January 2016, the Company management approved the distribution of the surplus from insurance operations in accordance with the Implementing Regulations issued by SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

### 2 BASIS OF PREPARATION

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

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

The financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of unit linked investments, available-for-sale investments and recording of employees' end of service obligations at present value. 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: available for sale investments, property and equipment, statutory deposit, accrued income on statutory deposit and end-of-service obligations. All other financial statement line items would generally be classified as current. Also refer note 27(e).

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it will be able to continue as a going concern in the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly (Note 30). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

## 2 BASIS OF PREPARATION (continued)

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

The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented in Note 30 of the financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required by IFRS. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company's financial statements in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances, transactions and unrealised gains or losses, if any, are eliminated in full during amalgamation. The accounting policies adopted for the insurance operations and shareholders operations are uniform for similar transactions and events in similar circumstances.

### (b) Functional and presentational currency

The functional and presentational currency of the Company is Saudi Riyals (SR). The financial statements values are presented in Saudi Riyals, unless otherwise indicated.

### (c) Fiscal year

The Company follows a fiscal year ending 31 December.

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

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

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

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

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

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

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

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

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

**2 BASIS OF PREPARATION (continued)**

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

***Medical technical reserves***

Based on the management's assessment, the management believes that the Government's decision to assume the medical treatment costs for both Saudi citizens and expatriates has helped in reducing any unfavourable impact. During the lockdown, the Company saw a decline in medical reported claims (majorly elective and non-chronic treatment claims) which resulted in a drop in claims experience. However, subsequent to the lifting of lockdown since June 21, 2020, the Company is experiencing a surge in claims which is in line with the expectations of the Company's management. The Company's management has duly considered the impact of surge in claims in the current estimate of future contractual cashflows of the insurance contracts in force as at December 31, 2020 for its liability adequacy test. It is expected that most of the deferred services have been availed as at the valuation date and therefore the Company has not set aside any additional provision for further deferral of medical claims.

***Motor technical reserves***

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

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

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

The Company has performed a liability adequacy test using current estimates of future cash flows under its insurance contracts at segmented level for motor line of business and recorded a Contribution deficiency reserve amounting to SR 1.19 million as at December 31, 2020 (December 31, 2019: Nil)

***i) The ultimate liability arising from claims made under insurance contracts***

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates are made at the end of the reporting period both for the expected ultimate cost of claim reported and for the expected ultimate costs of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

The provision of IBNR is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property, engineering and large claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis. The Company uses the service of an independent actuary in the valuation of IBNR as well as Premium Deficiency Reserve and other technical reserves.

***ii) Impairment of available for sale investments***

The Company determines that available-for-sale 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. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy for equity instruments and mutual funds. In making this judgment, the Company evaluates among other factors, the normal volatility in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

## 2 BASIS OF PREPARATION (continued)

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

#### ii) Impairment of available for sale investments (continued)

The Company reviews its bond and sukuk investments classified as available for sale at each reporting date to assess whether they are impaired. In the case of bond and sukuk investment classified as available-for-sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

#### iii) Impairment of receivables

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

#### iv) Fair value of financial assets

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

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the previous financial year, except for the adoption of the standard IFRS 16 and change in the accounting for zakat and income tax as explained below:

### *Change in accounting policy in relation to accounting for zakat and income tax*

As mentioned in note 2(a), the basis of preparation has been changed for the year ended 31 December 2020 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above changes are disclosed in note 19 to the financial statements. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2019 by SR 5.5 million.

### *Income Tax*

The income tax expense or credit for the year is the tax payable on the current year's taxable income, based on the applicable income tax rate for each jurisdiction, 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 in the country where the company operate 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 year in which such assessments are made. The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

#### ***Deferred income tax***

Deferred income tax is recognised 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 recognised 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 recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the tax 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 realize the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the 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 recognised in other comprehensive income or directly in equity.

#### ***Zakat***

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and 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.

#### **Standards issued but not yet effective:**

In addition to the above-mentioned standards, the following standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company’s financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become 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 from future dates.

#### ***IFRS 17 Insurance Contracts***

##### **Overview**

This standard has been published in 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;



**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***IFRS 17 Insurance Contracts(continued)***

- 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 Measurement Model (GMM)** 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. Since the CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss.

The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.

**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 GMM, the CSM is also adjusted for;

- i. the entity’s share of the fair value of underlying items,
- ii. the effect of changes in the time value of money and in 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 remaining coverage if it provides a measurement that is not materially different from the General Measurement Model for the group of contracts 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 Measurement Model remains applicable for the measurement of the liability for incurred claims. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid/received in one year or less from the date the claims are incurred.

**Effective date**

The IASB issued an Exposure Draft Amendments to IFRS 17 proposing certain amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### IFRS 17 Insurance Contracts (continued)

The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4 is currently January 1, 2023. Under the current exposure draft, it is proposed to amend the IFRS 17 effective date to reporting periods beginning on or after January 1, 2022. This is a deferral of 1 year compared to the previous date of January 1, 2021. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intends to apply the Standard on its effective date.

#### Transition

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

#### Presentation and Disclosures

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

#### Impact

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

Impact Area	Summary of Impact
Financial Impact	<p>The Company will need to change the practice of revenue recognition at the level of aggregation – IFRS 17 requires to recognize losses immediately, whereas the gain (refer to contractual service margin – CSM) will be earned over the coverage period of the direct insurance contracts. This may have high financial impact.</p> <p>The extent and sign of the financial impact also depends on the current assumptions, methodologies and practices being followed by the Company in technical reserves calculation.</p> <p>The new components of Insurance Finance Income and Expenses will have a greater impact, in particular to the following areas:</p> <ul style="list-style-type: none"> <li>- liability for incurred claims for which discounting will be required</li> <li>- accretion of interest on the CSM where the general model will be applied.</li> </ul> <p>Solvency capital may also have an impact subject to the local regulations.</p>
Data Impact	<p>The IFRS 17 requires the Company to decide on the level of aggregation based on the following three criteria:</p> <ol style="list-style-type: none"> <li>1. Portfolio;</li> <li>2. Profitability; and</li> <li>3. Issuance Year</li> </ol> <p>This will increase the required granularity level of the data. Hence, new data fields will be required going forward and have significant impact on the data.</p>
IT Systems Impact	<p>Generally, the Company will have to modify their existing systems in order to capture the new data fields and process the new accounting entries, The Company may also have to update their existing reporting process and systems, in addition to the data storage requirements.</p>
Process Impact	<p>The financial reporting would change significantly under IFRS 17, with significant increase in the number of disclosures required by the standard.</p> <p>The accounting processes and chart of accounts would need to be updated as per the IFRS 17 standard.</p>

Impact Area	Summary of Impact
	Actuarial models and assumptions need to be aligned with the IFRS 17 requirements.
Impact on RI Arrangements	Generally, the Company will have to review their existing reinsurance arrangements to better align with the IFRS 17 requirements with their existing processes. However, it may be possible that contracts issued by the Company may have different measurement models as compared to the contracts held by the Company.
Impact on Policies & Control Frameworks	The Company will need to update their existing policies and controls frameworks in all those areas which will have an impact due to the IFRS 17 adoption.

**IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts)**

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

**a) Classification and measurement:**

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

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

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

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

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

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

**b) Impairment:**

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

**c) Hedge accounting:**

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

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts) (continued)*

##### Effective date

The published effective date of IFRS 9 was 1 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. 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 1 January 2023. The IASB is proposing to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to 1 January 2022. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; or
2. adopt IFRS 9 but, for designated financial assets, remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contract standard is implemented. During the interim period, additional disclosures are required.

The Company has performed a detailed assessment beginning 1 January 2018:

(1) The carrying amount of the Company’s liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and

(2) the total carrying amount of the company’s liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard. Disclosures related to financial assets required during the deferral period are included in the Company’s financial statements.

##### Impact assessment

As at December 31, 2020, the Company has total financial assets and insurance related assets amounting to SR 1,398 million and SR 1,168 million, respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SR 469 million (2019: SR 221 million). Fair value of unit linked investments held at fair value through statement of income as at December 31, 2020 is SR 524 million (2019: SR 538 million). Other financial assets consist of available for sale investments amounting to SR 404 million (2019: SR 385 million). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Investment in funds classified under available for sale investments will be at FVSI under IFRS 9. As at December 31, 2020 these debt securities within available for sale category are measured at fair value of SR 388 million with changes in fair value during the year of SR 15 million. Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 27. The Company financial assets have low credit risk as at 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 significant accounting policies used in preparing these financial statements are set out below:

##### ***Cash and cash equivalents***

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

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Premiums receivable*

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less provision for impairment. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income. An allowance for impairment of receivables is established when there is objective evidence that the carrying amount will not be recoverable. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in notes 6 and 7 falls under the scope of IFRS 4 “Insurance contracts”.

#### *Available for sale investments*

Available for sale investments (“AFS”) include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through income statement. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Such investments are initially recorded at fair value including transaction costs directly attributable to the acquisition of the investment. After initial measurement, AFS financial investments are subsequently measured at fair value. Unrealised gains or losses arising from changes in fair value of investments are shown in the statement of comprehensive income. Realised gains or losses on sale of these investments and commission income are reported in the statement of income.

Dividend, commission income and foreign currency gain/loss are recognized in the statements of income as part of net investment income/loss.

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the statement of income, as impairment charges.

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

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

#### *Reclassification*

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held to maturity (HTM) is permitted only when the entity has the ability and intention to hold the financial asset until maturity. For a financial asset reclassified out of the available-for-sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate “EIR”. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income. During 2020 and 2019, there was no reclassifications among the financial asset categories.

#### *Derecognition of financial assets*

Derecognition of a financial asset occurs only when the seller has transferred the asset’s risks and rewards (either substantially or partially) or control of the contractual rights have been transferred from the seller to the buyer. The evaluation of the transfer of risks and rewards should precede an evaluation of the transfer of control for all types of transaction. The positions of both the buyer and the seller should be considered but the seller’s position is seen as more relevant. An entity may achieve partial derecognition whereby it recognises the components that have been retained, or new assets or liabilities such as those that arise from issuing a guarantee.

If the entity determines that it has neither retained nor transferred substantially all of an asset’s risks and rewards and that it has retained control, the entity should continue to recognise the asset to the extent of its continuing involvement.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Impairment of financial assets*

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include:

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

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

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

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

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is an objective evidence of impairment. Objective evidence may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission income or principal payments, the probability that it will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

The Company also considers the factors such as market's assessment of creditworthiness as reflected in the bond yields, rating agencies' assessment of creditworthiness, country's ability to access the capital markets for new debt issuance and probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness. The amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income.

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the statement of income. The determination of what is 'significant' or 'prolonged' requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

#### *Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Impairment of non-financial assets (continued)*

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### *Unit linked investments and liabilities*

Unit linked investments are assets backing liabilities arising from contracts, where the liabilities are contractually linked to the fair value of the financial assets within the policyholders unit linked funds and are classified as 'held for trading' assets and are designated at fair value through statement of income. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term and are recorded in the statement of financial position at fair value. Any change in fair value is recognised in statement of income

An investment may be designated at fair value through statement of income by the management, at initial recognition, if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured. Transaction costs, if any, are not added to the fair value measurement at initial recognition of fair value through statement of income investments. Dividend income (if any) on financial assets held as fair value through statement of income is presented under 'Investment income' in the statement of income.

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

#### *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. Land is not depreciated. The cost of other items of property and equipment is depreciated on the straight line method to allocate the cost over estimated useful lives, as follows:

- Computer and office equipment	4 years
- Motor vehicles	4 years
- Furniture and fittings	4 to 7 years
- Leasehold improvements	5 years

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

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

#### *Accounting for leases*

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

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Accounting for leases (continued)*

##### ***Right of use asset***

The Company applies cost model and measures the right of use asset at cost:

- a) Less any accumulated depreciation and any accumulated impairment losses; and
- b) Adjusted for any re-measurement of the lease liability for lease modifications.

Generally, the right of use asset would equate the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transactions etc. these need to be added to the right of use asset value.

##### ***Lease liability***

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

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

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

##### ***Statutory deposit***

The statutory deposit shall be ten percent (10%) of the paid up capital. The Company has placed the statutory deposit amount in a bank designated by SAMA. SAMA shall be entitled to the earnings on statutory deposit which is payable by the Company to SAMA and appearing as 'Accrued income payable to SAMA'.

##### ***Provisions, accrued expenses and other liabilities***

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 will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses. Accrued expenses and other liabilities are recognized for amounts to be paid in the future for services, whether billed by the supplier or not.

##### ***Surplus distribution payable***

Ten-percent (10%) of the net surplus from insurance operations shall be distributed to the policyholders directly, or in the form of reduction in premiums for the next year. The remaining ninety-percent (90%) of the net surplus shall be transferred to the shareholders.

##### ***Deferred policy acquisition costs (DAC)***

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

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

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

Deferred policy acquisition costs are derecognised when the related contracts are either settled or disposed of.

##### ***Claims***

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.



### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Claims (continued)*

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Further, the Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

#### *Additional premium reserves*

Additional premium reserves are booked by the Company on the basis of unexpired risk reserve for engineering business.

#### *Zakat and income tax*

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of net adjusted income for the year. Zakat and income tax is accrued on a quarterly basis and recorded in the statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

#### *End-of-service obligations*

The calculation of the employees' end of service benefit is performed annually by a qualified actuary using the projected unit credit method in accordance with the requirements of IAS 19 "Employee Benefits". All past service costs are recognized as an expense immediately in the statement of income. Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses are recognized in other comprehensive income.

The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at that date, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefits payments. Net Interest expense and other expenses related to the defined benefit plans are recognized in the statement of income.

#### *Short term employee benefits*

Short-term employee benefits, include leave pay and airfare, are current liabilities included in accrued expenses, measured at the undiscounted amount that the entity expects to pay as a result of the unused entitlement.

#### *Retirement benefits*

The Company pays retirement contributions for its Saudi Arabian employees to the General Organization for Social Insurance. This represents a defined contribution plan. The payments made are expensed as incurred.

#### *Insurance and investment contracts*

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that do not transfer significant insurance risk. The Company's unit linked products have been classified as investment contracts. These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments.

The Company's insurance and investment contracts do not contain any discretionary participatory features.

#### *Reinsurance*

Reinsurance is distributed between treaty, facultative and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Reinsurance (continued)*

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income as incurred.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

#### *Revenue recognition*

Premiums and commissions are taken into income over the terms of the policies to which they relate on a pro-rata basis. Retained premiums and commission income, which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:

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

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

Deposits (premium) related to unit linked contracts are credited to policyholder account balances. Revenues from such contracts consist of fees for mortality, policy administration and surrender charges and are recorded under "Fee income from unit linked investments" in the period in which services are provided.

#### *Unearned commission income*

Commission receivable on outwards reinsurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate. Amortisation is recorded on the same basis as premium in the statement of income.

#### *Investment income*

Investment income on debt instruments classified under available for sale investments and deposits are accounted for on an effective interest basis.

#### *Dividend income*

Dividend is recognised in the statement of income only when:

- the entity's right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the entity; and
- the amount of the dividend can be measured reliably.

#### *Statutory reserve*

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

#### *Expense recognition*

Expenses are recognized in statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses are presented using the nature of expense method.

#### *Salvage and subrogation reimbursement*

Some insurance contracts permit the Company to sell (usually damaged) assets acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Salvage and subrogation reimbursement (continued)*

Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of property.

Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

#### *Liability adequacy test*

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy acquisition costs. In performing these tests management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of income by establishing a provision for losses arising from liability adequacy tests accordingly.

#### *Cash flow statement*

The Company's main cash flows are from insurance operations which are classified as cash flow from operating activities. Cash flows generated from investing and financing activities are classified accordingly.

#### *Segmental reporting*

An operating segment is a component of the Company that is engaged in business activities from which it may earn revenues and incur expenses and which is subject to risk and rewards that are different from those of other segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions. The Company is organised into business units based on their products and services and has six reportable operating segments as follows:

- Motor insurance provides coverage against loss or damage to the motor vehicles caused by accident, fire or theft along with the coverage of third party liability as well;
- Health care (medical) products provide medical cover to policyholders;
- Property and casualty which include the following:
  - Engineering insurance provides coverage for builders' risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance;
  - Property insurance provides cover against accidental physical loss or damage to the property due to any cause including fire and allied perils and consequential losses associated with the perils insured;
  - Other general insurance segment comprises of marine, credit, fidelity guarantee insurance and liability;
- Protection and saving segment includes a variety of savings products designed to meet the needs of individuals as well as corporate institutions.
- Shareholders' segment - reporting shareholder operations of the Company. Income earned from investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The surplus or loss from the insurance operations is allocated to this segment on an appropriate basis.

No inter-segment transactions occurred during the year, if any transaction were to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between business segments which will then be eliminated at the level of financial statements of the Company. As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

#### *Foreign currencies*

Transactions in foreign currencies are recorded in Saudi Riyals at the rate 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. All differences are taken to the statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant as Saudi Riyals is pegged to US dollars.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Offsetting**

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

**Trade date accounting**

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

**Fair values**

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

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

**4 CASH AND CASH EQUIVALENTS**

	2020 SR			2019 SR		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
Bank balances and cash	7,605,027	137,406,667	145,011,694	67,046,426	61,819,191	128,865,617
Deposits maturing within 3 months from the acquisition date	180,034,531	-	180,034,531	20,000,000	-	20,000,000
	<b>187,639,558</b>	<b>137,406,667</b>	<b>325,046,225</b>	<b>87,046,426</b>	<b>61,819,191</b>	<b>148,865,617</b>

Deposits are maintained with financial institutions and have a maturity of three months or less from the date of acquisition. These deposits earn commission at an average rate of 0.8% per annum as at 31 December 2020 (2019: 2.28% per annum).

Bank balances and deposits are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology. Bank balances and deposits includes SR 310 million maintained with Banque Saudi Fransi (a shareholder) (2019: SR 104 million) (Note 23).

31 December 2020

**5 PREPAID EXPENSES AND OTHER ASSETS**

	2020 SR			2019 SR		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Third party administrator receivables	60,559,859	-	60,559,859	43,514,166	-	43,514,166
Advance to agents and brokers	10,446,720	-	10,446,720	9,020,308	-	9,020,308
Receivable for unit linked investments	5,212,573	-	5,212,573	7,049,865	-	7,049,865
Accrued investment income	4,891,886	11,208,061	16,099,947	1,279,627	2,696,665	3,976,292
Receivable from Manafeth	1,317,412	-	1,317,412	1,891,459	-	1,891,459
Advances to employees	1,181,580	-	1,181,580	1,609,173	-	1,609,173
Prepaid rent	324,720	-	324,720	115,817	-	115,817
VAT receivable	45,921,084	-	45,921,084	-	-	-
Other assets	3,026,881	-	3,026,881	5,313,124	-	5,313,124
	<b>132,882,715</b>	<b>11,208,061</b>	<b>144,090,776</b>	<b>69,793,539</b>	<b>2,696,665</b>	<b>72,490,204</b>

**6 PREMIUMS RECEIVABLE, NET**

	2020 SR	2019 SR
Policyholders	145,169,592	169,764,645
Brokers and agents	273,712,382	288,920,109
Other shareholders (Note 23)	43,329,697	16,988,438
	<b>462,211,671</b>	<b>475,673,192</b>
Provision for doubtful receivables	(57,822,881)	(55,086,915)
Premiums receivable, net	<b>404,388,790</b>	<b>420,586,277</b>

The ageing analysis of premiums receivable balances is set out below:

<b>31 December 2020</b>	<i>Past due but not impaired</i>			<i>Total</i>
	Less than 90 days	90 to 180 days	More than 180 days	
<i>Amount in SR</i>				
Premiums receivable from insurance contracts	220,128,247	28,797,631	119,326,539	368,252,417
Provision for doubtful receivables	-	(4,319,645)	(53,503,236)	(57,822,881)
<b>Premiums receivable from past due insurance contracts, net</b>	<b>220,128,247</b>	<b>24,477,986</b>	<b>65,823,303</b>	<b>310,429,536</b>
Neither past due nor impaired				10,933,829
Premiums receivables under fronting arrangements*				83,025,425
<b>Premiums receivable, net</b>				<b>404,388,790</b>

31 December 2020

**6 PREMIUMS RECEIVABLE, NET (continued)**

31 December 2019	<i>Past due but not impaired</i>	<i>Past due and impaired</i>		<i>Total</i>
	Less than 90 days	90 to 180 days	More than 180 days	
<i>Amount in SR</i>				
Premiums receivable from insurance contracts	108,679,886	51,718,004	119,859,448	280,257,338
Provision for doubtful receivables	-	(7,757,701)	(47,329,214)	(55,086,915)
<b>Premiums receivable from past due insurance contracts, net</b>	<b>108,679,886</b>	<b>43,960,303</b>	<b>72,530,234</b>	<b>225,170,423</b>
Neither past due nor impaired				121,161,967
Premiums receivables under fronting arrangements*				74,253,887
<b>Premiums receivable, net</b>				<b>420,586,277</b>

\*Premiums receivable under fronting arrangements are insurance contracts under which the Company passes all the risks including the clients' credit risk to other insurance/reinsurance companies. Such arrangements are made between global clients and entities of Allianz Group under which Allianz Saudi Fransi provides the insurance service for the entity located in the Kingdom of Saudi Arabia.

The Company classifies balances as "past due and impaired" on a case by case basis and an impairment adjustment is recorded in the statement of income. Unimpaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over premiums receivable, and vast majority of such balances are therefore unsecured. The credit quality of these financial assets that are neither past due nor impaired can be assessed by reference to policyholders with appropriate and strong credit history, with minimal account defaults and where the receivables are fully recovered in the past.

Corporate premium receivables are with counterparties with a sound credit profile. The five largest customers accounts for 14% (31 December 2019: 13%) of the premiums receivable as at 31 December 2020.

*The movement in the allowance for doubtful receivables is as follows:*

	<b>2020</b>	<b>2019</b>
	<b>SR</b>	<b>SR</b>
Balance at the beginning of the year	<b>55,086,915</b>	52,766,429
Provided during the year	<b>3,307,429</b>	2,353,094
Write-offs	<b>(571,463)</b>	(32,608)
Balance at the end of the year	<b>57,822,881</b>	55,086,915

**7 REINSURERS' BALANCES****a) Reinsurers' balances receivable, net**

	<b>2020</b>	<b>2019</b>
	<b>SR</b>	<b>SR</b>
Receivables from reinsurers	<b>79,054,779</b>	75,563,011
Provision for doubtful reinsurers' receivables	<b>(5,025,735)</b>	(5,027,110)
Reinsurers receivable, net	<b>74,029,044</b>	70,535,901

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**7 REINSURERS' BALANCES** (continued)*The movement in the allowance for doubtful reinsurers' receivable is as follows:*

	2020 SR	2019 SR
Balance at the beginning of the year	5,027,110	4,420,962
(Reversal) / provided during the year	(1,375)	606,148
Balance at the end of the year	<u>5,025,735</u>	<u>5,027,110</u>

Reinsurance receivables are with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology. In addition, receivables are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

The five largest reinsurers accounts for 37% (31 December 2019: 41%) of the reinsurance receivable as at 31 December 2020.

**b) Reinsurers' balances payable**

	2020 SR	2019 SR
Reinsurance balances due to other parties	137,307,363	110,774,162
Reinsurance balances due to related parties (Note 23)	64,908,679	84,824,961
Total reinsurers' balances payable	<u>202,216,042</u>	<u>195,599,123</u>

**8 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES****8.1. Right-of-use assets**

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

	2020 SR	2019 SR
Balance at the beginning of the period/year	6,776,228	9,849,530
Amortization	(3,046,086)	(3,073,302)
Balance at the end of the period/year	<u>3,730,142</u>	<u>6,776,228</u>

**8.2. Lease Liabilities**

The following table represents the movement of lease liabilities for the Company:

	2020 SR	2019 SR
Opening balance	5,784,231	8,504,520
Finance costs	472,439	462,238
Lease rental payments	(2,894,339)	(3,182,527)
Balance at the end of the period/year	<u>3,362,331</u>	<u>5,784,231</u>

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**9 FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF INCOME (UNIT LINKED INVESTMENTS)**

The fair values for unit linked investments as at 31 December are:

	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Local funds	<b>510,854,914</b>	526,275,646
Foreign funds	<b>13,204,907</b>	11,838,212
	<b><u>524,059,821</u></b>	<b><u>538,113,858</u></b>

Portfolios of the funds are as follows:

	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Al Badr Fund Saudi Riyal	<b>214,939,829</b>	219,951,269
Al Ghad/Al Anjal Low Risk Fund	<b>194,040,409</b>	211,224,278
Al Saffa Equity Fund	<b>65,645,593</b>	57,762,066
Al Ghad/Al Anjal Murabaha Fund	<b>24,620,046</b>	28,622,942
Al Badr Fund US Dollar	<b>14,759,726</b>	11,838,212
Al Danah GCC Equity Fund	<b>5,260,620</b>	3,749,615
Saudi Istithmar Fund	<b>2,855,998</b>	2,824,870
Money Market Fund Saudi Riyal	<b>1,937,600</b>	2,140,606
	<b><u>524,059,821</u></b>	<b><u>538,113,858</u></b>

Unit linked assets are related to investments in unit linked funds. The Company has established unit linked liabilities which, excluding some timing differences and reserves, match exactly with the policyholder's unit linked assets.

The fair value of unit linked investments are measured based on the net assets value provided by fund manager. As the values of these investments are available from the market, the Company uses Level 1 hierarchy for determining and disclosing the fair value of above unit linked investments.

**10 AVAILABLE FOR SALE INVESTMENTS**a) *Investments are classified as follows:*

<i>Insurance operations:</i>	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	2020 SR	2019 SR	2020 SR	2019 SR	2020 SR	2019 SR
Debt instruments	<b>133,514,401</b>	128,180,982	<b>5,253,495</b>	5,143,123	<b>138,767,896</b>	133,324,105
Equities and mutual funds	<b>7,941,541</b>	7,991,984	-	-	<b>7,941,541</b>	7,991,984
	<b><u>141,455,942</u></b>	<u>136,172,966</u>	<b><u>5,253,495</u></b>	<u>5,143,123</u>	<b><u>146,709,437</u></b>	<u>141,316,089</u>

*Shareholders' operations:*

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	2020 SR	2019 SR	2020 SR	2019 SR	2020 SR	2019 SR
Debt instruments	<b>235,930,780</b>	211,718,827	<b>12,832,218</b>	23,792,384	<b>248,762,998</b>	235,511,211
Equities and mutual funds	<b>3,223,078</b>	3,223,078	<b>5,786,078</b>	5,429,122	<b>9,009,156</b>	8,652,200
	<b><u>239,153,858</u></b>	<u>214,941,905</u>	<b><u>18,618,296</u></b>	<u>29,221,506</u>	<b><u>257,772,154</u></b>	<u>244,163,411</u>

**Total**

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	2020 SR	2019 SR	2020 SR	2019 SR	2020 SR	2019 SR
Debt instrument	<b>369,445,181</b>	339,899,809	<b>18,085,713</b>	28,935,507	<b>387,530,894</b>	368,835,316
Equities and mutual funds	<b>11,164,619</b>	11,215,062	<b>5,786,078</b>	5,429,122	<b>16,950,697</b>	16,644,184
	<b><u>380,609,800</u></b>	<u>351,114,871</u>	<b><u>23,871,791</u></b>	<u>34,364,629</u>	<b><u>404,481,591</u></b>	<u>385,479,500</u>

Available for sale investments includes amount of SR 800,000 with related party (2019: SR 800,000) (Note 23).



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**10 AVAILABLE FOR SALE INVESTMENTS (continued)***b) Movement in available for sale investment balance is as follows:**Insurance operations:*

	Quoted securities	Unquoted securities	Total
	SR		
<b>As of 1 January 2019</b>	100,623,986	14,582,533	115,206,519
<b>Purchases</b>	22,491,134	-	22,491,134
<b>Disposals/maturity</b>	-	(5,000,000)	(5,000,000)
<b>Amortization</b>	(251,970)	(12,645)	(264,615)
<b>Unrealized gain on fair value</b>	8,021,169	861,882	8,883,051
<b>Transfer from unquoted to quoted</b>	10,431,770	(10,431,770)	-
<b>As at 31 December 2019</b>	<b>141,316,089</b>	<b>-</b>	<b>141,316,089</b>
<b>As of 1 January 2020</b>	<b>141,316,089</b>	<b>-</b>	<b>141,316,089</b>
<b>Amortization</b>	<b>(256,123)</b>	<b>-</b>	<b>(256,123)</b>
<b>Unrealized gain on fair value</b>	<b>5,649,471</b>	<b>-</b>	<b>5,649,471</b>
<b>As at 31 December 2020</b>	<b>146,709,437</b>	<b>-</b>	<b>146,709,437</b>

The cumulative unrealised gain in fair value of available for sale investments amounts to SR 9,592,564 (31 December 2019: SR 3,943,093).

*Shareholders' operations:*

	Quoted securities	Unquoted securities	Total
	SR		
As of 1 January 2019	130,639,760	85,532,745	216,172,505
Purchases	30,652,614	-	30,652,614
Disposals/maturity	(1,687,500)	(17,000,000)	(18,687,500)
Amortization	(329,390)	(14,356)	(343,746)
Unrealized gain on fair value	10,475,364	5,894,174	16,369,538
Transfer from unquoted to quoted	35,979,800	(35,979,800)	-
<b>As at 31 December 2019</b>	<b>205,730,648</b>	<b>38,432,763</b>	<b>244,163,411</b>
<b>As of 1 January 2020</b>	<b>205,730,648</b>	<b>38,432,763</b>	<b>244,163,411</b>
<b>Purchases</b>	<b>-</b>	<b>30,000,000</b>	<b>30,000,000</b>
<b>Disposals/maturity</b>	<b>(11,250,000)</b>	<b>(15,000,000)</b>	<b>(26,250,000)</b>
<b>Amortization</b>	<b>(390,690)</b>	<b>-</b>	<b>(390,690)</b>
<b>Unrealized gain on fair value</b>	<b>7,877,367</b>	<b>2,372,066</b>	<b>10,249,433</b>
<b>As at 31 December 2020</b>	<b>201,967,325</b>	<b>55,804,829</b>	<b>257,772,154</b>

The cumulative unrealised gain in fair value of available for sale investments amounts to SR 22,603,471 (31 December 2019: SR 8,255,508 ) including deferred tax related to change in fair value.

**11. DEFERRED TAX ASSETS, NET**

SR	December 31, 2020	December 31, 2019
Deferred tax assets, net	<b>5,825,970</b>	6,961,507

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**11. DEFERRED TAX ASSETS, NET (continued)***Movement in deferred tax asset balance is as follows:*

	December 31, 2020	December 31, 2019
At the beginning of the year	6,961,507	9,350,189
Deferred tax income - statement of income (note 19)	552,513	292,487
Deferred tax income/(expense) - statement of comprehensive income	(1,688,050)	(2,681,169)
<b>At the end of the year</b>	<b>5,825,970</b>	<b>6,961,507</b>

This deferred tax arises on employees' end of service obligations, provision against premium receivable, provision against reinsurance receivable, unabsorbed tax losses, fair value reserve on investments and property and equipment.

**12 PROPERTY AND EQUIPMENT, NET**

	<i>Computer and office equipment</i> SR	<i>Motor vehicles</i> SR	<i>Furniture and fittings</i> SR	<i>Leasehold improvements</i> SR	<b>Total 2020 SR</b>	<b>Total 2019 SR</b>
<b>Cost:</b>						
At the beginning of the year	15,072,743	1,418,093	9,539,850	1,580,509	27,611,195	22,257,546
Additions during the year	3,881,116	-	884,866	-	4,765,982	5,573,789
Disposals during the year	(145,602)	-	-	-	(145,602)	(220,140)
At the end of the year	18,808,257	1,418,093	10,424,716	1,580,509	32,231,575	27,611,195
<b>Accumulated depreciation:</b>						
At the beginning of the year	11,440,581	878,561	6,858,561	414,712	19,592,415	17,687,193
Charge for the year (Note 22)	1,830,357	167,680	942,171	316,968	3,257,176	2,125,362
Disposals during the year	(145,602)	-	-	-	(145,602)	(220,140)
At the end of the year	13,125,336	1,046,241	7,800,732	731,680	22,703,989	19,592,415
<b>Net book value at 31 December 2020</b>	<b>5,682,921</b>	<b>371,852</b>	<b>2,623,984</b>	<b>848,829</b>	<b>9,527,586</b>	
<i>Net book value at 31 December 2019</i>	3,632,162	539,532	2,681,289	1,165,797		8,018,780

**13 STATUTORY DEPOSIT**

In compliance with the Insurance Implementing Regulations of SAMA, the Company deposited 10% of its paid up capital, amounting to SR 60 million (31 December 2019 is SR 20 million) in a bank designated by SAMA (Note 20). The accrued income on the deposit as at 31 December 2020 is SR 1,572,445 (31 December 2019: SR 1,485,295) and has been disclosed in assets as "Accrued income on statutory deposit" and the corresponding commission is shown in liabilities as "Accrued income payable to SAMA". This deposit cannot be withdrawn without SAMA's consent. The statutory deposit is maintained with Banque Saudi Fransi, a shareholder of the Company and rated "BBB+" by Standard and Poor's and Moody's ratings methodology.

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**14 TECHNICAL RESERVES****14.1 Net outstanding claims and reserves***Net outstanding claims and reserves comprise of the following:*

	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Gross outstanding claims	<b>598,723,172</b>	569,506,181
Less: Realizable value of salvage and subrogation	<b>(24,489,604)</b>	(36,439,428)
	<b>574,233,568</b>	533,066,753
Claims incurred but not reported	<b>123,799,018</b>	87,780,442
Premium deficiency reserve	<b>9,039,013</b>	11,731,333
Additional premium reserves	<b>1,385,708</b>	1,369,320
Unit linked liabilities	<b>518,114,351</b>	535,415,117
	<b>1,226,571,658</b>	1,169,362,965
Less:		
- Reinsurers' share of outstanding claims	<b>(501,314,767)</b>	(432,328,207)
- Reinsurers' share of claims incurred but not reported	<b>(57,566,257)</b>	(43,298,714)
	<b>(558,881,024)</b>	(475,626,921)
<b>Net outstanding claims and reserves</b>	<b>667,690,634</b>	693,736,044

**14.2 Movement in unearned premiums***Movement in unearned premiums comprise of the following:*

	<u>2020</u> <u>SR</u>		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Balance as at the beginning of the year	<b>408,698,330</b>	<b>(152,377,585)</b>	<b>256,320,745</b>
Premium written during the year	<b>674,731,117</b>	<b>*(250,026,185)</b>	<b>424,704,932</b>
Premium earned during the year	<b>(817,065,015)</b>	<b>299,040,999</b>	<b>(518,024,016)</b>
Balance as at the end of the year	<b>266,364,432</b>	<b>(103,362,771)</b>	<b>163,001,661</b>

\*This amount includes SR 233,697,568 for reinsurance premium ceded abroad, SR 1,844,048 for reinsurance premium ceded locally and SR 14,484,569 for excess of loss expenses.

*Movement in unearned premiums comprise of the following:*

	<u>2019</u> <u>SR</u>		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Balance as at the beginning of the year	390,422,335	(148,911,143)	241,511,192
Premium written during the year	1,011,666,001	*(312,609,731)	699,056,270
Premium earned during the year	(993,390,006)	309,143,289	(684,246,717)
Balance as at the end of the year	408,698,330	(152,377,585)	256,320,745

\*This amount includes SR 302,757,400 for reinsurance premium ceded abroad, SR 5,811,262 for reinsurance premium ceded locally and SR 4,041,069 for excess of loss expenses.

**14.3 Movement in deferred policy acquisition costs**

	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Balance as at the beginning of the year	<b>26,919,550</b>	27,002,293
Incurred during the year	<b>41,055,258</b>	65,063,504
Amortized during the year	<b>(55,071,599)</b>	(65,146,247)
Balance as at the end of the year	<b>12,903,209</b>	26,919,550

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**15 ACCRUED AND OTHER LIABILITIES**

	2020			2019		
	SR			SR		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Payables to policyholders	64,508,147	-	64,508,147	53,677,158	-	53,677,158
Accrued third party administrator fees	51,125,043	-	51,125,043	41,374,985	-	41,374,985
Commission payable	26,909,859	-	26,909,859	39,592,526	-	39,592,526
Accrued bonus	6,599,624	-	6,599,624	4,406,767	-	4,406,767
Inspection and supervision fees	1,136,124	-	1,136,124	1,273,355	-	1,273,355
Others	12,806,495	2,347,493	15,153,988	9,716,883	443,891	10,160,774
	<u>163,085,292</u>	<u>2,347,493</u>	<u>165,432,785</u>	<u>150,041,674</u>	<u>443,891</u>	<u>150,485,565</u>

**16 SURPLUS DISTRIBUTION PAYABLE**

	2020	2019
	SR	SR
Balance at the beginning of the year	15,687,466	12,344,873
Total income attributed to the insurance operations during the year	-	3,986,295
Surplus paid to policyholders	(594,788)	(643,702)
Balance at the end of the year	<u>15,092,678</u>	<u>15,687,466</u>

**17 UNEARNED REINSURANCE COMMISSION**

	2020	2019
	SR	SR
Balance at the beginning of the year	7,347,773	7,609,280
Commission received during the year	5,294,510	16,938,619
Commission earned during the year	(9,812,624)	(17,200,126)
Balance at the end of the year	<u>2,829,659</u>	<u>7,347,773</u>

**18 EMPLOYEES' END OF SERVICE OBLIGATIONS**

a) The movement in provision for employees' end of service obligations for the years ended 31 December are as follows:

	2020	2019
	SR	SR
Defined benefit obligation at the beginning of the year	16,847,898	16,750,349
Provided during the year:		
Current service cost	3,723,039	4,249,898
Interest cost	398,988	703,755
	4,122,027	4,953,653
Paid during the year	(2,181,001)	(1,568,453)
Actuarial reserve for employee benefits	230,658	(3,287,651)
Defined benefit obligation at the end of the year	<u>19,019,582</u>	<u>16,847,898</u>

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**18 EMPLOYEES' END OF SERVICE OBLIGATIONS (continued)***b) Principal actuarial assumptions:*

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

	<u>2020</u>	<u>2019</u>
Discount rate used for valuation	<b>2.06%</b>	2.55%
Salary increase rate	<b>3.06%</b>	2.55%
Duration (years)	<b>5.12</b>	7.30

*c) Sensitivity analysis*

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

	<u>2020</u>	<u>2019</u>
	<u>SR</u>	<u>SR</u>
Valuation discount rate		
- Increase by 1%	<b>908,125</b>	1,147,322
- Decrease by 1%	<b>1,014,993</b>	1,313,699
Future salary growth		
- Increase by 1%	<b>1,090,111</b>	1,388,386
- Decrease by 1%	<b>995,081</b>	1,234,575
Mortality rate		
- Increase by 1 year	<b>3,059</b>	233,113
- Decrease by 1 year	<b>3,048</b>	250,977
Withdrawal rate		
- Increase by 10%	<b>345,611</b>	2,571
- Decrease by 10%	<b>392,426</b>	2,580

**19 ZAKAT AND INCOME TAX**

A summary of the Company's share capital and percentages of ownership are as follows:

	<u>2020</u>		<u>2019</u>	
	<u>SR</u>	<u>%</u>	<u>SR</u>	<u>%</u>
Non-Saudi Shareholders	<b>318,540,000</b>	<b>53.09%</b>	106,180,000	53.09%
Saudi and GCC Shareholders	<b>281,460,000</b>	<b>46.91%</b>	93,820,000	46.91%
Total	<b>600,000,000</b>	<b>100%</b>	200,000,000	100%

The Company's zakat and income tax calculations and corresponding accruals and payments of zakat and income tax are based on the mentioned ownership percentages in accordance with the relevant provisions of the Saudi Arabian zakat and income tax regulations.

The provision for zakat and income tax as at year end is as follows:

	<u>2020</u>	<u>2019</u>
	<u>SR</u>	<u>SR</u>
Provision for zakat	<b>10,718,945</b>	24,451,612
Provision for income tax	<b>3,980,577</b>	3,980,577
	<b>14,699,522</b>	28,432,189

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**19 ZAKAT AND INCOME TAX (continued)**

The zakat and income tax charge for year is as follows:

SR	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Zakat for the year	<b>10,267,741</b>	4,517,818
Income tax for the year		
- Current tax	-	5,638,831
- Deferred tax	<b>(552,513)</b>	(292,487)
	<b>(552,513)</b>	5,346,344
	<b>9,715,228</b>	9,864,162

**a) Zakat**

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

	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Opening share capital	<b>200,000,000</b>	200,000,000
Reserves and opening provisions	<b>290,432,016</b>	190,643,996
Closing value of long term assets	<b>(99,713,544)</b>	(68,473,448)
	<b>390,718,472</b>	322,170,548
Zakatable income for the year	<b>(10,202,949)</b>	53,139,413
Zakat base	<b>380,515,523</b>	375,309,961
Total Saudi share of zakat base	<b>179,955,066</b>	176,057,904
Zakat due on Saudi shareholding	<b>4,617,823</b>	4,517,818

The differences between the income as per financial statements and the zakatable income are mainly due to provisions which are not allowed in the calculation of zakatable income.

**b) Income tax**

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

	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Net (Loss) / income for the year before attribution	<b>(17,632,405)</b>	45,600,211
Add: Inadmissible expenses	<b>10,686,632</b>	10,038,258
Less: Admissible expenses	<b>(5,085,870)</b>	(2,499,056)
Adjusted income	<b>(12,031,643)</b>	53,139,413
Non-Saudi shareholders	<b>(6,387,599)</b>	28,211,714
Adjustments	<b>(3,950)</b>	(17,560)
Adjusted income attributed to non-Saudi shareholders	<b>(6,391,549)</b>	28,194,154
Provision for income tax (20%)	-	5,638,831

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**19 ZAKAT AND INCOME TAX (continued)***c) Movement in zakat and income tax payable is as follows:*

	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Balance at the beginning of the year	<b>28,432,189</b>	23,846,674
Provided during the year – zakat	<b>10,267,741</b>	4,517,818
Provided during the year – income tax	-	5,638,831
Payment made during the year – zakat	<b>(19,792,038)</b>	(1,363,252)
Payment made during the year – income tax	<b>(4,208,370)</b>	(4,207,882)
Balance at the end of the year	<b><u>14,699,522</u></b>	<u>28,432,189</u>

*d) Status of assessments*

The Company has filed the zakat and income tax declarations for all the years up to December 31, 2019. The Company finalized its zakat and tax position for all the years up to December 31, 2014.

The final tax and zakat assessment for the years 2015 to 2018 has been issued by the GAZT in the fourth quarter 2020 which resulted in additional zakat and tax liability of SR 13.9 million arising mainly from the non-deduction of long-term investments from the zakat base. The Company has filed an appeal against this assessment. The Company has accounted for this additional zakat and income tax liability in the provision in the financial statements. The assessment for the year 2019 is still outstanding.

The finalization of the assessment is not expected to have material impact on the financial statements.

The Company is in the process of filing zakat and tax returns for the year ended 31 December 2020 with the GAZT.

**20 SHARE CAPITAL**

The authorised and issued share capital of the Company is SR 600 million divided into 60 million shares of SR 10 each (December 31, 2019: SR 200 million divided into 20 million shares of SR 10 each). The founding shareholders of the Company have subscribed and paid for 39 million shares with a nominal value of SR 10 each, which represents 65% of the shares of the Company's capital and the remaining 21 million shares with a nominal value of SR 10 each have been subscribed by general public.

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

	<u>2020</u>	
	<u>No. of shares</u>	<u>Authorized, issued and paid up capital</u> <u>SR</u>
Allianz Europe BV	<b>11.10 Million</b>	<b>111 Million</b>
Allianz France International	<b>9.75 Million</b>	<b>97.5 Million</b>
Allianz Mena Holding Bermuda	<b>9.75 Million</b>	<b>97.5 Million</b>
Banque Saudi Fransi	<b>8.40 Million</b>	<b>84 Million</b>
Public	<b>21.00 Million</b>	<b>210 Million</b>
	<b><u>60 Million</u></b>	<b><u>600 Million</u></b>
	<u>2019</u>	
	<u>No. of shares</u>	<u>Authorized, issued and paid up capital</u> <u>SR</u>
Allianz Europe BV	3.70 Million	37 Million
Allianz France International	3.25 Million	32.5 Million
Allianz Mena Holding Bermuda	3.25 Million	32.5 Million
Banque Saudi Fransi	2.80 Million	28 Million
Public	7.00 Million	70 Million
	<u>20 Million</u>	<u>200 Million</u>

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**20 SHARE CAPITAL (continued)**

During the period the Company has increased its share capital through right issue by SR 400 million consist of two shares for every one share held. Such right issue has been approved by the regulatory authorities and the extraordinary general assembly of the Company and the current paid up capital of the Company is SR 600 million. The Company has incurred transaction cost of SR 6.4 million in respect of increase in share capital, which has been charged directly to the Statement of Changes in Equity.

**21 CAPITAL MANAGEMENT**

Objectives are set by the Company to maintain stable 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 shares.

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulators' capital requirements of the markets in which the Company operates while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital, reserves and retained earnings.

As per guidelines laid out by SAMA in Article 66 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

- Minimum Capital Requirement of SR 200 million
- Premium Solvency Margin
- Claims Solvency Margin

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at 31 December 2020 consists of paid-up share capital of SR 600 million, share premium of SR 16.3 million, statutory reserves of SR 20.7 million and retained earnings of SR 47.7 million (31 December 2019: paid-up share capital of SR 200 million, share premium of SR 22.7 million, statutory reserves of SR 20.7 million and retained earnings of SR 75 million) in the statement of financial position.

The Company has fully complied with the externally imposed capital requirements during the reported financial year.

**22 GENERAL AND ADMINISTRATIVE EXPENSES**

	2020 SR			2019 SR		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Employees' costs	89,142,028	660,730	89,802,758	78,745,298	542,068	79,287,366
Consultation fees	12,648,563	-	12,648,563	10,675,509	-	10,675,509
Repairs and maintenance	6,203,342	-	6,203,342	3,495,255	-	3,495,255
Employees' end of service obligations (Note 18)	4,122,027	-	4,122,027	4,953,653	-	4,953,653
Rent	3,954,512	-	3,954,512	4,354,513	-	4,354,513
Insurance expenses	3,328,056	-	3,328,056	2,840,883	-	2,840,883
Depreciation (Note 12)	3,257,176	-	3,257,176	2,125,362	-	2,125,362
Postage and telephone	3,068,067	-	3,068,067	3,477,332	-	3,477,332
Board expenses	1,432,670	358,168	1,790,838	1,629,606	407,401	2,037,007
Travel and transportation	1,033,894	-	1,033,894	3,139,706	-	3,139,706
Advertisement and promotion	616,961	-	616,961	1,865,774	-	1,865,774
Others	6,513,162	-	6,513,162	5,024,366	-	5,024,366
	<b>135,320,458</b>	<b>1,018,898</b>	<b>136,339,356</b>	122,327,257	949,469	123,276,726



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**23 TRANSACTIONS AND BALANCES WITH RELATED PARTIES AND OTHER SHAREHOLDERS**

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

	<i>Transactions during the year</i>		<i>Balance as at</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<b><u>Entities controlled, jointly controlled or significantly influenced by related parties</u></b>				
- Insurance premium ceded	<b>151,395,116</b>	166,880,568		
- Reinsurers' share of claims paid	<b>78,582,493</b>	117,990,975		
- Commission income	<b>4,475,535</b>	7,380,806		
- Third party administrator expenses	<b>7,628,890</b>	11,425,392		
- Accrued third party administrator			<b>6,054,885</b>	6,436,659
- Reinsurance balance payable, net (Note 7)			<b>64,908,679</b>	84,824,961
- Investments in equity of Saudi NextCare (Note 10)			<b>800,000</b>	800,000
<b><u>Other shareholders</u></b>				
- Insurance premium written	<b>68,646,390</b>	141,385,497		
- Claims paid	<b>38,544,132</b>	48,574,273		
- Commission expense	<b>2,433,401</b>	1,938,120		
- Premium receivable (Note 6)			<b>43,329,697</b>	16,988,438
- Outstanding claims			<b>26,371,943</b>	33,834,830
- Cash and cash equivalents (Note 4)			<b>309,910,589</b>	104,403,157
- Unit linked investments managed by shareholders (including receivable for unit linked investments) (Note 9)			<b>524,059,821</b>	545,163,723

Related parties include Allianz SNA, Allianz Mena Holding Bermuda, Allianz Risk Transfer A.G. Dubai, Allianz France, Allianz Global Corporate and Speciality AG, Allianz World Wide Care, Allianz Global risks U.S Insurance, Allianz Belgium, Euler Hermes, Allianz SE Zurich, Allianz Insurance Hong Kong, Allianz Global Risks Netherland, Allianz Insurance Singapore, Allianz Insurance New Zealand, Dataquest, and Saudi NextCare.

Other shareholders include Banque Saudi Fransi and its Group Companies.

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

<b>2020</b>	<b>BOD members</b>	<b>Top executives</b>
	<b>SR</b>	<b>SR</b>
Salaries and compensation	-	<b>8,856,018</b>
Allowances	<b>348,000</b>	<b>18,000</b>
Annual remuneration	-	-
Employees' end of service obligations	-	<b>260,833</b>
	<b>348,000</b>	<b>9,134,851</b>
<b>2019</b>		
Salaries and compensation	-	6,955,841
Allowances	253,500	1,347,461
Annual remuneration	924,000	-
Employees' end of service obligations	-	431,996
	<b>1,177,500</b>	<b>8,735,298</b>

Also refer notes 4, 6, 7, and 10 for balances with related parties and other shareholders.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

**24 CLAIMS DEVELOPMENT TABLE**

The following table reflects the net incurred claims including both the net claims notified and net incurred but not reported claims for each accident year (excluding the surrenders for protection and savings insurance products) 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 insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the periods beginning from year 2014 onwards whose claim experience has not been fully developed. Claims triangulation analysis by accident years for the last five years is set out below:

**a) Claims triangulation analysis – Gross basis**

2020	SR					
	2016 and earlier	2017	2018	2019	2020	Total
Accident year						
Estimate of ultimate claims cost:						
At the end of accident year	1,254,503,539	447,138,890	519,340,613	613,236,843	503,691,407	-
One year later	1,263,717,403	520,489,517	553,350,660	678,452,101	-	-
Two years later	1,235,949,147	495,906,914	556,545,302	-	-	-
Three years later	1,338,530,360	487,373,240	-	-	-	-
Four years later	1,385,694,599	-	-	-	-	-
Current estimate of cumulative claims	1,385,694,599	487,373,240	556,545,302	678,452,101	503,691,407	3,611,756,649
Cumulative payments to date	(1,144,031,958)	(478,159,202)	(447,168,883)	(566,198,751)	(278,165,269)	(2,913,724,063)
Liability recognised in statement of financial position	241,662,641	9,214,038	109,376,419	112,253,350	225,526,139	698,032,586
Premium deficiency reserve						9,039,013
Outstanding claims and reserves						707,071,599
<b>2019</b>	<b>SR</b>					
	2015 and earlier	2016	2017	2018	2019	Total
Accident year						
Estimate of ultimate claims cost:						
At the end of accident year	1,006,653,985	316,095,677	524,842,372	680,917,432	714,382,191	-
One year later	1,153,506,328	420,666,359	480,599,190	558,953,383	-	-
Two years later	1,124,616,525	338,086,182	488,574,564	-	-	-
Three years later	1,078,788,973	353,602,714	-	-	-	-
Four years later	1,092,908,237	-	-	-	-	-
Current estimate of cumulative claims	1,092,908,237	353,602,714	488,574,564	558,953,383	714,382,191	3,208,421,089
Cumulative payments to date	(913,347,218)	(349,302,572)	(473,539,305)	(435,349,216)	(416,035,583)	(2,587,573,894)
Liability recognised in statement of financial position	179,561,019	4,300,142	15,035,259	123,604,167	298,346,608	620,847,195
Premium deficiency reserve						11,731,333
Outstanding claims and reserves						632,578,528

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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**24 CLAIMS DEVELOPMENT TABLE (continued)****b) Claims triangulation analysis – Net basis**

2020	SR					
	2016 and earlier	2017	2018	2019	2020	Total
Accident year						
Estimate of ultimate claims cost:						
At the end of accident year	684,744,600	371,264,323	358,639,509	473,141,255	279,694,542	-
One year later	677,692,537	369,382,073	338,100,943	443,910,362	-	-
Two years later	673,331,415	359,758,375	325,545,875	-	-	-
Three years later	671,478,235	341,856,403	-	-	-	-
Four years later	644,139,872	-	-	-	-	-
Current estimate of cumulative net claims	644,139,872	341,856,403	325,545,875	443,910,362	279,694,542	2,035,147,054
Cumulative payments to date	(632,137,728)	(336,362,710)	(313,015,342)	(420,558,177)	(193,921,535)	(1,895,995,492)
Net liability recognised in statement of financial position	12,002,144	5,493,693	12,530,533	23,352,185	85,773,007	139,151,562
Premium deficiency reserve						9,039,013
Outstanding claims and reserves						148,190,575
2019	SR					
	2015 and earlier	2016	2017	2018	2019	Total
Accident year						
Estimate of ultimate claims cost:						
At the end of accident year	444,608,544	200,630,919	374,692,166	366,981,967	451,872,011	-
One year later	478,593,952	240,449,122	352,875,506	322,065,655	-	-
Two years later	477,520,666	233,401,315	338,849,387	-	-	-
Three years later	470,509,159	231,667,965	-	-	-	-
Four years later	446,368,870	-	-	-	-	-
Current estimate of cumulative net claims	446,368,870	231,667,965	338,849,387	322,065,655	451,872,011	1,790,823,888
Cumulative payments to date	(444,658,415)	(230,350,070)	(334,269,033)	(308,254,258)	(328,071,838)	(1,645,603,614)
Net liability recognised in statement of financial position	1,710,455	1,317,895	4,580,354	13,811,397	123,800,173	145,220,274
Premium deficiency reserve						11,731,333
Outstanding claims and reserves						156,951,607

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**25 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

The management assessed that cash and cash equivalents, accruals and other liabilities and other financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

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

- Level 1 - quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;
- Level 2 - quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3 - valuation techniques for which any significant input is not based on observable market data.

**a) Carrying amounts and fair value**

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

**i. Insurance operations**

<i>SR</i>	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
<b>31 December 2020</b>					
<b>Unit linked investments</b>	524,059,821	524,059,821	-	-	524,059,821
<b>Available for sale investments measured at fair value</b>					
Bonds and Sukuks	138,767,896	138,767,896	-	-	138,767,896
Mutual Funds	4,836,936	4,836,936	-	-	4,836,936
Equities	3,104,605	3,104,605	-	-	3,104,605
<b>Unit linked liabilities</b>	(518,114,351)	(518,114,351)	-	-	(518,114,351)
	<b>146,709,437</b>	<b>146,709,437</b>	-	-	<b>146,709,437</b>
<b>31 December 2019</b>					
<b>Unit linked investments</b>	538,113,858	538,113,858	-	-	538,113,858
<b>Available for sale investments measured at fair value</b>					
Bonds and Sukuks	133,324,105	133,324,105	-	-	133,324,105
Mutual Funds	4,865,203	4,865,203	-	-	4,865,203
Equities	3,126,781	3,126,781	-	-	3,126,781
<b>Unit linked liabilities</b>	(535,415,117)	(535,415,117)	-	-	(535,415,117)
	<b>144,014,830</b>	<b>144,014,830</b>	-	-	<b>144,014,830</b>

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**25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****ii. Shareholders' operations**

SR	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>31 December 2020</b>					
<b>Available for sale investments measured at fair value</b>					
Bonds and Sukuk	248,762,998	196,181,247	-	52,581,751	248,762,998
Mutual Funds	5,786,078	5,786,078	-	-	5,786,078
Equities	3,223,078	-	-	3,223,078	3,223,078
	<b>257,772,154</b>	<b>201,967,325</b>	-	<b>55,804,829</b>	<b>257,772,154</b>

SR	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>31 December 2019</b>					
<b>Available for sale investments measured at fair value</b>					
Bonds and Sukuks	235,511,211	200,301,526	-	35,209,685	235,511,211
Mutual Funds	5,429,122	5,429,122	-	-	5,429,122
Equities	3,223,078	-	-	3,223,078	3,223,078
	<b>244,163,411</b>	<b>205,730,648</b>	-	<b>38,432,763</b>	<b>244,163,411</b>

During the year ended 31 December 2020 there was a transfer between level 3 to level 1 related to bonds and sukuk that were quoted during the year (please refer note 10). There were no transfers between Level 1, 2 and Level 3 fair value measurements during the year ended 31 December 2019.

**b) Measurement of fair values***Valuation technique for quoted debt and equity securities*

The valuation of equities, mutual funds and debts securities are measured based on closing market price on Tadawul and Bloomberg.

*Valuation technique for unquoted debt and equity securities*

The Discounted Cash Flow Model (DCF) has been used to determine the fair value of debt securities and sukuk of both insurance operations and shareholders' operations under level 3. This model considers the present value of net cash flows to be generated from the debt securities and sukuk discounted at the market yield of treasury bills having similar terms and adjusted for the effect of non-marketability of the debt securities and sukuk which includes Saudi sovereign curve yield and risk premium prevailing in the Saudi market.

Description	Fair value as at Dec 31, 2020 (SR)	Unobservable Inputs	Range of inputs 2020	Relationships of unobservable inputs to fair value
Unquoted Bonds and Sukuks	52,581,751	Risk adjusted discount rate	2.04% - 2.89%	Increase risk premium of 10 bps will have a change in fair value of these debt securities of SR 0.28 million.

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**25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)***Reconciliation of Level 3 fair values*

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

	<b>Insurance operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR</b>	<b>SR</b>
Balance at the beginning of the year	<b>141,316,089</b>	14,582,533
Disposals/maturity	-	(5,000,000)
Amortization	<b>(256,123)</b>	(12,645)
Unrealized gain / (loss) on fair value	<b>5,649,471</b>	861,882
Transfer from level 3 to level 1	-	(10,431,770)
Balance at the end of the year	<b>146,709,437</b>	-

	<b>Shareholders' operations</b>	
	<b>2020</b>	<b>2019</b>
	<b>SR</b>	<b>SR</b>
Balance at the beginning of the year	<b>205,730,648</b>	85,532,745
Purchases	-	-
Disposals/maturity	<b>(11,250,000)</b>	(17,000,000)
Amortization	<b>(390,690)</b>	(14,356)
Unrealized gain / (loss) on fair value	<b>7,877,367</b>	5,894,174
Transfer from level 3 to level 1	-	(35,979,800)
Balance at the end of the year	<b>201,967,325</b>	38,432,763

*Sensitivity analysis of Level 3 investments is as follows:*

<b>31 December 2020</b>	<b>Sensitivity factor</b>	<b>Impact on fair value due to increase in sensitivity factor</b>	<b>Impact on fair value due to decrease in sensitivity factor</b>
		<b>SR</b>	
<i>Insurance operations</i>			
Bonds and sukus	+/- 1% change in risk adjusted discount rate		
<i>Shareholder's operations</i>			
Bonds and sukus	+/- 1% change in risk adjusted discount rate	<b>(54,878)</b>	<b>54,878</b>
<b>31 December 2019</b>			
<i>Insurance operations</i>			
Bonds and sukus	+/- 1% change in risk adjusted discount rate	-	-
<i>Shareholder's operations</i>			
Bonds and sukus	+/- 1% change in risk adjusted discount rate	(14,024)	14,024

**26 BASIC AND DILUTED EARNINGS PER SHARE**

(Loss) / earnings per share has been calculated by dividing the (net loss) / earnings for the year by the weighted average number of shares outstanding at the reported date. The weighted average number of shares have been retrospectively adjusted for all the prior periods to reflect the bonus element of the right issue as required by IAS 33 "Earning per share". The weighted average number of ordinary share for prior period is computed using an adjustment factor of 1.75 which a ratio of theoretical ex-right price of SR 15.98 and the closing price per share of SR 27.95 before the right issue.

	<b>2020</b>	<b>2019</b>
(Loss) / income for the year	<b>(27,347,633)</b>	31,749,754
Weighted average number of shares	<b>32,336,621</b>	34,973,931
(Loss) / earnings for the year	<b>(0.85)</b>	0.91

There are no dilutive potential shares during 2020 and 2019.

## 27 RISK MANAGEMENT

### **Risk management strategy**

The Company's activities expose it to a variety of financial risks. The Company has a comprehensive risk management strategy to understand and manage the types of risk arising from the Company's core business operations.

The strategy considers the impact of market conditions and available expertise on inherent risks to which the Company is exposed. Consideration is not limited to the risks associated with one class of business but is extended to risks from all other classes.

The Board of Directors and the senior management periodically reviews and updates the risk management strategy by taking into account developments that are internal and external to the Company.

### **Risk management structure**

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

### **Board of directors**

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

### **Senior management**

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

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

#### **a) Operational risk**

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

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

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

#### **b) Insurance risk**

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands.

The Company underwrites mainly medical, motor, fire and burglary, marine, engineering and public liability risks. The insurance risks arising from the above insurance contracts are mainly concentrated in the Kingdom of Saudi Arabia.

**27 RISK MANAGEMENT (continued)**

***b) Insurance risk (continued)***

*Frequency and amounts of claims*

The frequency and amounts of claims can be affected by several factors. The Company underwrites medical, motor, fire and burglary, marine, engineering and public liability risks. These classes except for long term engineering policies are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management.

*Concentration of insurance risk*

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

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

*Protection and Saving*

For protection and saving, the main risk is the mortality, morbidity (permanent or temporary disability) of the insured and policyholder behavior risk.

*Mortality risk*

Actual policyholder death experience on life insurance policies is higher than expected.

*Morbidity risk*

Policyholder health-related claims are higher than expected.

*Policyholder behavior risk*

Policyholders' behavior in discontinuing and reducing contributions or withdrawing benefits prior to the maturity of contracts is worse than expected. Poor persistency rates may lead to fewer policies remaining on the books to defray future fixed expenses and therefore reduce the future positive cash flows from the business written, potentially affecting Company's ability to recover deferred acquisition expenses.

This is managed through an effective and clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also conducts financial, lifestyle and occupational underwriting 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 protection and saving, the mortality risk is compounded due to the concentration of lives, for example employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/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 family and group protection and saving portfolio is protected through an efficient reinsurance arrangement in accordance with Allianz Group standards. This protects the Company from adverse mortality/morbidity experience. There is a maximum retention per life under the reinsurance arrangement which protects the Company from single large losses. Multiple claims and concentrations of risk are also covered under the arrangement.



**27 RISK MANAGEMENT (continued)**

**b) Insurance risk (continued)**

**General Insurance**

*Medical*

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

*Motor*

For motor contracts, the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company only underwrites comprehensive policies for owner/drivers over 21 years of age.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims. The Company also has appropriate risk management procedures to control the cost of claims. The Company has reinsurance cover for such damage to limit the losses for any individual claim.

*Property*

For property insurance contracts the main risk is fire. The Company only underwrites policies for properties containing fire detection equipment.

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

*Marine*

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim.

*Engineering*

For engineering insurance, the main risks are loss or damage to the construction/erection works caused by fire, explosion, natural perils like floods, earthquakes, hailstorms, etc. Selection of risks and proper underwriting are the criteria for this line of business. The Company has appropriate reinsurance cover for such risks to limit losses for any individual claim. These are covered under engineering proportional and non-proportional treaties.

*Public liability*

For public liability insurance, the main risks are legal liabilities of the insured towards third party deaths, bodily injury or property damage arising out of insured premises, business operations or projects handled by the insured.

This insurance policy is underwritten based on the turnover of the Company or the value of the contract, nature / occupation of the premises, nature of contracts handled. The Company has appropriate reinsurance cover to limit the losses for any individual claim.

**27 RISK MANAGEMENT (continued)****b) Insurance risk (continued)**

## Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process.

A hypothetical 5% change in the claims ratio would impact income annually in aggregate by:

	Effect on income	
	2020	2019
	<b>SR</b>	
<b>Impact of change in claim ratio by + / - 5%</b>		
Motor	14,452,325	22,896,018
Engineering	573,989	497,137
Medical	4,165,837	3,814,269
Property	1,069,288	984,918
Other general	964,534	1,173,360
Protection and saving	4,675,228	4,846,635
	<b>25,901,201</b>	<b>34,212,337</b>
<b>Impact of change in average claim cost + / - 5%</b>		
Motor	10,543,346	16,313,523
Engineering	240,016	7,251
Medical	2,970,420	2,841,852
Property	182,317	152,333
Other general	241,767	57,104
Protection and saving	5,700,995	6,366,025
	<b>19,878,862</b>	<b>25,738,088</b>

**c) Claims management risk**

Claims management risk may arise within the Company in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Company and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The Company's claims teams are focused on delivering quality, reliability and speed of service the policyholders. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

**Sources of uncertainty in estimation of future claim payments**

The key source of estimation uncertainty at the statement of financial position date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the statement of financial position date.

**Process used to decide on assumptions**

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

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

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques such as Chain ladder method, Bornhuetter - Ferguson method and Expected Loss Ratio Method.

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

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

***d) Reserving and ultimate reserves risk***

Reserving and ultimate reserves risk occurs within the Company where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions. To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognized techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances. The objective of the Company's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business.

***e) Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligation and commitments associated with financial liabilities when they fall due. The Company has a proper cash management system, where daily cash collection and payments are monitored and reconciled on regular basis. The Company manages this risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Company's assets in highly liquid financial assets.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

**27 RISK MANAGEMENT (continued)***e) Liquidity risk (continued)***Maturity profile**

The table below summarises the expected utilisation or settlement of financial assets and liabilities including receivables/payables from insurance related assets and liabilities.

**Maturity analysis on expected maturity base****31 December 2020**

<b>SR</b>	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>
<b>Assets</b>			
Cash and cash equivalents	325,046,225	-	325,046,225
Prepaid expenses and other assets	144,090,776	-	144,090,776
Premiums receivable, net	404,388,790	-	404,388,790
Reinsurers' balance receivable, net	74,029,044	-	74,029,044
Reinsurers' share of outstanding claims	501,314,767	-	501,314,767
Reinsurers' share of claims incurred but not reported	57,566,257	-	57,566,257
Financial assets at fair value through statement of income (unit linked investments)	524,059,821	-	524,059,821
Available for sale investments	13,920,600	390,567,166	404,487,766
Statutory deposit	-	60,000,000	60,000,000
Accrued income on statutory deposit	-	1,572,445	1,572,445
	<u>2,044,416,280</u>	<u>452,139,611</u>	<u>2,496,555,891</u>

**31 December 2020**

<b>SR</b>	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>
<b>Liabilities</b>			
Accrued and other liabilities	165,432,785	-	165,432,785
Surplus distribution payable	15,092,678	-	15,092,678
Reinsurers' balances payable	202,216,042	-	202,216,042
Outstanding claims	574,233,568	-	574,233,568
Claims incurred but not reported	123,799,018	-	123,799,018
Unit linked liabilities	518,114,351	-	518,114,351
Accrued income payable to SAMA	-	1,572,445	1,572,445
	<u>1,598,888,442</u>	<u>1,572,445</u>	<u>1,600,460,887</u>

**31 December 2019**

<b>SR</b>	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>
<b>Assets</b>			
Cash and cash equivalents	148,865,617	-	148,865,617
Prepaid expenses and other assets	72,490,204	-	72,490,204
Premiums receivable, net	420,586,277	-	420,586,277
Reinsurers' balance receivable, net	70,535,901	-	70,535,901
Reinsurers' share of outstanding claims	432,328,207	-	432,328,207
Reinsurers' share of claims incurred but not reported	43,298,714	-	43,298,714
Financial assets at fair value through statement of income (unit linked investments)	538,113,858	-	538,113,858
Available for sale investments	11,531,488	373,948,012	385,479,500
Statutory deposit	-	20,000,000	20,000,000
Accrued income on statutory deposit	-	1,485,295	1,485,295
	<u>1,737,750,266</u>	<u>395,433,307</u>	<u>2,133,183,573</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

**27 RISK MANAGEMENT (continued)****Maturity profile (continued)**

31 December 2019	<i>Less than one</i>	<i>More than one</i>	
<i>SR</i>	<i>year</i>	<i>year</i>	<i>Total</i>
<b>Liabilities</b>			
Accrued and other liabilities	150,485,565	-	150,485,565
Surplus distribution payable	15,687,466	-	15,687,466
Reinsurers' balances payable	195,599,123	-	195,599,123
Outstanding claims	533,066,753	-	533,066,753
Claims incurred but not reported	87,780,442	-	87,780,442
Unit linked liabilities	535,415,117	-	535,415,117
Accrued income payable to SAMA	-	1,485,295	1,485,295
	<u>1,518,034,466</u>	<u>1,485,295</u>	<u>1,519,519,761</u>

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on residual maturities. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums, reinsurance share of unearned premiums and deferred policy acquisition costs have been excluded from the analysis as they are not contractual obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

<b>31 December 2020</b>	<i>On</i>	<i>Up to 1</i>	<i>2-5 years</i>	<i>More than 5</i>	
<i>SR</i>	<i>demand</i>	<i>year</i>		<i>years</i>	<i>Total</i>
<b>Assets</b>					
Cash and cash equivalents	325,046,225	-	-	-	325,046,225
Prepaid expenses and other assets	-	144,090,776	-	-	144,090,776
Premiums receivable, net	-	404,388,790	-	-	404,388,790
Reinsurers' balance receivable, net	-	74,029,044	-	-	74,029,044
Reinsurers' share of outstanding claims	-	501,314,767	-	-	501,314,767
Reinsurers' share of claims incurred but not reported	-	57,566,257	-	-	57,566,257
Financial assets at fair value through statement of income (unit linked investments)	524,059,821	-	-	-	524,059,821
Available for sale investments	-	13,920,600	309,897,004	80,670,162	404,487,766
Statutory deposit	-	60,000,000	-	-	60,000,000
Accrued income on statutory deposit	-	1,572,445	-	-	1,572,445
	<u>849,106,046</u>	<u>1,256,882,679</u>	<u>309,897,004</u>	<u>80,670,162</u>	<u>2,496,555,891</u>
<b>Liabilities</b>					
Accrued and other liabilities	-	165,432,785	-	-	165,432,785
Surplus distribution payable	15,092,678	-	-	-	15,092,678
Reinsurers' balances payable	-	202,216,042	-	-	202,216,042
Claims incurred but not reported	-	123,799,018	-	-	123,799,018
Outstanding claims	-	574,233,568	-	-	574,233,568
Unit linked liabilities	518,114,351	-	-	-	518,114,351
Accrued income payable to SAMA	-	1,572,445	-	-	1,572,445
	<u>533,207,029</u>	<u>1,067,253,858</u>	<u>-</u>	<u>-</u>	<u>1,600,460,887</u>
Total liquidity gap	<u>315,899,017</u>	<u>189,628,821</u>	<u>309,897,004</u>	<u>80,670,162</u>	<u>896,095,004</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

**27 RISK MANAGEMENT (continued)***Maturity profile (continued)*

31 December 2019 SR	<i>On demand</i>	<i>Up to 1 year</i>	<i>2-5 years</i>	<i>More than 5 years</i>	<i>Total</i>
<b>Assets</b>					
Cash and cash equivalents	148,865,617	-	-	-	148,865,617
Prepaid expenses and other assets	-	72,490,204	-	-	72,490,204
Premiums receivable, net	-	420,586,277	-	-	420,586,277
Reinsurers' balance receivable, net	-	70,535,901	-	-	70,535,901
Reinsurers' share of outstanding claims	-	432,328,207	-	-	432,328,207
Reinsurers' share of claims incurred but not reported	-	43,298,714	-	-	43,298,714
Financial assets at fair value through statement of income (unit linked investments)	538,113,858	-	-	-	538,113,858
Available for sale investments	-	11,531,488	240,298,193	133,649,819	385,479,500
Statutory deposit	-	20,000,000	-	-	20,000,000
Accrued income on statutory deposit	-	1,485,295	-	-	1,485,295
	<u>686,979,475</u>	<u>1,072,256,086</u>	<u>240,298,193</u>	<u>133,649,819</u>	<u>2,133,183,573</u>
<b>Liabilities</b>					
Accrued and other liabilities	-	150,485,565	-	-	150,485,565
Surplus distribution payable	15,687,466	-	-	-	15,687,466
Reinsurers' balances payable	-	195,599,123	-	-	195,599,123
Outstanding claims	-	87,780,442	-	-	87,780,442
Claims incurred but not reported	-	533,066,753	-	-	533,066,753
Unit linked liabilities	535,415,117	-	-	-	535,415,117
Accrued income payable to SAMA	-	1,090,636	-	-	1,090,636
	<u>551,102,583</u>	<u>968,022,519</u>	<u>-</u>	<u>-</u>	<u>1,519,125,102</u>
Total liquidity gap	<u>135,876,892</u>	<u>104,233,567</u>	<u>240,298,193</u>	<u>133,649,819</u>	<u>614,058,471</u>

To manage the liquidity risk arising from financial liabilities mentioned above, the Company holds liquid assets comprising cash and cash equivalents and investment securities. These assets can be readily sold to meet liquidity requirements.

The assets with maturity less than one year are expected to realize as follows:

- Available for sale investments include investments in mutual funds and sukuks and are held for cash management purposes and expected to be matured/settled within twelve months from the reporting date.
- Cash and bank balances are available on demand.
- Reinsurers' share of outstanding claims majorly pertain to property segment and are generally realized within three to six months based on settlement of balances with reinsurers.

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

- Reinsurers' balances payable are settled as per terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to be settled within two months in accordance with statutory timelines for payment.
- Accrued and other liabilities are expected to settle within a period of twelve months from the period end date.

**f) Credit risk**

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

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

31 December 2020

**27 RISK MANAGEMENT (continued)***f) Credit risk (continued)*

- 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.
- The Company only enters into insurance and reinsurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an on-going basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit the credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- Premiums receivable are mainly receivable from individuals and corporate customers (unrated). The Company seeks to limit the credit risk with respect individuals and corporate customers by setting credit limits and monitoring outstanding receivables.
- Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company's available for sale investments mainly comprise of debt securities and sukuks. The Company does not have an internal grading mechanism for debt securities. The Company limits its credit risk on debt securities by setting out a minimum acceptable security rating level for such investments.
- The Company's unit linked investments comprise of mutual funds. The Company does not have an internal grading mechanism for mutual funds. The Company limits its credit risk on mutual funds by setting out a minimum acceptable security rating level for such investments. For unit linked business, the policyholder bears the direct market and credit risk on investment assets in the unit funds and the Company's exposure to credit risk is limited to the extent of the income arising from asset management charges based on the value of assets in the fund.
- Statutory deposit is maintain with a local bank. Accordingly, as a pre-requisite, the bank with whom statutory deposit are maintained are required to have 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 statement of financial position:

	<b>2020</b>		<b>Total</b>
	<b>Insurance operations</b>	<b>Shareholders' operations</b>	
Cash and cash equivalents	187,639,558	137,406,667	325,046,225
Reinsurers' balances receivable, net	74,029,044	-	74,029,044
Premiums receivable, net	404,388,790	-	404,388,790
Reinsurers' share of outstanding claims	501,314,767	-	501,314,767
Reinsurers' share of claims incurred but not reported	57,566,257	-	57,566,257
Available for sale investments	146,709,437	257,772,154	404,481,591
Statutory deposit	-	60,000,000	60,000,000
Accrued income on statutory deposit	-	1,572,445	1,572,445
	<b>1,371,647,853</b>	<b>456,751,266</b>	<b>1,828,399,119</b>

31 December 2020

**27 RISK MANAGEMENT (continued)****f) Credit risk (continued)**

	2019		Total
	Insurance operations	Shareholders' operations	
Cash and cash equivalents	87,046,426	61,819,191	148,865,617
Reinsurers' balances receivable, net	70,535,901	-	70,535,901
Premiums receivable, net	420,586,277	-	420,586,277
Reinsurance share of outstanding claims	432,328,207	-	432,328,207
Reinsurers' share of claims incurred but not reported	43,298,714	-	43,298,714
Available for sale investments	141,316,089	244,163,411	385,479,500
Statutory deposit	-	20,000,000	20,000,000
Accrued income on statutory deposit	-	1,485,295	1,485,295
	1,195,111,614	327,467,897	1,522,579,511

**Concentration of credit risk**

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

**Credit ratings of investments**

Following are the credit ratings of available for sale investments:

Credit quality	Credit Rating Agency	Financial Instrument	2020	2019
			SR	SR
A+	S&P/ Moody's	Bonds / Sukuks	<b>4,401,600</b>	11,537,663
A-	S&P/ Moody's	Bonds / Sukuks	<b>345,924,131</b>	182,756,794
BBB-	S&P/ Moody's	Sukuks	<b>37,211,338</b>	95,356,551
Unrated	N/A	Equities/Sukuks/ Mutual funds	<b>16,950,697</b>	95,828,492
			<b>404,487,766</b>	385,479,500

Further the Company follows a policy regarding selecting reinsurers whose credit rating are A- and higher as per S&P and Fitch ratings. Concentration of credit risk are also mentioned in notes 6 and 7.

**g) Special commission rate risk**

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to special commission rate risk on its bank balances and available for sale - debt securities.

The sensitivity of the income is the effect of the assumed changes in the interest rates, with all other variable held constant, on the profit for one year, based on the floating rate financial assets held at 31 December 2020. A hypothetical 100 basis points change in the weighted average special commission rate of the floating rate at 31 December 2020 would impact special commission income by approximately SR 400,000 (2019: SR 350,000 ) annually in aggregate.

**h) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, as the Company's foreign currency



**27 RISK MANAGEMENT (continued)*****h) Currency risk (continued)***

transactions are primarily in US dollars which is pegged with the Saudi Riyal, foreign exchange gains and losses are not significant and have not been disclosed separately.

The currency exposures of available-for-sale investments are set out below:

**Insurance Operations**

	<u>2020</u>	<u>2019</u>
	<u>SR</u>	<u>SR</u>
Saudi Arabian Riyals	<b>13,620,005</b>	13,558,551
US Dollars	<b>133,089,432</b>	127,757,538
	<b><u>146,709,437</u></b>	<u>141,316,089</u>

**Shareholders Operations**

	<u>2020</u>	<u>2019</u>
	<u>SR</u>	<u>SR</u>
Saudi Arabian Riyals	<b>92,355,931</b>	74,406,391
US Dollars	<b>165,422,398</b>	169,757,020
	<b><u>257,778,329</u></b>	<u>244,163,411</u>

***i) Fund price risk***

Fund price risk is the risk that the fair value of future cash flows of a fund will fluctuate because of changes in the net asset value (NAV) being determined by fund managers.

The Company is not exposed to fund price risk for unit linked investments since any change in the NAV of the funds will affect the change in unit linked liabilities and the change in the fair value of the funds by the same amount hence, there is no impact on the performance of the Company. The direct market risk is borne by the policyholders.

***j) Reinsurance risk***

In order to minimise its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for reinsurance purpose. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess-of-loss reinsurance contracts.

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

- a. Minimum acceptable credit rating by recognized rating agencies (e.g. Standard & Poors) that is not lower than BBB or equivalent.
- b. Reputation of particular reinsurance companies.
- c. Existing or past business experience with the reinsurers.

***k) Market risk***

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's market risk exposure relates to its quoted available for sale investments whose values will fluctuate as a result of changes in market prices. The Company limits market risk by maintaining a diversified portfolio and by monitoring the developments in financial markets. The Company also has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of income will be impacted.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

**27 RISK MANAGEMENT (continued)****k) Market risk (continued)**

A 1% change in the market price of the quoted available for sale investments, with all other variables held constant, would impact equity as set out below:

	<i>Change in market price</i>	<i>Effect on statement of changes in equity SR</i>
<b>2020</b>	<b>+1%</b>	<b>6,829,958</b>
	<b>-1%</b>	<b>(6,829,958)</b>
<b>2019</b>	<b>+1%</b>	<b>9,235,515</b>
	<b>-1%</b>	<b>(9,235,515)</b>

**28 CONTINGENCIES AND COMMITMENTS***a) The Company's contingencies are as follows:*

	<b>2020 SR</b>	<b>2019 SR</b>
Letters of guarantee	<b>15,940,000</b>	15,940,000

*b) Legal proceedings and regulations*

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position.

## 29 SEGMENT INFORMATION

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2019.

Segment assets do not include cash and cash equivalents, prepaid expenses and other assets, available for sale investments, reinsurance balances, property and equipment, statutory deposit and accrued income on statutory deposit. Accordingly, they are included in unallocated assets. Segment liabilities do not include accrued and other liabilities, surplus distribution payable, reinsurers' balances payable, premium deficiency reserve, additional premium reserve, end-of-service obligations, zakat and income tax and accrued income payable to SAMA. Accordingly, they are included in unallocated liabilities.

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

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

Motor	:	Motor
Medical	:	Medical
Property and casualty	:	Fire, burglary, money, construction, liability and marine
Protection and saving	:	Group retirement and individual protection and saving

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

29 SEGMENT INFORMATION (continued)

	<i>Motor</i>	<i>Medical</i>	<i>Property and Casualty</i>	<i>Protection and Saving</i>	<i>Insurance Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<b><u>As at 31 December 2020</u></b>							
<b><u>Assets</u></b>							
Premiums receivable, gross	196,418,315	110,635,785	128,561,411	26,596,160	462,211,671	-	462,211,671
Provision for doubtful debts	-	-	-	-	(57,822,881)	-	(57,822,881)
Reinsurers' share of outstanding claims	5,110,052	14,770,842	471,585,853	9,848,020	501,314,767	-	501,314,767
Reinsurers' share of claims incurred but not reported	(5,559)	25,203,659	21,807,392	10,560,765	57,566,257	-	57,566,257
Reinsurers' share of unearned premiums	210,709	41,277,120	48,395,981	13,478,961	103,362,771	-	103,362,771
Deferred policy acquisition costs	7,450,865	3,821,722	3,590,495	(1,959,873)	12,903,209	-	12,903,209
Financial assets at fair value through statement of income (unit linked investments)	-	-	-	524,059,821	524,059,821	-	524,059,821
Unallocated assets	-	-	-	-	308,136,453	720,167,326	1,028,303,779
Total assets							<u>2,631,899,394</u>
<b><u>Liabilities and Equity</u></b>							
Outstanding claims	49,095,932	24,244,947	486,245,014	14,647,675	574,233,568	-	574,233,568
Claims incurred but not reported	36,653,523	43,487,589	27,926,194	15,731,712	123,799,018	-	123,799,018
Unearned premium	84,011,668	78,192,392	84,786,822	19,373,550	266,364,432	-	266,364,432
Unearned reinsurance commission	1,776	-	2,815,221	12,662	2,829,659	-	2,829,659
Unit linked liabilities	-	-	-	518,114,351	518,114,351	-	518,114,351
Unallocated liabilities	-	-	-	-	413,200,646	18,619,460	431,820,106
Equity	-	-	-	-	13,190,394	701,547,866	714,738,260
Total liabilities and equity							<u>2,631,899,394</u>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

29 SEGMENT INFORMATION (continued)

	<i>Motor</i>	<i>Medical</i>	<i>Property and Casualty</i>	<i>Protection and Saving</i>	<i>Insurance Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
	SR	SR	SR	SR	SR	SR	SR
<b>For the year ended 31 December 2020</b>							
Gross written premiums – retail	40,468,783	-	35,331,077	56,805,513	132,605,373	-	132,605,373
Gross written premiums – corporate	81,541,315	173,944,515	96,851,491	66,935,163	419,272,485	-	419,272,485
Gross written premiums – very small entities	3,900,678	160,799	1,554,969	372,624	5,989,071	-	5,989,071
Gross written premiums – small entities	22,317,982	906,857	22,435,136	264,571	45,924,546	-	45,924,546
Gross written premiums – medium entities	33,628,317	1,279,806	34,526,490	1,505,031	70,939,643	-	70,939,643
Reinsurance premiums ceded	(282,880)	(94,902,475)	(109,455,119)	(30,901,142)	(235,541,616)	-	(235,541,616)
Excess of loss expenses	(3,187,533)	-	(11,297,036)	-	(14,484,569)	-	(14,484,569)
Fee income from unit linked investments	-	-	-	1,242,769	1,242,769	-	1,242,769
<b>Net written premiums</b>	<b>178,386,662</b>	<b>81,390,500</b>	<b>69,947,008</b>	<b>96,223,531</b>	<b>425,947,701</b>	<b>-</b>	<b>425,947,701</b>
Changes in unearned premiums, net	110,659,835	1,926,247	(17,790,800)	(1,476,198)	93,319,084	-	93,319,084
<b>Net premiums earned</b>	<b>289,046,497</b>	<b>83,316,747</b>	<b>52,156,208</b>	<b>94,747,333</b>	<b>519,266,785</b>	<b>-</b>	<b>519,266,785</b>
Reinsurance commissions	32,789	4,690	9,162,917	612,228	9,812,624	-	9,812,624
Net claims and other benefits paid	(237,986,250)	(50,117,866)	(6,304,519)	(109,237,309)	(403,645,944)	-	(403,645,944)
Changes in outstanding claims, net	31,761,634	1,075,613	(3,381,127)	(1,636,375)	27,819,745	-	27,819,745
Changes in premium deficiency reserve	6,474,422	(2,448,198)	-	(1,333,904)	2,692,320	-	2,692,320
Changes in additional premium reserve	-	-	(16,388)	-	(16,388)	-	(16,388)
Changes in claims incurred but not reported, net	(4,642,310)	(10,366,149)	(3,596,353)	(3,146,221)	(21,751,033)	-	(21,751,033)
Change in unit linked liabilities	-	-	-	17,300,766	17,300,766	-	17,300,766
Unrealized loss on unit linked investments	-	-	-	14,182,293	14,182,293	-	14,182,293
Policy acquisition costs	(24,132,663)	(9,815,484)	(17,282,713)	(3,840,739)	(55,071,599)	-	(55,071,599)
Inspection and supervision fees	-	-	-	-	(5,136,631)	-	(5,136,631)
<b>Net underwriting income</b>	<b>60,471,257</b>	<b>11,649,353</b>	<b>30,820,887</b>	<b>7,648,072</b>	<b>105,452,938</b>	<b>-</b>	<b>105,452,938</b>
Provision for doubtful debts	-	-	-	-	(3,306,055)	-	(3,306,055)
General and administrative expenses	-	-	-	-	(135,320,458)	(1,018,898)	(136,339,356)
Investment income	-	-	-	-	3,958,402	7,483,712	11,442,114
Other income	-	-	-	-	5,117,954	-	5,117,954
<b>Net (loss) / income for the year before attribution and zakat and income tax</b>							<b>(17,632,405)</b>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

29 SEGMENT INFORMATION (continued)

	<u>Motor</u>	<u>Medical</u>	<u>Property and Casualty</u>	<u>Protection and Saving</u>	<u>Insurance Operations</u>	<u>Shareholders' Operations</u>	<u>Total</u>
	SR	SR	SR	SR	SR	SR	SR
<u>As at 31 December 2019</u>							
<b><u>Assets</u></b>							
Premiums receivable, gross	283,683,135	104,490,425	62,145,925	25,353,707	475,673,192	-	475,673,192
Provision for doubtful debts	-	-	-	-	(55,086,915)	-	(55,086,915)
Reinsurers' share of outstanding claims	5,745,932	16,649,433	404,394,245	5,538,597	432,328,207	-	432,328,207
Reinsurers' share of claims incurred but not reported	(69,598)	7,921,410	31,056,299	4,390,603	43,298,714	-	43,298,714
Reinsurers' share of unearned premiums	225,976	43,484,703	98,990,010	9,676,896	152,377,585	-	152,377,585
Deferred policy acquisition costs	16,732,264	4,574,957	6,167,728	(555,399)	26,919,550	-	26,919,550
Financial assets at fair value through statement of income (unit linked investments)	-	-	-	538,113,858	538,113,858	-	538,113,858
Unallocated assets	-	-	-	-	363,516,850	357,096,182	720,613,032
Total assets							<u>2,334,237,223</u>
<b><u>Liabilities and Equity</u></b>							
Outstanding claims	81,493,446	27,199,150	415,672,279	8,701,878	533,066,753	-	533,066,753
Claims incurred but not reported	31,947,173	15,839,192	33,578,749	6,415,328	87,780,442	-	87,780,442
Unearned premium	194,686,769	82,326,222	117,590,052	14,095,287	408,698,330	-	408,698,330
Unearned reinsurance commission	16,177	-	6,833,437	498,159	7,347,773	-	7,347,773
Unit linked liabilities	-	-	-	535,415,117	535,415,117	-	535,415,117
Unallocated liabilities	-	-	-	-	397,061,045	30,361,375	427,422,420
Equity	-	-	-	-	7,771,581	326,734,807	334,506,388
Total liabilities and equity							<u>2,334,237,223</u>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

29 SEGMENT INFORMATION (continued)

	<i>Motor</i>	<i>Medical</i>	<i>Property and Casualty</i>	<i>Protection and Saving</i>	<i>Insurance Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<u>For the year ended 31 December 2019</u>							
Gross written premiums – retail	70,711,433	-	2,185,725	65,799,472	138,696,630	-	138,696,630
Gross written premiums – corporate	398,359,067	187,912,112	231,512,235	52,936,458	870,719,872	-	870,719,872
Gross written premiums – very small entities	-	162,620	-	-	162,620	-	162,620
Gross written premiums – small entities	-	1,208,819	-	-	1,208,819	-	1,208,819
Gross written premiums – medium entities	-	878,060	-	-	878,060	-	878,060
Reinsurance premiums ceded	(270,319)	(101,750,472)	(185,416,217)	(21,131,654)	(308,568,662)	-	(308,568,662)
Excess of loss expenses	(3,322,562)	-	(718,507)	-	(4,041,069)	-	(4,041,069)
Fee income from unit linked investments	-	-	-	1,169,709	1,169,709	-	1,169,709
<b>Net written premiums</b>	<b>465,477,619</b>	<b>88,411,139</b>	<b>47,563,236</b>	<b>98,773,985</b>	<b>700,225,979</b>	<b>-</b>	<b>700,225,979</b>
Changes in unearned premiums, net	(7,557,251)	(12,125,768)	5,545,047	(671,581)	(14,809,553)	-	(14,809,553)
<b>Net premiums earned</b>	<b>457,920,368</b>	<b>76,285,371</b>	<b>53,108,283</b>	<b>98,102,404</b>	<b>685,416,426</b>	<b>-</b>	<b>685,416,426</b>
Reinsurance commissions	32,741	800,912	15,466,517	899,956	17,200,126	-	17,200,126
Net claims and other benefits paid	(332,660,274)	(59,710,497)	(9,020,862)	(127,726,894)	(529,118,527)	-	(529,118,527)
Changes in outstanding claims, net	(33,135,114)	6,124,250	8,200,061	(617,421)	(19,428,224)	-	(19,428,224)
Changes in premium deficiency reserve	(7,664,311)	1,451,309	-	(665,776)	(6,878,778)	-	(6,878,778)
Changes in additional premium reserve	-	-	(362,501)	-	(362,501)	-	(362,501)
Changes in claims incurred but not reported, net	39,524,924	(3,250,793)	2,582,375	1,023,809	39,880,315	-	39,880,315
Change in unit linked liabilities	-	-	-	22,308,655	22,308,655	-	22,308,655
Unrealized loss on unit linked investments	-	-	-	19,650,078	19,650,078	-	19,650,078
Policy acquisition costs	(36,828,470)	(7,793,479)	(17,433,216)	(3,091,082)	(65,146,247)	-	(65,146,247)
Inspection and supervision fees	-	-	-	-	(7,033,412)	-	(7,033,412)
<b>Net underwriting income</b>	<b>87,189,864</b>	<b>13,907,073</b>	<b>52,540,657</b>	<b>9,883,729</b>	<b>156,487,911</b>	<b>-</b>	<b>156,487,911</b>
Provision for doubtful debts	-	-	-	-	(2,959,242)	-	(2,959,242)
General and administrative expenses	-	-	-	-	(122,327,257)	(949,469)	(123,276,726)
Investment income	-	-	-	-	3,666,142	6,686,730	10,352,872
Other income	-	-	-	-	4,995,396	-	4,995,396
<b>Net income for the year before attribution and zakat and income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,600,211</b>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

30 SUPPLEMENTARY INFORMATION

a) Statement of financial position

	SR					
	31 December 2020			31 December 2019		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
<b>ASSETS</b>						
Cash and cash equivalents	187,639,558	137,406,667	325,046,225	87,046,426	61,819,191	148,865,617
Prepaid expenses and other assets	132,882,715	11,208,061	144,090,776	69,793,539	2,696,665	72,490,204
Premiums receivable, net	404,388,790	-	404,388,790	420,586,277	-	420,586,277
Reinsurers' balance receivable, net	74,029,044	-	74,029,044	70,535,901	-	70,535,901
Reinsurers' share of outstanding claims	501,314,767	-	501,314,767	432,328,207	-	432,328,207
Reinsurers' share of claims incurred but not Reported	57,566,257	-	57,566,257	43,298,714	-	43,298,714
Reinsurers' share of unearned premiums	103,362,771	-	103,362,771	152,377,585	-	152,377,585
Deferred policy acquisition costs	12,903,209	-	12,903,209	26,919,550	-	26,919,550
Right-of-use assets	3,730,142	-	3,730,142	6,776,228	-	6,776,228
Financial assets at fair value through statement of income (unit linked investments)	524,059,821	-	524,059,821	538,113,858	-	538,113,858
Available for sale investments	146,709,437	257,772,154	404,481,591	141,316,089	244,163,411	385,479,500
Deferred tax assets, net	-	5,825,970	5,825,970	-	6,961,507	6,961,507
Property and equipment	9,527,586	-	9,527,586	8,018,780	-	8,018,780
Statutory deposit	-	60,000,000	60,000,000	-	20,000,000	20,000,000
Accrued income on statutory deposit	-	1,572,445	1,572,445	-	1,485,295	1,485,295
Due to/from insurance operation/shareholders operation*	(246,382,029)	246,382,029	-	(19,970,113)	19,970,113	-
<b>TOTAL ASSETS</b>	<b>1,911,732,068</b>	<b>720,167,326</b>	<b>2,631,899,394</b>	<b>1,977,141,041</b>	<b>357,096,182</b>	<b>2,334,237,223</b>
<b>LIABILITIES</b>						
Accrued and other liabilities	163,085,292	2,347,493	165,432,785	150,041,674	443,891	150,485,565
Surplus distribution payable	15,092,678	-	15,092,678	15,687,466	-	15,687,466
Reinsurers' balances payable	202,216,042	-	202,216,042	195,599,123	-	195,599,123
Unearned premiums	266,364,432	-	266,364,432	408,698,330	-	408,698,330
Unearned reinsurance commission	2,829,659	-	2,829,659	7,347,773	-	7,347,773
Outstanding claims	574,233,568	-	574,233,568	533,066,753	-	533,066,753
Claims incurred but not reported	123,799,018	-	123,799,018	87,780,442	-	87,780,442
Lease liabilities	3,362,331	-	3,362,331	5,784,231	-	5,784,231
Premium deficiency reserve	9,039,013	-	9,039,013	11,731,333	-	11,731,333
Additional premium reserves	1,385,708	-	1,385,708	1,369,320	-	1,369,320
Unit linked liabilities	518,114,351	-	518,114,351	535,415,117	-	535,415,117
Employees' end-of-service obligations	19,019,582	-	19,019,582	16,847,898	-	16,847,898
Zakat and income tax	-	14,699,522	14,699,522	-	28,432,189	28,432,189
Accrued income payable to SAMA	-	1,572,445	1,572,445	-	1,485,295	1,485,295
<b>TOTAL LIABILITIES</b>	<b>1,898,541,674</b>	<b>18,619,460</b>	<b>1,917,161,134</b>	<b>1,969,369,460</b>	<b>30,361,375</b>	<b>1,999,730,835</b>
<b>EQUITY</b>						
Share capital	-	600,000,000	600,000,000	-	200,000,000	200,000,000
Share premium	-	16,310,624	16,310,624	-	22,711,315	22,711,315
Statutory reserve	-	20,743,607	20,743,607	-	20,743,607	20,743,607
Retained earnings	-	47,676,744	47,676,744	-	75,024,377	75,024,377
Actuarial reserve for end-of-service obligations	3,597,830	-	3,597,830	3,828,488	-	3,828,488
Fair value reserve on investments	9,592,564	16,816,891	26,409,455	3,943,093	8,255,508	12,198,601
<b>TOTAL EQUITY</b>	<b>13,190,394</b>	<b>701,547,866</b>	<b>714,738,260</b>	<b>7,771,581</b>	<b>326,734,807</b>	<b>334,506,388</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,911,732,068</b>	<b>720,167,326</b>	<b>2,631,899,394</b>	<b>1,977,141,041</b>	<b>357,096,182</b>	<b>2,334,237,223</b>

\* This item is not included in the statement of financial position.



Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

30 SUPPLEMENTARY INFORMATION (continued)

b) Statement of income

	SR					
	31 December 2020			31 December 2019		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
<b>REVENUES</b>						
Gross premiums written	674,731,117	-	674,731,117	1,011,666,001	-	1,011,666,001
Reinsurance premiums ceded abroad	(233,697,568)	-	(233,697,568)	(302,757,400)	-	(302,757,400)
Reinsurance premiums ceded locally	(1,844,048)	-	(1,844,048)	(5,811,262)	-	(5,811,262)
Excess of loss expenses	(14,484,569)	-	(14,484,569)	(4,041,069)	-	(4,041,069)
Fee income from unit linked investments	1,242,769	-	1,242,769	1,169,709	-	1,169,709
<b>Net premiums written</b>	<b>425,947,701</b>	<b>-</b>	<b>425,947,701</b>	<b>700,225,979</b>	<b>-</b>	<b>700,225,979</b>
Changes in unearned premiums	142,333,898	-	142,333,898	(18,275,995)	-	(18,275,995)
Changes in reinsurers' share of unearned premiums	(49,014,814)	-	(49,014,814)	3,466,442	-	3,466,442
<b>Net premiums earned</b>	<b>519,266,785</b>	<b>-</b>	<b>519,266,785</b>	<b>685,416,426</b>	<b>-</b>	<b>685,416,426</b>
Reinsurance commissions	9,812,624	-	9,812,624	17,200,126	-	17,200,126
<b>NET REVENUES</b>	<b>529,079,409</b>	<b>-</b>	<b>529,079,409</b>	<b>702,616,552</b>	<b>-</b>	<b>702,616,552</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	(441,541,109)	-	(441,541,109)	(545,223,347)	-	(545,223,347)
Surrenders and maturities	(96,326,838)	-	(96,326,838)	(120,421,643)	-	(120,421,643)
Expenses incurred related to claims	(23,615,412)	-	(23,615,412)	(34,142,147)	-	(34,142,147)
Reinsurers' share of claims paid	157,837,415	-	157,837,415	170,668,610	-	170,668,610
<b>Net claims and other benefits paid</b>	<b>(403,645,944)</b>	<b>-</b>	<b>(403,645,944)</b>	<b>(529,118,527)</b>	<b>-</b>	<b>(529,118,527)</b>
Changes in outstanding claims	(41,166,815)	-	(41,166,815)	(159,420,645)	-	(159,420,645)
Changes in reinsurers' share of outstanding claims	68,986,560	-	68,986,560	139,992,421	-	139,992,421
Change in premium deficiency reserve	2,692,320	-	2,692,320	(6,878,778)	-	(6,878,778)
Changes in additional premium reserve	(16,388)	-	(16,388)	(362,501)	-	(362,501)
Changes in claims incurred but not reported	(36,018,576)	-	(36,018,576)	73,078,808	-	73,078,808
Changes in reinsurers' share of claims incurred but not reported	14,267,543	-	14,267,543	(33,198,493)	-	(33,198,493)
<b>Net claims and other benefits incurred</b>	<b>(394,901,300)</b>	<b>-</b>	<b>(394,901,300)</b>	<b>(515,907,715)</b>	<b>-</b>	<b>(515,907,715)</b>
Changes in unit linked liabilities	17,300,766	-	17,300,766	22,308,655	-	22,308,655
Unrealized gain on unit linked investments	14,182,293	-	14,182,293	19,650,078	-	19,650,078
Policy acquisition costs	(55,071,599)	-	(55,071,599)	(65,146,247)	-	(65,146,247)
Inspection and supervision fees	(5,136,631)	-	(5,136,631)	(7,033,412)	-	(7,033,412)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	<b>(423,626,471)</b>	<b>-</b>	<b>(423,626,471)</b>	<b>(546,128,641)</b>	<b>-</b>	<b>(546,128,641)</b>
<b>NET UNDERWRITING INCOME</b>	<b>105,452,938</b>	<b>-</b>	<b>105,452,938</b>	<b>156,487,911</b>	<b>-</b>	<b>156,487,911</b>
<b>OTHER (EXPENSES) / INCOME</b>						
Provision of doubtful debts	(3,306,055)	-	(3,306,055)	(2,959,242)	-	(2,959,242)
General and administrative expenses	(135,320,458)	(1,018,898)	(136,339,356)	(122,327,257)	(949,469)	(123,276,726)
Investment income	3,958,402	7,483,712	11,442,114	3,666,142	6,686,730	10,352,872
Other income	5,117,954	-	5,117,954	4,995,396	-	4,995,396
<b>TOTAL OTHER EXPENSE</b>	<b>(129,550,157)</b>	<b>6,464,814</b>	<b>(123,085,343)</b>	<b>(116,624,961)</b>	<b>5,737,261</b>	<b>(110,887,700)</b>
<b>NET (LOSS) / INCOME FOR THE YEAR BEFORE</b>						
<b>SURPLUS, ZAKAT AND TAX</b>	(24,097,219)	6,464,814	(17,632,405)	39,862,950	5,737,261	45,600,211
Net surplus transferred to shareholders' Operation	24,097,219	(24,097,219)	-	(35,876,655)	35,876,655	-
<b>NET (LOSS) / INCOME FOR THE YEAR AFTER</b>						
<b>SHAREHOLDERS' APPROPRIATIONS BEFORE ZAKAT AND TAX</b>	-	(17,632,405)	(17,632,405)	3,986,295	41,613,916	45,600,211
Zakat charge for the year	-	(10,267,741)	(10,267,741)	-	(4,517,818)	(4,517,818)
Income tax charge for the year, net	-	552,513	552,513	-	(5,346,344)	(5,346,344)
<b>NET (LOSS) / INCOME AFTER SHAREHOLDERS CONTRIBUTION ZAKAT AND TAX</b>	-	<b>(27,347,633)</b>	<b>(27,347,633)</b>	<b>3,986,295</b>	<b>31,749,754</b>	<b>35,736,049</b>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

30 SUPPLEMENTARY INFORMATION (continued)

c) Statement of comprehensive income

	SR					
	31 December 2020			31 December 2019		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Net (loss) / income for the year after zakat and tax	-	(27,347,633)	(27,347,633)	3,986,295	31,749,754	35,736,049
<b>Other comprehensive income</b>						
<i>Items that will not be reclassified to statement of income in subsequent years</i>						
- Re-measurement of defined benefit liability – employees' end-of-service obligations	(230,658)	-	(230,658)	3,287,651	-	3,287,651
<i>Items that are or may be reclassified to statements of income in subsequent years</i>						
Available for sale investments						
- Net change in fair value	5,649,471	10,249,433	15,898,904	8,883,051	16,369,538	25,252,589
- Deferred tax relating to change in fair value	(599,827)	(1,088,223)	(1,688,050)	(943,150)	(1,738,019)	(2,681,169)
<b>Total comprehensive income for the year</b>	<b>4,818,986</b>	<b>(18,186,423)</b>	<b>(13,367,437)</b>	15,213,847	46,381,273	61,595,120
<b>Reconciliation:</b>						
Less: Net income attributable to insurance operations			-			(3,986,295)
<b>Total comprehensive (loss) / income for the year</b>			<b>(13,367,437)</b>			<b>57,608,825</b>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

30 SUPPLEMENTARY INFORMATION (continued)

d) Statement of cash flows

	SR					
	31 December 2020			31 December 2019		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net income for the year before surplus, zakat and tax	-	(17,632,405)	(17,632,405)	3,986,295	41,613,916	45,600,211
Adjustments for non-cash items and other items:	-	-	-	-	-	-
Depreciation of property and equipment	3,257,176	-	3,257,176	2,125,362	-	2,125,362
Amortisation of right-of-use assets	3,046,086	-	3,046,086	3,073,302	-	3,073,302
Amortization of investments premium	646,813	-	646,813	264,615	343,746	608,361
Provision of doubtful reinsurance receivables	(1,375)	-	(1,375)	606,148	-	606,148
Gain on sale of property and equipment	(3,950)	-	(3,950)	(33,075)	-	(33,075)
Provision for doubtful receivables and write-offs	2,735,966	-	2,735,966	2,320,486	-	2,320,486
Provision for end-of-service obligations	4,122,027	-	4,122,027	4,953,653	-	4,953,653
Unrealized gain on unit linked investments	(14,182,293)	-	(14,182,293)	(19,650,078)	-	(19,650,078)
Finance cost on lease liabilities	472,439	-	472,439	462,238	-	462,238
Shareholders' appropriation from insurance operations' surplus*	(24,097,219)	24,097,219	-	35,876,655	(35,876,655)	-
	(24,004,330)	6,464,814	(17,539,516)	33,985,601	6,081,007	40,066,608
<b>Changes in operating assets and liabilities:</b>						
Reinsurers' balance receivable	(3,491,768)	-	(3,491,768)	511,391	-	511,391
Premium receivable	13,461,521	-	13,461,521	(14,003,005)	-	(14,003,005)
Reinsurers' share of unearned premiums	49,014,814	-	49,014,814	(3,466,442)	-	(3,466,442)
Reinsurers' share of outstanding claims	(68,986,560)	-	(68,986,560)	(139,992,421)	-	(139,992,421)
Reinsurers' share of claims incurred but not reported	(14,267,543)	-	(14,267,543)	33,198,493	-	33,198,493
Deferred policy acquisition costs	14,016,341	-	14,016,341	82,743	-	82,743
Unit linked investments	28,236,330	-	28,236,330	41,302,249	-	41,302,249
Prepaid expenses and other assets	(63,089,175)	(8,511,396)	(71,600,571)	-23,840,926	2,546,921	(21,294,005)
Accrued expenses and other liabilities	13,043,617	1,903,602	14,947,219	25,018,836	107,081	25,125,917
Reinsurers' balances payable	6,616,919	-	6,616,919	50,873,380	-	50,873,380
Unearned premiums	(142,333,898)	-	(142,333,898)	18,275,995	-	18,275,995
Unearned reinsurance commission	(4,518,114)	-	(4,518,114)	(261,507)	-	(261,507)
Unit linked liabilities	(17,300,766)	-	(17,300,766)	(22,308,655)	-	(22,308,655)
Outstanding claims	41,166,815	-	41,166,815	159,420,645	-	159,420,645
Claims incurred but not reported	36,018,576	-	36,018,576	(73,078,808)	-	(73,078,808)
Premium deficiency reserve	(2,692,320)	-	(2,692,320)	6,878,778	-	6,878,778
Additional premium reserves	16,388	-	16,388	362,501	-	362,501
	(139,093,153)	(142,980)	(139,236,133)	92,958,848	8,735,009	101,693,857
Employees' end-of-service obligations paid	(2,181,001)	-	(2,181,001)	(1,568,453)	-	(1,568,453)
Surplus paid to policyholders	(594,788)	-	(594,788)	(643,702)	-	(643,702)
Zakat and income tax paid	-	(24,000,408)	(24,000,408)	-	(5,571,134)	(5,571,134)
<b>Net cash (used in) / generated from operating activities</b>	<b>(141,868,942)</b>	<b>(24,143,388)</b>	<b>(166,012,330)</b>	<b>90,746,693</b>	<b>3,163,875</b>	<b>93,910,568</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Additions in available for sale investments	-	(30,000,000)	(30,000,000)	(22,491,134)	(30,652,614)	(53,143,748)
Proceed from sale of available for sale investments	-	26,250,000	26,250,000	5,000,000	18,687,500	23,687,500
Proceeds from sale of property and equipment	3,950	-	3,950	33,075	-	33,075
Additions in property and equipment	(4,765,982)	-	(4,765,982)	(5,573,789)	-	(5,573,789)
<b>Net cash used in investing activities</b>	<b>(4,762,032)</b>	<b>(3,750,000)</b>	<b>(8,512,032)</b>	<b>(23,031,848)</b>	<b>(11,965,114)</b>	<b>(34,996,962)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>						
Due from / to (insurance operations / shareholder operations)*	250,118,445	(250,118,445)	-	(25,208,395)	25,208,395	-
Lease rental paid	(2,894,339)	-	(2,894,339)	(3,182,527)	-	(3,182,527)
Increase in statutory deposit	-	(40,000,000)	(40,000,000)	-	-	-
Transaction cost related to increase in share capital	-	(6,400,691)	(6,400,691)	-	-	-
Increase in share capital	-	400,000,000	400,000,000	-	-	-
<b>Net cash generated from / (used in) financing activities</b>	<b>247,224,106</b>	<b>103,480,864</b>	<b>350,704,970</b>	<b>(28,390,922)</b>	<b>25,208,395</b>	<b>(3,182,527)</b>
<b>Net change in cash and cash equivalents</b>	<b>100,593,132</b>	<b>75,587,476</b>	<b>176,180,608</b>	<b>39,323,923</b>	<b>16,407,156</b>	<b>55,731,079</b>
Cash and cash equivalents, beginning of the year	87,046,426	61,819,191	148,865,617	47,722,503	45,412,035	93,134,538
<b>Cash and cash equivalents, end of the year</b>	<b>187,639,558</b>	<b>137,406,667</b>	<b>325,046,225</b>	<b>87,046,426</b>	<b>61,819,191</b>	<b>148,865,617</b>
<b>NON-CASH INFORMATION:</b>						
Change in fair value of available for sale investments	(5,649,471)	(10,249,433)	(15,898,904)	(8,883,051)	(16,369,538)	(25,252,589)
Re-measurement of defined benefit liability – employees' end-of-service obligations	230,658	-	230,658	(3,287,651)	-	(3,287,651)
Deferred income tax	599,827	1,088,223	1,688,050	943,150	1,738,019	2,681,169

\* These items are not included in the statement of cash flows.

**31 COMPARATIVE FIGURES**

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

**32 APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements have been approved by the Board of Directors on 21 March 2021 (corresponding to 08 Shaban 1442H).