

Board of Directors' Report for the Year 2020 M/S. Shareholders of the United Cooperative Insurance Company Greetings!

The Board of Directors of the United Cooperative Assurance Company would like to take the opportunity to present to the shareholders its annual report accompanied by the audited financial statements and notes for the fiscal year ending on December 31, 2020 AD including the results of insurance operations and shareholder accounts in addition to comparing them with the results of the previous year ending on December 31, 2019 AD, and it also contains the most important developments during the year 2020 AD and the required disclosures according to the applicable cooperative insurance regulations and laws, the registration and listing rules, and the corporate governance regulation issued by the Capital Market Authority and the regulatory authorities to enable shareholders to clearly and correctly evaluate the company's assets, liabilities and financial position.

First / About the Company and its Main Activity

- The United Cooperative Assurance Company is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under the Commercial Registration No. 4030179955 on 06/06/1429 AH. It was established based on Council of Ministers' Resolution No. 94 dated 14/3/1428 AH, and based on the Royal Decree No. M / 24 dated 15/3/1428 AH and its address is in Jeddah, Al-Khalidiya District, Prince Saud Al-Faisal Street (formerly Al-Rawdah) Al-Mukmal Tower (2), first and fourth floors, PO Box: 5019, Postal Code 21422.
- **Company activity:** According to Article 3 of the Company's Articles of Associations, the company's activity is to engage in cooperative insurance business and all that is related to these businesses including reinsurance, agencies, representation, correspondence, or mediation. Also, the company has the right to do all the work that needs to be done to achieve its objectives, whether in the field of insurance or investing its money, and to own and move fixed and cash funds, or sell, replace or lease them directly or through companies that establish or buy them, or in partnership with other parties. The Company may own or have an interest or participate in any way with the bodies that carry out activities similar to their business or financial business or that help them to achieve their objectives or to include them in or buy them, and the company undertakes all the works mentioned in this article, whether inside or outside the Kingdom.
- The company started its insurance operations on January 1, 2009 after it entered into an agreement to purchase the insurance portfolio and net assets and liabilities of UCA Insurance, Bahrain, in the Kingdom of Saudi Arabia after the approval of the Ordinary General Assembly of the shareholders of the company and the final approval of SAMA in accordance with its letter No. 2361 date 21/12/1431 AH on the purchase of the portfolio and the numbers of transferred assets and liabilities. The balance of the final

Board of Directors' Report for the Year 2020

commercial goodwill value was paid to the company in 2012, amounting to 78.4 million Saudi riyals.

- The company does not own any subsidiary companies in the Kingdom, nor does it own any branches or subsidiary companies outside the territory of the Kingdom, and therefore there are no shares or debt instruments issued to subsidiary companies.
- **The Company's Capital:**

A / Establishment of the company with a capital of 200 million riyals

The Company was established on May 5, 2008, with a capital of 200 million Saudi riyals divided into 20 million shares, the value of each share is 10 Saudi riyals. The founders subscribed with a total of 12 million shares and paid their value in cash, which represents 60% of the total shares of the company's capital. The remaining 8 million shares, at a value of 80 million riyals, for public subscription, and immediately after the subscription, the number of the company's shares was completed and became 20 million shares.

B / Increase the capital to 280 million riyals

It was approved by the Extraordinary General Assembly on 26/6/2013 AD to increase the company's capital of 200 million Saudi riyals by 80 million riyals, to become after the increase 280 million riyals, i.e. an increase of 40%, thus increasing the number of shares from 20 million shares to 28 million shares, by granting 2 free shares for every 5 shares, and the eligibility for the shareholders registered in the company's records at the end of trading on the day of the extraordinary general assembly meeting, provided that the increase is covered by a capitalization of 80 million riyals of the retained profits with the approval of the relevant authorities.

Board of Directors' Report for the Year 2020

C / Increase the capital to 490 million riyals

On 02/18/2015 AD, the capital was increased by an increase of 75% from 280 million riyals to 490 million Saudi riyals through Preferred Shares, and the number of the preferred shares reached 21 million shares at the offering price of 10 riyals per share, with a total value of 210 million riyals. The eligibility for shareholders registered in the company's records was at the end of trading on the day of the extraordinary general assembly meeting, and the increase was made with the approval of the competent authorities. The company's goal of increasing the capital is to enhance the solvency margin and support the growth of the future activity of the company. Developments in the use of the proceeds from the increase in capital have been announced according to the Law.

D / Reducing the capital from 490 million riyals to 400 million riyals

The company announced the Board of Directors' recommendation to the Extraordinary General Assembly in its meeting held on 13/9/1438 AH corresponding to 06/08/2017 AD to reduce the company's capital from 490 million riyals divided into 49 million shares, so that the capital after the reduction becomes 400 million Saudi riyals divided into 40 million shares, meaning that 9 million shares will be reduced from the company's shares, and the reduction will be 18.37% of the capital by reducing 1 share for every 5.44 shares. The Company explained that the reason for the reduction is the restructuring of the company's capital in line with Article 150 of the Companies Law as well as the amortization of accumulated losses amounting to 90 million riyals (by canceling 9 million shares), which resulted mainly from the increase in the technical provisions. It also made clear that there is no substantial impact on the reduction of the company's capital on its financial obligations and that it is conditional on the approval of the official authorities and the extraordinary general assembly on the reduction.

The company then announced that it had received on Wednesday 10/11/1438 AH corresponding to 02/08/2017 AD the approval of SAMA to reduce its capital by (90) million riyals so that the company's capital after the reduction would be 400 million riyals. The company appointed BMG Group as a financial advisor to reduce the company's capital on Thursday 11/11/1438 AH corresponding to 3/8/2017

The extraordinary general assembly held on Thursday 29/09/1439 AH corresponding to 07/06/2018 AD approved the proposed reduction of the capital from 490 million riyals to 400 million riyals, and the reduction was made on 10/6/2018, which corresponds to the end of the second trading day following the meeting of the extraordinary assembly in which the capital and the number of shares have been reduced.

The fractions resulting from the capital reduction process were collected and sold on 26/6/2018. The number of shares sold reached 13,827 shares, and the revenue from the sale of fractional shares reached 193,871.90 riyals. The average selling price for each share of the sold shares was 14.02 riyals, and the sums returned from selling fractional shares were deposited in the accounts of eligible shareholders on Thursday 19/07/2018.

Board of Directors' Report for the Year 2020

The company announced on 10/6/2018 that its accumulated losses decreased to 20% of its capital, as the value of its accumulated losses became 13.42 million Saudi riyals, or 3.35% of the company's capital of 400 million Saudi riyals. The main reason for the decrease in accumulated losses is the reduction of the capital. Company funds from 490 million Saudi riyals to 400 Saudi riyals.

The company applies an information system with a high degree of efficiency and performance that links the main center of the company with its spread branches, and the company develops this system from time to time to accommodate its plans permanently and continuously, and the company's management has focused on adopting it in daily transactions with various internal departments and external bodies on Electronic transactions and reducing non-electronic transactions as much as possible.

Branches of insurance:

The total subscribed premiums at the end of December 31, 2020 AD amounted to 616,861 thousand riyals in each of the following insurance branches (vehicles, engineering, energy, medical, others)

| Insurance Branches | Amount (thousands) | Percent |
|--------------------|--------------------|-------------|
| Vehicles | 234,595 | 38% |
| Medical | 41,509 | 7% |
| Energy | 121,539 | 20% |
| Engineering | 120,102 | 19% |
| Others | 99,116 | 16% |
| Total | 616,861 | 100% |

▪ **Company Branches**

The company operates in the Kingdom of Saudi Arabia only and through branches duly licensed by the relevant authorities.

| Branch | Address |
|----------------------|---|
| 1 The main center in | Prince Saud Al-Faisal Street (formerly Al-Rawdah), Al-Khalidiya |

Board of Directors' Report for the Year 2020

| | |
|---------------------------------|--|
| Jeddah | District, Al-Mukmal Tower (2) |
| 2 Riyadh Branch | King Fahd Street - Al-Morouj District - Riyadh - 12264 - Al-Saeedan Building |
| 3 Khobar Branch | Al-Safa District - Dammam - 3576 - Eithar Tower |
| 4 Jeddah Branch "Claims Center" | Ibrahim Al-Jiffali Street - Al-Tahlia District - Al-Saqer Building |
| 5 Khobar Branch "Claims Center" | Abu Hadriyah Street - King Fahd Suburb - Dammam - 9312 - Jawharat Al Maared Building |

The reasons for the closure of the points of sale and the sub-departments of the Individuals Insurance Department are due to the company's new strategy and its direction towards electronic selling in line with the growing trend of digital trade, which will be reflected in the cost of the product, its ease of delivery to the beneficiary, the ability to control the way and style of presentation and the quality of output in general.

Note that the traditional sales through the network of points of sale decreased sharply during the last quarter of the year 2018 and the first quarter of 2019, which makes it futile to continue relying on sales points. This procedure has been approved by the senior management and with the approval of the Board of Directors, which will help provide the necessary resources to invest in and expand digital points of sale.

Currently, the senior management is studying the market in a thoughtful manner to spread through typical modern mixed sales points that provide a basket of services such as sales and claims and provide the beneficiary with the option of traditional or digital selling for several products according to its choice, after taking the necessary approvals from the supervisory authorities.

Second - Important plans and decisions, operational activities, future expectations and risks:

A - Plans and Decisions:

Decisions taken in Board of Directors meetings and general assemblies of shareholders during the year 2020 AD.

Decisions of the General Assembly of shareholders and the names of the attendees of these meetings.

The Company's Ordinary General Assembly decided in its meeting (first meeting) on 23/10/1441 AH, corresponding to 15/6/2020 AD, the following:

1. The Board of Directors' report on the company's business for the fiscal year ending 31/12/2020 was approved.
2. The auditors' report for the fiscal year ending on 31/12/2020 was approved.
3. The financial statements for the fiscal year ending 31/12/2020 were approved.
4. It was approved to absolve the members of the Board of Directors from liability for the fiscal year ending on 31/12/2020.
5. An amount of 883,000 riyals was approved as a bonus to the members of the Board of Directors for the fiscal year ending 12/31/2020.
6. Approval of the amendment of the Governance Regulations.
7. Approval of the appointment of the company's auditors from among the candidates based on the recommendation of the Audit Committee to examine, review and audit the financial statements for the second, third, fourth and annual quarters of the fiscal year 2020 AD and the first quarter of the fiscal year 2021 AD, and determine their fees.
8. Approval of the business and contracts that will be concluded between the company and the group of Haji Husein Alireza companies, in which a member of the Board of Directors Mr. Khaled Hussein Ali Reda has an indirect interest in it and licensing them for a coming year, noting that the nature of the transactions is insurance contracts and the duration of these contracts for multiple periods and that the value of the transactions About 5,650 thousand Saudi riyals that were completed in 2020 AD. These contracts are subject to all the approved conditions that the company applies in its contracts with other parties, and there are no preferential terms for these contracts.
9. Approval of the Board of Directors' decision to appoint Baha Khashoggi as a non-executive member of the Board of Directors, starting from the date of his appointment on 4/11/2019 to complete the Board's session until the end of the current session on 31/12/2020 AD, succeeding the previous member, Saleh Al-Omair, as an independent member.

Board of Directors' Report for the Year 2020

The meeting was attended by members of the board of directors, Mr. Khaled Hussein Ali Reda (Chairman of the Board), Mr. Khaled Ahmed Al-Hamdan (Vice Chairman of the Board of Directors), Mr. Jack George Sassi, Mr. Karim Marawan Hamadeh, and Mr. Bahaa El-Din Omar Bahaa El-Din Khashoggi, it should be noted that the majority of Attendance and voting has taken place through electronic voting, with 43.70% of the total vote of 43.70%.

Through this meeting, shareholders' inquiries about the company's operating status and performance were answered, especially what was included in the agenda items of the meeting. It was also indicated what had been implemented during the year 2020 AD until the date of the assembly and the confirmation that shareholders were informed of all developments through announcements on (Tadawul) site. The Assembly's minutes have been recorded and kept in the company's records, and the supervisory authorities have been provided with a copy according to the law and within the stipulated period.

The call to the Ordinary General Assembly held on 20/5/2020 AD was announced on the Saudi Stock Exchange website (Tadawul) and in the daily newspaper in addition to the company's official website, and reminder announcements were published to confirm its date and provide a number of shareholders with the call to the assembly through correspondence. Electronic voting for shareholders on the agenda items has taken place through Tadawulati website.

The number of the company's applications for the shareholders' registry during the year 2020 and the dates of those applications

. The shareholders' registry of the company was applications through the electronic service provided by Tadawulati. The following is a statement of the number of requests, dates and reasons for those requests.

Board of Directors' Report for the Year 2020

| | Reg date | Application Reason |
|---|------------|--|
| 1 | 9/2/2020 | Internal procedures to manage shareholders affairs and verify the identity of the registered shareholders when answering their questions |
| 2 | 25/2/2020 | Internal procedures to manage shareholders affairs and verify the identity of the registered shareholders when answering their questions |
| 3 | 1/6/2020 | The Ordinary General Assembly will be held on 15/6/2020 |
| 4 | 14/6/2020 | Internal procedures to manage shareholders affairs and verify the identity of the registered shareholders when answering their questions |
| 5 | 1/10/2020 | Internal procedures to manage shareholders affairs and verify the identity of the registered shareholders when answering their questions |
| 6 | 18/10/2020 | The Ordinary General Assembly will be held 20/10/2020 |
| 7 | 21/12/2020 | Fulfillment of the recipient's data request by the Central Bank of Saudi Arabia regarding foreign investment |
| | 24/12/2020 | Fulfillment of the recipient's data application by the Central Bank of Saudi Arabia regarding foreign investment |

B - Operational activities and practice of the activity:

Technical Reserves: According to the instructions of SAMA, the calculation of technical reserves is verified by an independent actuary.

Independent Actuarial Review of Claims and Claims Reserves:

To further mitigate insurance risk, the company employs an independent expert who performs periodic reviews of claims and projected claims forms in addition to validating the claims reserves included in the balance sheet at the end of the year.

- Accumulated losses: The accumulated losses amounted to 108.25 million riyals, which represents 27% of the capital of 400 million riyals, compared to the accumulated losses of 64.15 million riyals on December 31, 2019 of the capital of 400 million riyals
- The implementation of the company's strategic business plan is monitored by the Board of Directors and executive management
- Renewal of contracts with the following companies: SIMAH for credit information in order to support the collection process from debtors, Hala Company specialized in archiving and providing support services, Al-Elm Company, which provides official data fetching services from government agencies, and Najm Insurance Services Company, which provides support services in traffic accident records and its evaluation, in addition to contracting with consulting firms to prepare reports and other studies
- Insurance and reinsurance agreements: New insurance contracts have been signed in various sectors with clients, and some reinsurance agreements have been renewed with some changes in the terms of return according to operational developments and in line with the company's interest.

Board of Directors' Report for the Year 2020

- Zakat declarations: Zakat is applied to 99% of shareholders and income tax to 1% of shareholders.

The company has submitted its zakat and income tax returns for the years ending December 31 from 2009 to 2019 and has obtained zakat and tax certificates.

Zakat assessment for the years 2005, 2006, 2007, and 2008

During the year 2017, the company received zakat assessments for the years from 2005 to 2008 from the General Authority for Zakat and Income in respect of insurance operations transferred from UCA Insurance Bahrain Company, which demands a zakat obligation of 6.01 million Saudi riyals and a tax deduction obligation of an amount of 16.09 million Saudi riyals. The Management has lodged an objection to the aforementioned assessments and is confident of receiving a positive judgment in its favor. However, the company issued a bank guarantee in favor of the Authority in the amount of 22.09 million Saudi riyals (2019: 22.09 million Saudi riyals) against these assessments. The Management believes that any additional liability arising from these assessments will ultimately be charged to the shareholders of UCA Insurance Bahrain Company.

Assessment for the years 2009, 2010 and 2011

During the year, the General Authority for Zakat and Income issued a rate assessment based on the decision of the primary objection committee and demanded an additional delay fine of 2.40 million Saudi riyals related to the period from 2009 to 2011, and the company filed an objection to this amended assessment for the years 2012 and 2013

During the year 2019, the General Authority for Zakat and Income issued an assessment for the years 2012 and 2013 calling for zakat and additional income tax in the amount of 15.84 million Saudi riyals. However, the company objected to the valuations and plans to meet with the dispute settlement committee of the General Authority of Zakat and Income to reach a final settlement.

Board of Directors' Report for the Year 2020

Assessment for the years 2014, 2015, 2016, 2017 and 2018

During the year, the General Authority for Zakat and Income issued an assessment for the years 2014, 2015 and 2018 to claim additional zakat in addition to a delay fine of 25.65 million Saudi riyals and withholding tax for the years 2016, 2017 and 2018 amounting to 29.82 million Saudi riyals. The company paid the additional zakat amount of 13.82 million Saudi riyals and objected to the remaining amount and received a revised link for the remaining amount of 2.67 million Saudi riyals, which the company also settled after the end of the year. The company also paid the withholding tax difference of 18.93 million Saudi riyals to settle the additional assessment of 29.82 million Saudi riyals.

The General Authority for Zakat and Income also issued an assessment during the year for claiming additional zakat, tax and delay fine for the years 2016 and 2017 amounting to 10.38 million Saudi riyals and 10.27 million Saudi riyals, respectively. The company paid 12.55 million Saudi riyals for these assessments, objected to the remaining amount, and received a modified assessment of the remaining amount of 4.69 million Saudi riyals, which the company also settled after the end of the year.

Assessment of the value-added tax

On August 25, 2020, the company received an assessment from the General Authority for Zakat and Income to pay the additional basic value-added tax of 12.28 million Saudi riyals for the years 2018 and 2019 in addition to additional fines of 20.25 million Saudi riyals for those years in order to avoid incurring additional fines, the company paid the main value added tax on October 28, 2020 without prejudice to its position and objected to the items issued for evaluation. On February 20, 2021, the company submitted an appeal to the General Secretariat of the Tax Committees against the decision of the General Authority for Zakat and Income, which the management is confident of achieving with a positive result. The disputed items are zero-rated resources, self-billing, and reinsurance commission.

Fines imposed on assessments amounting to 20.25 million Saudi riyals for the years 2018 and 2019 have been canceled after the company took advantage of the General Authority for Zakat and Income initiative to stabilize the economy and strengthen the private sector.

Measures taken to combat money laundering: A specialized work team has been established in the company that is committed to strict and effective control in disclosing the identity of clients to combat fraud and money laundering, and to report all transactions that fall under suspicion to the Compliance Manager to follow up and take the necessary measures.

Board of Directors' Report for the Year 2020

Future expectations: The Company's management seeks to achieve better levels among companies operating in the insurance sector, which is witnessing intense competition resulting from disparities in prices and services provided to customers in order to reach the best production and evaluation among companies. It also seeks to provide the required technical prices in various productive sectors. Taking into account the recommendations of the actuary expert, and keen to employ technicians with experience and competence in the field of insurance and reinsurance and various relevant departments to increase production, and the company expects to increase production in some insurance sectors in the coming years.

Current, Future and Projected Risks:

Current risks:

The company's risk management has adopted a comprehensive strategy to understand and manage the various types of risks resulting from its activities. It also plays its role in identifying and addressing current risks and developing a plan to address the expected risks and mitigate their impact.

The risk management aims to monitor the risks related to the company represented in financial risks, including market risks, credit and liquidity risks, interest rate risks and non-financial risks, including risks of technical systems, operational risks, reputation and business continuity. The management also aims to ensure the extent of compliance with the laws and regulations in force through the following:

- Submitting reports to the senior management regarding the general situation of risks in the various departments of the company that may affect its operational operations, in order to take the necessary actions and submit them to the supervisory authorities.
- Evaluating the capital requirements to ensure that the required solvency margin is achieved according to the statutory regulations. An annual report is prepared to review risk management and the company's financial position report and submitted to SAMA.
- Reviewing procedures and policies for combating fraud periodically to ensure compliance with the new regulations issued or any additions thereto.
- Reviewing the statement of financial position and cash flows with regard to liquidity in accordance with the asset liability management regulation.
- Commitment to standard operating standards for the various operating sectors of insurance.

Anticipated future risks:

Anticipated future risks are the risks that have been identified and measures taken to prevent or limit the negative impact when it occurs.

Among the most prominent expected risks that insurance companies may face during their work are the following:

Board of Directors' Report for the Year 2020

- The risk of fraud and financial fraud crimes: Fraud is one of the most complex crimes in terms of all activities, and the occurrence of fraud results in material and moral damages at all levels. Therefore, the company is interested in developing plans and strategies to avoid this risk in coordination with all internal departments. A special unit for combating fraud and financial crime has been established to counter this threat.
- Insurance risk: It is the risk related to actual claims owed to policyholders that may exceed the carrying amount of insurance liabilities. Due to the nature of the insurance contract, the estimates may differ from the related statistics. Therefore, the more similar insurance contracts are, the closer the expectations are to the actual loss rate.
- Liquidity risk: Liquidity risk is the difficulty that the company may encounter in providing cash

The funds required to meet its financial obligations, liquidity risk may arise from the inability to sell a financial asset within a short period at an amount close to its fair value, for this purpose the company's needs are monitored on a monthly basis.

The management aims to ensure the availability of sufficient financial liquidity to meet any liabilities as soon as they arise, as all of the company's assets are current assets with the exception of furniture, office equipment, intangible assets and statutory deposit as they are considered non-current in nature.

Board of Directors' Report for the Year 2020

In addition, a large part of the company's funds are invested in short-term deposits with local banks to face liquidity crises in compliance with the applicable regulations issued by SAMA.

- **Legal risks:** They are the risks that arise through the legal liabilities of the company for insurance policy holders, such as cases that are filed against the company as a result of third-party claims.
- **Risks of compliance with regulatory requirements:** These are the risks related to the company's operations being subject to regulatory requirements in the Kingdom of Saudi Arabia. These regulations not only provide for approval and monitoring of activities, but also impose some restrictive provisions (such as capital adequacy) to reduce the risks of default and insolvency on the part of insurance companies in Fulfill unexpected obligations as they arise.
- **Technical risks:** These are the risks that may expose the company to human errors, natural disasters, loss of energy, or sabotage operations with high costs that negatively affect the financial results.
- **Employee turnover risk:** It is the risks related to the movement of employees and workers in the company during a short period. This movement includes the entry or exit of human cadres to and from the company, which may negatively affect the overall productivity of the company.
- **Reinsurance risk:** It is the risk related to assigning part of the insurance company's obligations to reinsurance companies, in order to reduce the possibility of financial exposure resulting from a large number of claims or claims with high amounts. Therefore, one of the most important goals of reinsurance is to increase the insurance company's opportunity to diversify and expand in the field of business and its ability to grow, and to ensure the stability of underwriting results.

As insurance companies have agreements with reinsurance companies to protect them when losses exceed a certain limit, this agreement covers all individual and collective contracts issued by insurance operations in the Kingdom of Saudi Arabia, and to ensure the eligibility of the reinsurance company, insurance companies resort to assessing the financial position of reinsurers to avoid their exposure for large financial losses resulting from the insolvency of the reinsurance companies or their inability to fulfill their obligations.

Third/ Human Capital

The company's management continues to develop an unconventional work environment as we serve a promising and important sector. Today we welcome national youth energies in line with the vision of the Kingdom of Saudi Arabia that targets young Saudi cadres and we also seek to serve this sector in particular by empowering women in society, and raising the rate of Saudization and training National cadres and qualifying them for leadership positions, which will constitute an important pillar for young talents in the Kingdom to serve this important sector.

Fourth/ Financial Indicators

The financial results of the United Cooperative Insurance Company for the year ended 31/12/2020 AD compared to the results of the previous year ending 31/12/2019

1. The net loss before zakat and taxes during the current year is 15,880 thousand riyals, compared to a net profit of 15,539 thousand riyals for the previous year.
2. The loss per share before zakat and taxes during the current year amounted to 0.4 riyals, compared to a profit of 0.39 riyals for the previous year.
3. The insurance operations deficit less the policyholders' investment returns (operating results) during the current year amounted to 27,533 thousand riyals compared to a surplus of 1,254 thousand riyals for the previous year.
4. The (GWP) during the current year amounted to 616,861 thousand riyals, compared to 420,292 thousand riyals for the previous year, an increase of 47%. The net subscribed insurance premiums (NWP) during the current year amounted to 200,107 thousand riyals, compared to 54,278 thousand riyals for the previous year That is, an increase of 269%.
5. The net claims incurred during the current year amounted to 85,699 thousand riyals, compared to 33,839 thousand riyals for the previous year, an increase of 153%.
6. The net investment profits of policyholders' investments during the current year amounted to 4,409 thousand riyals, compared to 8,904 thousand riyals for the previous year, a decrease of 50%. The net profit of investments of shareholders' funds during the current year amounted to 10,219 thousand riyals compared to a net profit of 8,500 thousand riyals for the previous year with an increase of 20%.
7. The reason for the net loss during the current year compared to the net profit of the previous year is the increase in net claims incurred, in addition to the increase in underwriting costs and expenses, and the increase in the provision for doubtful debts.
8. The loss per share for the period ending on 31-12-2020 (twelve months) after zakat is equal to (1.10) riyals per share (the number of shares issued as on 12-31-2020 equals 40,000 shares), and that the earnings per share for the period Ended on 31-12-2019 (twelve months) is equal to 0.19 riyals per share (the number of shares issued as on 31-12-2019 equals 40,000 shares), where the Zakat is estimated at 28 million riyals for the

Board of Directors' Report for the Year 2020

- period ending on 31-12-2020 (Twelve months) compared to 8 million riyals for the same period of the previous year.
9. Total shareholders' equity (no minority rights) as of December 31, 2020 amounted to 332,939 thousand riyals compared with 375,436 thousand riyals as of December 31, 2019, with a decrease of 11%
 10. The total comprehensive loss for the year 2020 amounted to 38,165 thousand riyals, compared to the total comprehensive income of 17,316 thousand riyals for the previous year 2019.
 11. The insurance operations surplus shall be distributed according to the provisions of the executive regulations of the cooperative insurance companies between the shareholders of the company at a rate of 90% and the holders of insurance policies at a rate of 10%. The surplus shall be distributed after obtaining the approval of the Monetary Agency.

Board of Directors' Report for the Year 2020

The company maintains a fiscal year system ending on December 31 and with reference to the CMA circular dated 21/8/2016 AD regarding disclosure of keeping pace with the transition to international accounting standards as of 01/01/2017. The company announced since 2016 that its financial statements are prepared in accordance with (IFRS) since inception and therefore there are no impacts on the financial statements following the application of these standards.

Merging of insurance operations and shareholder operations:

Some of the comparative figures have been reclassified to conform to the current year presentation. These changes, as summarized below, were mainly to comply with the requirements of SAMA.

The statement of financial position, income statement and cash flows were presented separately for insurance operations and shareholders' operations, which were grouped together to present company-wide financial statements, whether in the balance sheet, income statement and cash flow statement.

Amounts "due from / to" shareholders and insurance operations that were reported separately in the balance sheet are excluded

The share of surplus insurance operations that used to be divided by 10/90 between shareholders' operations and insurance operations and presented separately is now presented as an expense in the income statement. The consolidated financial statements and accounts can be viewed through the following audited financial statements for the year 2020:

Board of Directors' Report for the Year 2020

Statement of financial position for the year ending on December 31, 2020

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | 61,735 | 257,653 |
| Short term deposits | 22,656 | 23,496 |
| Net premiums for insurance and reinsurance | 239,606 | 202,452 |
| Reinsurers' share of unearned premiums | 209,598 | 137,914 |
| Reinsurers' share of outstanding claims | 41,720 | 45,581 |
| Reinsurers' share of incurred but not reported | 126,264 | 112,881 |
| Costs of acquiring deferred insurance policies | 12,645 | 6,444 |
| Investments | 288,366 | 190,984 |
| Prepaid expenses and other assets | 68,487 | 37,756 |
| Property and equipment | 10,346 | 7,008 |
| Intangible assets | 4,598 | - |
| Right-of-use assets - net of goodwill | 7,556 | - |
| Goodwill | 78,400 | 78,400 |
| A statutory deposit | 60,000 | 60,000 |
| Commission income payable for a statutory deposit | 4,904 | 3,824 |
| Total assets | 1,236,881 | 1,164,357 |

Board of Directors' Report for the Year 2020

Liabilities

| | | |
|--|------------------|------------------|
| Claims owed to policyholders | 5,396 | 13,419 |
| Accrued expenses and other liabilities | 46,614 | 67,454 |
| Accounts payable to reinsurers | 156,440 | 178,413 |
| Unearned premiums | 302,452 | 163,093 |
| Unearned reinsurance commission | 34,994 | 27,969 |
| Under-settled claims | 62,921 | 66,652 |
| Claims incurred but not reported | 169,749 | 162,673 |
| Insurance premium deficit reserve | 25,748 | 18,760 |
| Other technical reserves | 13,378 | 9,604 |
| Due to related parties | 10,288 | 270 |
| End of Service Gratuity | 6,397 | 9,475 |
| Surplus from insurance operations | 37,053 | 37,053 |
| Zakat and income tax | 21,750 | 28,935 |
| Commission income payable to the Saudi Arabian | 4,904 | 3,824 |
| Total liabilities | 898,084 | 787,395 |
| Investments fair value loss reserve | 3,734 | 15 |
| Total liabilities and reserves of insurance | 901,818 | 787,410 |
| Equity rights | | |
| Capital | 400,000 | 400,000 |
| Statutory reserve | 31,944 | 31,944 |
| Accumulated losses | No.: (108,025) | No.: |
| Investments fair value loss reserve | 9,020 | 7,637 |
| Reserve for re-measurement of defined employee | 2,124 | 1,511 |
| Net equity | 335,063 | 376,947 |
| Total liabilities and reserves of insurance operations and equity | 1,236,881 | 1,164,357 |
| <u>Commitments and undertakings</u> | | |

Income statement for the year ending December 31, 2020

| December 2020 | 31, | December 31, 2019 |
|---------------|-----|-------------------|
|---------------|-----|-------------------|

Board of Directors' Report for the Year 2020

| | One thousand Saudi riyals One thousand Saudi riyals | |
|---|--|----------------|
| Revenues | | |
| Total subscribed premiums | 616,861 | 420,292 |
| Reinsurance premiums assigned | | |
| - Local | No.: (30,604) | No.: (21,537) |
| - Foreign | No.: (380,697) | No.: (341,103) |
| | No.: (411,301) | No.: (362,640) |
| Surplus loss expense | | |
| - Local | No.: (818) | No.: (360) |
| - Foreign | No.: (4,635) | No.: (3,014) |
| | No.: (5,453) | No.: (3,374) |
| Net subscribed premiums | 200,107 | 54,278 |
| Net Changes in unearned premiums | No.: (67,675) | 21,122 |
| Net insurance premiums earned | 132,432 | 75,400 |
| Reinsurance commissions | 39,872 | 41,233 |
| Total revenue | 172,304 | 116,633 |
| Subscription costs and expenses | | |
| Total claims paid | 151,457 | 153,228 |
| Reinsurers' share of claims paid | No.: (59,581) | No.: (92,990) |
| Net claims paid | 91,876 | 60,238 |
| Net changes in under-settled claims | 130 | No.: (2,346) |
| Net changes in claims incurred but not reported | No.: (6,307) | No.: (24,053) |
| Net claims incurred | 85,699 | 33,839 |
| Insurance premium deficit reserve | 6,988 | 2,306 |
| Other technical reserves | 3,774 | No.: (26,935) |
| Costs of acquiring insurance policies | 16,521 | 9,868 |
| Other subscription expenses | 2,790 | 2,549 |
| Total subscription costs and expenses | 115,772 | 21,627 |
| Net subscription income | 56,532 | 95,006 |
| (Expenses) / Other operating income | | |
| General and administrative expenses | No.: (86,806) | No.: (101,470) |
| Provision for doubtful debts | No.: (5,823) | 2,745 |
| Board remuneration | No.: (1,441) | No.: (883) |
| Amortization of held-to-maturity investments | - | 286 |

Board of Directors' Report for the Year 2020

| | | |
|---|---------------|---------------|
| Income from investments | 10,382 | 11,015 |
| Realized profit from investments | 4,246 | 6,103 |
| Other income | 7,030 | 3,753 |
| Other total operating expenses | No.: (15,880) | No.: (78,451) |
| Net (loss) / income for the year | No.: (15,880) | 16,555 |
| Net income assigned to insurance operations | - | (1,016) |
| Net (loss) / income for the year assigned to the shareholders | No.: (15,880) | 15,539 |
| Zakat for the year | No.: (27,900) | No.: (7,900) |
| Income tax for the year | No.: (100) | No.: (100) |
| Net income (loss) for the year assigned to the shareholders | No.: (43,880) | 7,539 |
| Profit / (loss) per share (in Saudi riyals) | | |
| Weighted average number of ordinary shares outstanding (in thousands) | 40,000 | 40,000 |
| Basic and diluted earnings / (losses) per share (in Saudi Riyals) | No.: (1.10) | 0.19 |

Statement of comprehensive income for the year ended December 31, 2020

| | December 31, 2020 | December 31, 2019 |
|--|---------------------------|---------------------------|
| | One thousand Saudi riyals | One thousand Saudi riyals |
| Net income / (loss) for the year | No.: (43,880) | 8,555 |
| Other comprehensive income / (loss) | | |
| Items that will not be reclassified later to the income statement in subsequent periods | | |
| Actuarial gain from the end of service gratuity obligation | 613 | 1,075 |
| Items that can be reclassified later to the | | |

Board of Directors' Report for the Year 2020

income statement in subsequent periods

| | | |
|--|----------------------|---------------|
| - Available for sale investments | | |
| - Net change in fair value of available for sale investments | 5,102 | 7,686 |
| Total income / (loss) for the year | No.: (38,165) | 17,316 |
| Total comprehensive (loss) assigned to insurance operations | 4,332 | No.: (2,192) |
| Total comprehensive income / (loss) for the year | No.: (42,497) | 15,124 |

Statement of changes in equity for the year ended December 31, 2020

| <u>2020</u> | Capital | Statutory reserve | Accumulated losses | Investments fair value reserve | Reserve for re-measurement of the end of service gratuity obligation | Total equity |
|---|---------|-------------------|--------------------|--------------------------------|--|---------------|
| One thousand Saudi riyals | | | | | | |
| Balance as of December 31, 2019 | 400,000 | 31,944 | (64,145) | 7,637 | 1,511 | 376,947 |
| Total (loss) / comprehensive income for the year | | | | | | |
| Net loss for the year assigned to shareholders | - | - | No.: (43,880) | - | - | No.: (43,880) |
| Profits of re-measurement of defined employee benefit obligations | - | - | - | - | 613 | 613 |

Board of Directors' Report for the Year 2020

| | | | | | | |
|--|----------------|---------------|------------------|--------------|--------------|------------------|
| Net change in fair value of available for sale investments | - | - | - | 1,383 | - | 1,383 |
| Total comprehensive loss for the year assigned to shareholders | - | - | No.: (43,880) | 1,383 | 613 | No.: (41,884) |
| Balance as of December 31, 2020 | 400,000 | 31,944 | (108,025) | 9,020 | 2,124 | 335,063 |

Details of the financial years results for the last five years ending on December 31 and the comparison thereof as follows:

Statement of financial position as of December 31 (in thousands of riyals)

| | 2020 A.D | 2019 A.D | 2018 A.D | 2017 A.D | 2016 A.D |
|---|----------------|----------------|----------------|------------------|------------------|
| Assets of insurance operations | | | | | |
| Cash and cash equivalents | 51,356 | 216,199 | 88,477 | 43,953 | 61,736 |
| Term deposits | 22,656 | 23,496 | - | - | 136,070 |
| Investments | 115,088 | 227 | 160,159 | 260,322 | 229,324 |
| Net debit insurance and reinsurance premiums | 239,606 | 202,452 | 169,736 | 256,621 | 213,844 |
| Reinsurers' share of unearned premiums | 209,598 | 137,914 | 94,750 | 204,792 | 184,906 |
| Reinsurers' share of outstanding claims incurred but not reported | 167,984 | 158,462 | 223,806 | 291,905 | 321,697 |
| Deferred policy acquisition costs | 12,645 | 6,444 | 5,699 | 10,301 | 10,726 |
| Prepaid expenses and other receivables | 67,449 | 36,685 | 45,823 | 52,646 | 30,814 |
| Due from shareholders' operations | - | - | - | - | - |
| Furniture, fixtures, and equipment | 10,346 | 7,008 | 1,902 | 2,667 | 2,968 |
| Intangible assets | 4,598 | - | - | - | - |
| Net right-of-use assets | 7,556 | - | - | - | - |
| Total assets of insurance operations | 908,882 | 788,887 | 790,352 | 1,120,207 | 1,192,085 |
| Shareholders' assets | | | | | |
| Cash and cash equivalents | 10,379 | 41,454 | 1,056 | 94,843 | 1,268 |
| Term deposits | - | - | - | - | 74,600 |

Board of Directors' Report for the Year 2020

| | | | | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Investments | 173,278 | 190,721 | 224,596 | 134,755 | 131,553 |
| Prepaid expenses and other receivables | 1,038 | 1,071 | 1,378 | 1,271 | 1,305 |
| Due from insurance operations | 32,675 | 33,493 | 4,700 | 62,944 | 50,322 |
| Goodwill | 78,400 | 78,400 | 78,400 | 78,400 | 78,400 |
| Commissions payable on a statutory deposit | 4,904 | 3,824 | 2,635 | 1,448 | 1,242 |
| A statutory deposit | 60,000 | 60,000 | 73,500 | 73,500 | 73,500 |
| Total shareholders' assets | 360,674 | 408,963 | 386,265 | 447,161 | 412,190 |
| Reclassification of items | No.: (32,675) | No.: (33,493) | No.: (4,700) | No.: (62,944) | - |
| Total assets | <u>1,236,881</u> | <u>1,164,357</u> | <u>1,171,917</u> | <u>1,504,424</u> | <u>1,604,275</u> |

Statement of financial position as of December 31 (Continued)

| Liabilities and surplus of insurance operations (In thousands of riyals) | 2020 A.D | 2019 A.D | 2018 A.D | 2017 A.D | 2016 A.D |
|---|------------------|------------------|-----------|------------|------------|
| Liabilities of insurance operations | | | | | |
| Accounts payable reinsurers | 156,440 | 178,413 | 122,227 | 178,145 | 127,064 |
| Unearned commission income | 34,994 | 27,769 | 19,925 | 31,460 | 30,860 |
| Unearned premiums | 302,452 | 163,093 | 141,051 | 270,374 | 294,762 |
| Other technical reserves | 13,378 | 9,604 | 36,539 | 6,925 | 3,891 |
| Reserve risk outstanding / deficit premiums | 25,748 | 18,760 | 16,454 | 3,566 | 2,993 |
| Claims processing reserve | - | - | - | - | 5,367 |
| Under-settled claims | 232,670 | 229,325 | 321,067 | 404,565 | 561,152 |
| Accounts payable to policyholders | 5,396 | 13,419 | 19,361 | 9,177 | 11,727 |
| Accrued expenses and other liabilities | 45,533 | 66,957 | 55,253 | 96,745 | 53,205 |
| Due to shareholder operations | 32,675 | 33,493 | 4,700 | 62,944 | 50,322 |
| Employees' end of service gratuities | 10,288 | 9,475 | 18,018 | 20,676 | 18,639 |
| Rental liabilities | 6,397 | - | - | - | - |
| The surplus from insurance operations | 73,053 | 37,053 | 36,037 | 36,037 | 32,456 |
| Total liabilities of insurance operations | 903,024 | 753,361 | 754,595 | 1,084,577 | 1,159,982 |
| Minus the exclusion between operations | No.: (32,675) | No.: (33,493) | | | |
| Fair value reserve for investments | 3,734 | 15 | No.: (86) | No.: (407) | No.: (353) |

Board of Directors' Report for the Year 2020

in insurance operations

| | | | | | |
|----------------------------------|---------|---------|---------|-----------|-----------|
| Total liabilities and surplus of | 874,083 | 753,883 | 789,916 | 1,120,207 | 1,192,085 |
| insurance operations | | | | | |

Board of Directors' Report for the Year 2020

Shareholders' operations

| | | | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Accrued expenses and other liabilities | 767 | 497 | 560 | 617 | 387 |
| Provision for zakat and income tax | 21,750 | 28,936 | 22,488 | 23,708 | 20,681 |
| Balance owed to a related party | - | 270 | 270 | 270 | 270 |
| Commissions owed on a statutory deposit of SAMA | 4,904 | 3,824 | 2,635 | 1,448 | 1,448 |
| Total shareholders' liabilities | 27,735 | 33,527 | 25,953 | 26,043 | 26,043 |
| Equity rights | | | | | |
| Capital | 400,000 | 400,000 | 400,000 | 490,000 | 490,000 |
| Statutory reserve | 31,944 | 31,944 | 31,944 | 31,944 | 31,944 |
| Retained earnings / (accumulated losses) | No.: (108,025) | No.: (64,145) | No.: (71,684) | No.: (97,512) | No.: (97,512) |
| Reserve for available-for-sale investments | 9,020 | 7,637 | 52 | No.: (3,314) | No.: (3,314) |
| Total equity | 332,939 | 375,436 | 360,312 | 421,118 | 421,118 |
| Reserve for re-measurement of defined employee benefit liabilities for insurance operations | 2,124 | 1,511 | 436 | - | - |
| Total equity and liabilities | 360,674 | 408,963 | 386,265 | 447,161 | 447,118 |
| Total liabilities and reserves of insurance operations and equity rights | <u>1,236,881</u> | <u>1,164,357</u> | <u>1,171,917</u> | <u>1,504,424</u> | <u>1,576,368</u> |

Board of Directors' Report for the Year 2020

| Statement of insurance operations results and accumulated surplus as of December 31 (in thousands of riyals) | 2020 A.D | 2019 A.D | 2018 A.D | 2017 A.D | 2016 A.D |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenues | | | | | |
| Total subscribed premiums | 616,861 | 420,292 | 391,968 | 580,565 | 819,595 |
| Minus assigned reinsurance premiums | No.: (411,301) | No.: (362,640) | No.: (285,716) | No.: (432,272) | No.: (492,097) |
| Excess loss premiums | No.: (5,453) | No.: (3,374) | No.: (2,653) | No.: (3,660) | No.: (4,191) |
| Net subscribed premiums | 200,107 | 54,278 | 103,599 | 144,633 | 323,307 |
| Change in unearned net premiums | No.: (67,675) | 21,122 | 19,282 | 44,274 | 307,685 |
| Net insurance premiums earned | 132,432 | 75,400 | 122,881 | 188,907 | 630,992 |
| Commissions received from reinsurance | 39,872 | 41,233 | 49,640 | 59,251 | 83,577 |
| Net revenue | 172,304 | 116,633 | 172,521 | 248,158 | 714,569 |
| Total claims paid | 151,457 | 153,228 | 212,946 | 366,792 | 750,173 |
| Minus: The share of reinsurers | No.: (59,581) | No.: (92,990) | No.: (138,035) | No.: (182,811) | No.: (258,073) |
| Net claims paid | 91,876 | 60,238 | 74,911 | 183,981 | 492,100 |
| Change in net outstanding claims | No.: (6,177) | No.: (26,399) | No.: (15,398) | No.: (126,795) | No.: (47,039) |
| Net claims incurred | 85,699 | 33,839 | 59,513 | 57,186 | 445,061 |
| Document acquisition costs | 16,521 | 9,868 | 13,885 | 18,156 | 38,707 |
| Existing risk reserve | | - | - | No.: (2,576) | No.: (3,493) |
| Claims processing reserve | | - | - | 531 | 588 |
| Premium deficiency reserve | 6,988 | 2,306 | 12,888 | 3,170 | - |
| Other technical reserves | 3,774 | No.: (26,935) | 29,615 | No.: (4,930) | 718 |
| Supervision and inspection fees | 2,296 | 2,150 | 3,278 | 2,802 | 5,618 |
| Council of Health insurance fees | 494 | 399 | | 711 | 1,006 |
| Net costs and expenses | 115,772 | 21,627 | 119,179 | 77,095 | 481,581 |
| Net results of insurance operations | 56,532 | 95,006 | 53,342 | 171,063 | 232,988 |
| General and administrative expenses | No.: (85,272) | No.: (100,250) | No.: (111,640) | No.: (120,769) | No.: (118,715) |
| Investment income | 4,409 | 8,904 | 4,249 | 6,881 | 15,977 |
| Other income | 7,030 | 3,753 | 3,701 | 4,562 | 4,191 |
| Provision for doubtful debts and no-of- purpose provisions | No.: (5,823) | 2,745 | No.: (11,080) | No.: (25,928) | No.: (15,835) |
| Surplus / (deficit) of insurance operations | No.: (23,124) | 10,158 | No.: (61,428) | 35,809 | 111,982 |
| Shareholders' share of surplus insurance | No.: (23,124) | 9,142 | No.: (61,428) | 32,228 | 100,784 |

Board of Directors' Report for the Year 2020

| | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| operations | (23,124) | | (61,428) | | |
| Policyholders' share of surplus insurance operations | - | 1,016 | - | 3,581 | 11,198 |
| The surplus accumulated at the beginning of the year | 37,053 | 36,037 | 36,037 | 32,456 | 21,258 |
| Accumulated surplus at the end of the year | <u>37,053</u> | <u>37,053</u> | <u>36,037</u> | <u>36,037</u> | <u>32,456</u> |

Surplus / (deficit) of operational insurance operations:

The net deficit from operational insurance operations amounted to 23,124 thousand riyals in 2020, compared to a surplus of 10,158 thousand riyals for the previous year 2019.

| Statement of shareholder operations for the year ended December 31 (In thousands of riyals) | 2020 A.D | 2019 A.D | 2018 A.D | 2017 A.D | 2016 A.D |
|--|------------------|-------------|------------------|-----------------|-----------------|
| Revenues | | | | | |
| Shareholders' share of surplus (deficit) of operations | No.: (23,124) | 9,142 | No.: (61,428) | 32,228 | 100,784 |
| Commission income | - | - | 6,921 | 5,602 | 3,730 |
| Investment income | 5,973 | 6,568 | No.: (2,421) | 733 | 288 |
| Realized gains / (losses) on investments | 4,246 | 1,757 | - | No.: (2,729) | No.: (2,729) |
| Amortization of held-to-maturity investments | | 175 | 188 | 188 | 17 |
| Total revenue | No.: (12,905) | 17,642 | No.: (56,740) | 38,751 | 102,090 |
| Expenses | | | | | |
| General and administrative expenses | 1,534 | 1,220 | 2,207 | 1,001 | 1,153 |
| Remuneration of directors | 1,441 | 883 | 1,225 | 1,142 | 1,169 |
| Total expenses | 2,975 | 2,103 | 3,432 | 2,143 | 2,322 |
| Net profit for the year / (loss) | No.: (15,880) | 15,539 | No.: (60,172) | 36,608 | 99,768 |
| Weighted average number of ordinary shares outstanding in thousands | 40,000 | 40,000 | 40,000 | 40,000 | 49,000 |
| Profit / (loss) per share for the year (in Saudi riyals) | No.: (0.40) | 0.39 | No.: (1.5) | 0.92 | 2.04 |

Board of Directors' Report for the Year 2020

Net income / (loss):

- The net loss before zakat and income tax for the year 2020 amounted to 15,880 thousand riyals compared to a net profit of 15,539 thousand riyals for the previous year 2019 AD, and the loss per share was 0.40 riyals compared to a profit of 0.39 riyals for the previous year.
- The net loss after zakat and income tax for the year 2020 amounted to 43,880 thousand riyals compared to a net profit of 7,539 thousand riyals for the previous year 2019, and the loss per share was 1.10 riyals compared to 0.19 riyals profit for the previous year.

| Statement of comprehensive shareholder operations as of December 31 (In thousands of riyals) | 2020 A.D | 2019 A.D | 2018 A.D | 2017 A.D | 2016 A.D |
|---|------------------|---------------|------------------|---------------|-----------------|
| Net profit for the year / (loss) | No.: (43,880) | 7,539 | No.: (64,172) | 36,608 | 99,768 |
| Change in fair value of available-for-sale investments | 1,383 | 7,896 | 935 | 1,849 | No.: (1,598) |
| Profits / (losses) of available-for-sale investments | - | No.: (311) | 2,431 | No.: (949) | 2,729 |
| Total comprehensive income for the year / (losses) | No.: (42,497) | 15,124 | No.: (60,806) | 37,508 | 100,899 |

Geographical distribution of subscribed premiums during the last five fiscal years ending on December 31:

The company's activity is concentrated in the Kingdom of Saudi Arabia only. The following are data of total subscribed premiums by geographical sectors for the different reporting periods for the last five years ending on December 31 (in thousands of riyals):

| Geographical sectors | 2020 A.D | 2019 A.D | 2018 A.D | 2017 A.D | 2016 A.D |
|-----------------------------|-------------|----------|----------|----------|----------|
| Western Region | 407,671 | 370,955 | 317,388 | 470,313 | 527,742 |
| Central Region | 120,598 | 40,273 | 41,788 | 65,916 | 176,010 |
| Eastern Region | 21,228 | 6,632 | 10,951 | 14,597 | 28,313 |
| Others - within the kingdom | 67,364 | 2,432 | 21,841 | 29,739 | 87,530 |
| Total | 616,861 | 420,292 | 391,968 | 580,565 | 819,595 |

Board of Directors' Report for the Year 2020

Statement of cash flows for insurance operations as of December 31 (in thousands of riyals)

| | 2020 A.D | 2019 A.D | 2018 A.D | 2017 A.D | 2016 A.D |
|---|---------------|---------------|---------------|---------------|---------------|
| Cash flow from operating activities | | | | | |
| Net surplus for the year from insurance operations | | 1,016 | - | 3,581 | 11,198 |
| Adjustments for movement in the provision for doubtful premiums | 5,823 | No.: (2,745) | 10,976 | 25,928 | 14,712 |
| Adjustments to the movement of the allowance for doubtful reinsurance receivables | - | - | - | - | 1,123 |
| Adjustments for: Depreciation | 2,736 | 2,024 | 1,329 | 1,530 | 1,902 |
| Depreciation of right-of-use assets | 2,052 | | | | |
| Financing cost on leasing liabilities | 187 | | | | |
| Employees' end of service gratuities | 4,077 | 5,650 | 2,426 | 2,037 | 2,570 |
| Realized gains on available for sale investments | - | No.: (4,346) | 511 | No.: (210) | No.: (490) |
| Other provisions and reserves that are no longer intended | - | No.: (111) | No.: (205) | No.: (193) | No.: (1) |
| Changes in operating assets and liabilities: | | | | | |
| Net premium receivables | No.: (42,977) | No.: (29,971) | 72,909 | No.: (65,705) | 58,977 |
| Receivables from reinsurers | - | - | - | - | 1,783 |
| Prepaid expenses and other receivables | No.: (30,764) | 9,138 | 6,821 | No.: (21,831) | 9,829 |
| Premium deficiency reserve | 6,988 | 2,306 | 12,888 | No.: (572) | - |
| The costs of acquiring deferred insurance policies | No.: (6,201) | No.: (745) | 4,602 | 425 | 13,824 |
| Unearned commission income | 7,225 | 8,474 | No.: (12,165) | 600 | No.: (4,300) |
| Reinsurers' share of unearned premiums | No.: (71,684) | No.: (43,164) | 110,042 | No.: (19,886) | No.: (10,656) |
| Reinsurers' share of outstanding claims | No.: (9,522) | 65,344 | 68,099 | 29,792 | No.: (15,928) |
| Existing risks reserve | - | - | - | No.: (2,576) | No.: (3,493) |
| Claims processing reserve | - | - | - | - | 588 |
| Other technical reserves | 3,774 | No.: (26,935) | 29,614 | No.: (2,332) | 718 |
| Unearned premiums | 139,359 | 22,042 | No.: (12,165) | No.: (2,332) | No.: (4,300) |

Board of Directors' Report for the Year 2020

| | | | | | |
|---|------------------|----------------|---------------|------------------|------------------|
| | | | (129,323) | (24,388) | (297,029) |
| Under-settled claims | 3,345 | No.: | No.: | No.: | No.: |
| | | (91,742) | (83,498) | (156,587) | (31,111) |
| | | |) |) | |
| Due to reinsurers | No.: | 56,186 | No.: | 51,081 | No.: |
| | (21,973) | | (55,918) | | (24,219) |
| Required to insurance policy holders | No.: | No.: | 10,184 | No.: | No.: |
| | (8,023) | (5,942) | | (2,550) | (18,124) |
| Accrued expenses and other liabilities | No.: | 11,704 | No.: | 43,540 | 15,609 |
| | (21,424) | | (41,492) | | |
| Due from shareholders' operations | - | - | - | - | 120,217 |
| Due to shareholder operations | No.: | 28,793 | 41,756 | 12,622 | - |
| | (818) | | | | |
| Net cash available from operating activities | No.: | <u>6,976</u> | <u>49,556</u> | No.: | No.: |
| | <u>(37,820)</u> | | | <u>(121,973)</u> | <u>(152,301)</u> |
| Investment activities | | | | | |
| Purchase of furniture, fixtures and equipment | No.: | No.: | No.: | No.: | No.: |
| | (6,074) | (7,201) | (564) | (1,229) | (1,670) |
| Proceeds from disposal of property and equipment | - | 71 | | | |
| Purchase of available-for-sale investments | No.: | No.: | - | No.: | No.: |
| | (111,142) | (20,000) | | (122,405) | (120,961) |
| Term deposits | 840 | No.: | - | 136,070 | No.: |
| | | (23,496) | | | (21,770) |
| Proceeds from the sale of available for sale investments | - | 184,490 | 180 | 91,755 | 76,892 |
| Net cash used in investing activities | No.: | <u>133,864</u> | No.: | <u>104,191</u> | No.: |
| | <u>(120,974)</u> | | <u>(384)</u> | | <u>(67,509)</u> |
| Paying the lease liabilities | No.: | | | | |
| | (3,398) | | | | |
| The increase (decrease) in cash and cash equivalents | No.: | 127,722 | 44,524 | No.: | No.: |
| | (164,843) | | | (17,783) | (219,810) |
| |) | | | | |
| Cash and cash equivalents at the beginning of the year - period | 216,199 | 88,477 | 43,953 | 61,736 | 281,546 |
| Cash and cash equivalents at the end of the year - period | <u>51,356</u> | <u>216,199</u> | <u>88,477</u> | <u>43,953</u> | <u>61,736</u> |
| Non-cash transactions | | | | | |
| Net change in fair value of available for sale investments | 3,719 | 101 | 322 | - | - |
| Profits of re-measurement of defined employee benefit obligations | 613 | 1,075 | - | - | - |

Board of Directors' Report for the Year 2020

| Statement of cash flows from shareholders' operations as of December 31 (in thousands of riyals) | 2020 A.D | 2019 A.D | 2018 A.D | 2017 A.D | 2016 A.D |
|--|-------------------|------------------|------------------|------------------|-------------------|
| Cash flow from operating activities | | | | | |
| Net profit for the year / period | No.: (15,880) | 15,539 | No.: (60,172) | 36,608 | No.: (99,768) |
| Adjustments for: | | | | | |
| Realized gain (loss) on available-for-sale investments | No.: (4,246) | No.: (1,757) | 2,430 | No.: (949) | 2,729 |
| Amortization of held-to-maturity investments | - | No.: (175) | No.: (188) | No.: (188) | No.: (17) |
| | No.: (20,126) | 13,607 | No.: (57,930) | 35,471 | 102,480 |
| Changes in operating assets and liabilities: | | | | | |
| Prepaid expenses and other assets | 33 | 307 | No.: (107) | 34 | 146 |
| Returns due for a statutory deposit | No.: (1,080) | No.: (1,189) | No.: (1,187) | No.: (206) | No.: (785) |
| A statutory deposit | | - | - | - | No.: (24,500) |
| Net premium receivables | | - | - | - | - |
| Due from insurance operations | 818 | No.: (28,793) | 41,756 | 12,622 | - |
| Due to insurance operations | | - | No.: (41,756) | No.: (12,622) | No.: (120,217) |
| Due from (to) a related party | | - | - | - | - |
| Accrued expenses and other liabilities | 314 | No.: (63) | No.: (57) | 230 | No.: (4) |
| Cash collected from operations | | - | - | - | - |
| Zakat and income tax paid | No.: (35,186) | No.: (1,552) | | No.: (2,973) | - |
| Commissions owed on a statutory deposit of SAMA | 1,080 | 1,189 | 1,187 | 206 | 785 |
| Net cash used in operating activities | No.: (54,147) | (16,494) | No.: (99,850) | 23,113 | No.: (42,095) |
| Investment activities | | | | | |
| Term deposits | | - | - | 74,600 | 71,200 |
| Purchase of held-to-maturity investments | | | - | No.: (2,063) | No.: (96,181) |
| Purchase of available-for-sale investments | No.: (388,759) | No.: (23,576) | - | No.: (70,000) | No.: (16,036) |

Board of Directors' Report for the Year 2020

| | | | | | |
|--|---------------|--------|---------------|--------|---------------|
| Proceeds from the sale of available for sale investments | No.: (61,831) | 66,968 | 11,283 | 70,898 | 64,971 |
| Net cash available (used) in investing activities | 23,072 | 43,392 | 11,283 | 73,435 | 23,954 |
| Financing activities | | | | | |
| Proceeds from the issuance of share capital | - | 13,500 | - | - | - |
| Net cash used in financing activities | - | 13,500 | - | - | - |
| The net increase (decrease) in cash and cash equivalents | No.: (31,075) | 40,398 | No.: (93,787) | 93,575 | No.: (18,141) |
| Cash and cash equivalents at the beginning of the year | 41,454 | 1,056 | 94,843 | 1,268 | 19,409 |
| Cash and cash equivalents at the end of the year | 10,379 | 41,454 | 1,056 | 94,843 | 1,268 |
| Net change in fair value of available for sale investments | 1,383 | 7,585 | 654 | 494 | - |

Statement of operating profits and losses and accumulated surplus by sectors for the year 2020 (in thousands of riyals):

| Description | Medical | Vehicles | Power | Engineering | Others | Total |
|----------------------------------|---------------|---------------|----------------|----------------|---------------|----------------|
| Insurance operations | | | | | | |
| Revenues | | | | | | |
| Gross premiums subscribed | 41,509 | 234,595 | 121,539 | 120,102 | 99,116 | 616,861 |
| Minus Net reinsurance premium | No.: (19,077) | No.: (69,758) | No.: (119,446) | No.: (115,527) | No.: (87,493) | No.: (411,301) |
| Surplus premiums | - | () 2,346 | - | - | No.: (3,107) | No.: (5,453) |
| Net subscribed premiums | 22,432 | 162,491 | 2,093 | 4,575 | 8,516 | 200,107 |
| Change in unearned premiums | No.: (4,604) | No.: (62,903) | - | 368 | No.: (536) | No.: (67,675) |
| Net insurance premiums earned | 17,828 | 99,588 | 2,093 | 4,943 | 7,980 | 132,432 |
| Reinsurance commissions earned | - | 9,725 | 1,776 | 15,266 | 13,105 | 39,872 |
| Total revenue | 17,828 | 109,313 | 3,869 | 20,209 | 21,085 | 172,304 |
| Costs and expenses | | | | | | |
| Total claims paid | 22,097 | 114,994 | - | 5,076 | 9,290 | 151,457 |
| Reinsurers' share of claims paid | No.: (11,459) | No.: (37,036) | - | No.: (3,832) | No.: (7,254) | No.: (59,581) |

Board of Directors' Report for the Year 2020

| | | | | | | |
|--|--------------|--------------|-------|------------|------------|---------------|
| Net claims paid | 10,638 | 77,958 | - | 1,244 | 2,036 | 91,876 |
| Change in net outstanding, incurred and unreported claims | No.: (1,329) | No.: (4,257) | - | No.: (349) | No.: (242) | No.: (6,177) |
| Net claims incurred | 9,309 | 73,701 | - | 895 | 1,794 | 85,699 |
| Insurance policy acquisition costs | 1,916 | 8,494 | - | 2,445 | 3,666 | 16,521 |
| Premium deficiency reserve | No.: (5,343) | 12,286 | - | - | 45 | 6,988 |
| Other technical reserves | No.: (2,416) | 4,222 | 506 | 782 | 680 | 3,774 |
| Other subscription expenses | 660 | 656 | 608 | 450 | 413 | 2,790 |
| Total costs and expenses | 4,126 | 99,362 | 1,114 | 4,572 | 6,598 | 115,772 |
| Net results of insurance operations | 13,702 | 9,951 | 2,755 | 15,637 | 14,487 | 56,532 |
| General and administrative expenses (unallocated) | | | | | | No.: (86,806) |
| Provision for doubtful debts | | | | | | No.: (5,823) |
| Remuneration for members of the Board of Directors | | | | | | (1,441) |
| Amortization of investments to maturity | | | | | | - |
| Distributions income | | | | | | - |
| Income from investments | | | | | | 10,382 |
| Realized gain / (loss) on investments | | | | | | 4,246 |
| Other income | | | | | | 7,030 |
| Net income / (loss) for the year 2020 | | | | | | No.: (15,880) |
| Net income / (loss) for the year 2020 assigned to shareholders | | | | | | No.: (15,880) |

Fifth - commitments and disclosures according to statutory regulations:

- Disclosure according to the executive regulations:

The company is bound by the rules and regulations applicable in the Kingdom of Saudi Arabia, which include the following:

- Rules for registration and listing of the Market Behavior Regulations issued by the Capital Market Authority
- Regulations for the Cooperative Insurance Companies Control Law issued by the Central Bank of Saudi Arabia.
- The Regulation for Insurance Market Conduct issued by the Central Bank of Saudi Arabia.
- Anti-money laundering rules for insurance companies issued by the Central Bank of Saudi Arabia.
- Regulations for combating fraud in insurance companies issued by the Central Bank of Saudi Arabia.
- The executive regulations of the Cooperative Health Insurance Law issued by the Council of Cooperative Health Insurance.
- The unified document issued by the Cooperative Health Insurance Council.
- Rules for Zakat and Income Tax issued by the General Authority of Zakat and Tax.
- The requirements of the compulsory third-party liability insurance law arising from motor vehicle accidents.

According to Paragraph (22) of Article (27) of the Registration and Listing Rules, the company acknowledges that:

1. The account records have been properly prepared.
 2. The internal control system was prepared on a sound basis and was effectively implemented.
 3. There is no doubt about the company's ability to continue its activity.
- Governance system: The company has its own governance regulation that is updated and revised permanently, which sets the rules and standards that regulate the performance of the company and is in full compliance with the regulations issued by the Capital Market Authority and the Saudi Arabian Monetary Authority regulations and the law issued in the Kingdom of Saudi Arabia. All provisions of these bylaws have been complied with, including the cumulative vote based on the number of shares owned by the shareholder, as each share represents one vote in electing members of the Board of Directors.
 - Regulatory penalties, a fine was imposed on the company in the amount of 120,000 Saudi riyals paid directly to the account of the Central Bank of Saudi Arabia for the following reasons:

Board of Directors' Report for the Year 2020

- The company received an email from the Central Bank of Saudi Arabia on 02/28/1442 AH, corresponding to 06/09/2020 AD, which includes imposing a fine of 20,000 Saudi riyals due to:
 1. The absence of screening points at the entrance to the company to measure the temperature of each of the company's employees.
 2. Failure to provide the necessary precautions for masks.
 3. Failure to provide the necessary precautions for sterilizers.
 4. Failure to set a limit on the number of clients that can be served simultaneously.

The concerned department has been directed to adhere to the precautionary measures related to combating Coronavirus.

- The company received a letter dated 01/03/1442 AH corresponding to 18/10/2020 AD containing the imposition of a fine on the company in the amount of 100,000 Saudi riyals due to:
 1. Failure to submit a failure to provide evidence that the audit committee has assessed the level of efficiency, effectiveness and objectivity of the work of the external auditors, the internal audit department and the compliance department.
 2. The internal audit department's deficiency in implementing the audit plan for the year 2019.
 3. The position of one of the members of the risk management committee has become vacant, which led to the failure to meet the minimum number of members to form the committee.

The audit committee, the risk committee and the internal control departments of the company have been directed to work on correcting the observations.

- No other penalty, fine or statutory reserve restriction was imposed by the Capital Market Authority or any other supervisory, regulatory or judicial authority, other than the aforementioned.
- The company applies all the provisions issued in the Corporate Governance Regulations.
- Unless applied from the Corporate Governance Regulations and the reasons for that:

| Article No. | The provision of the article / paragraph | Reasons for not applying |
|-------------|--|--------------------------|
| N / A | N / A | N / A |

Sixth - Transactions with related parties:

The following table shows the important transactions that took place between the company and the relevant authorities for the members of the Board of Directors to have a personal interest in it and the value of these transactions during the year ending in 2020

(in thousands of riyals)

| The contracting party | Term of the contract | The nature of the transaction | Balance at December 31, 2020 | Balance at December 31, 2019 | The name of the beneficiary | Capacity |
|-----------------------|----------------------|-------------------------------|------------------------------|------------------------------|-----------------------------|----------|
| Al Hussain Haj Ali | Multiple insurance | Subscribed premiums | 5,650 | 8,761 | Khaled Hussein Ali | Director |

Board of Directors' Report for the Year 2020

| | | | | | | |
|---------------------|-------------------------------|-------------|--------------|--------------|----------|--|
| Reda & Partners Co. | policies for multiple periods | Paid claims | No.: (7,818) | No.: (8,069) | Ali Rida | |
|---------------------|-------------------------------|-------------|--------------|--------------|----------|--|

Seventh - Zakat, income tax, statutory payments and debts:

1- Due and paid statutory payments:

(In thousands of riyals)

| Party | Description | 2020 A.D | 2019 A.D | 2018 A.D | 2017 A.D | 2016 A.D |
|------------------------------------|-------------------------------------|----------|----------|----------|----------|----------|
| General Authority of Zakat and Tax | Cumulative reserve | 21,750 | 28,936 | 22,488 | 23,708 | 20,681 |
| Council of Cooperative Insurance | Subscription fee (paid) | 494 | 399 | 889 | 711 | 1,006 |
| Saudi Central Bank | Supervision and control fees (paid) | 2,296 | 2,150 | 2,389 | 2,802 | 5,618 |
| The Saudi Stock Exchange (Tadawul) | Subscription fee (paid) | 315 | 315 | 315 | 300 | 300 |

2 - Debts:

An amount of 10.28 million Saudi riyals was calculated as the end-of-service gratuity provision for employees in accordance with the terms and conditions of the Ministry of Labor system in the Kingdom of Saudi Arabia. The employees' end of service gratuity is calculated based on the employees' last salaries, allowances and their accumulated years of service as indicated by the conditions mentioned in the labor law in the Kingdom of Saudi Arabia.

There are no debt instruments convertible into shares, nor are there any option rights, subscription rights notes, or similar rights issued or granted by the issuer during the fiscal year, or any refund, purchase or cancellation by the issuer of any recoverable debt instruments.

Eighth - Dividend Policy:

Board of Directors' Report for the Year 2020

The company's policy regarding the distribution of profits is based on Article (9) of the Company's Articles of Association, which states:

"In the event that the company achieves profits, it is permissible to distribute a percentage equivalent to (10%) of the remaining net profit after deducting the reserves decided by the General Meeting in implementation of the provisions of the Cooperative Insurance Companies Control Law and after distributing a profit to the shareholders of not less than (5%) of the company's capital, provided that the entitlement to this bonus is proportional to the number of sessions that the member attends". Article (45) states:

1. Set aside zakat and assessed income tax.
2. Set aside 20% of the net profits to form a statutory reserve, and the Ordinary General Meeting may stop this deduction when the aforementioned reserve reaches the total paid capital.
3. The Ordinary General Meeting may, based on the proposal of the Board of Directors, set aside a percentage of the net annual profits to form an additional reserve and allocate it to one or more specific purposes decided by the General Meeting.
 - Dividend distribution is subject to leverage margin considerations and approval from the Saudi Central Bank.
 - It should be noted that no a single shareholder of the company has waived any rights to dividends.

Board of Directors' Report for the Year 2020

Ninth - Board of Directors:

The Board of Directors of the company was elected for the fourth session through cumulative voting in the general meeting of shareholders held on December 14, 2017 AD for a period of three years ending on December 13, 2020 AD consisting of the following members:

| Membership category | Name: | Resigned members | New members |
|-------------------------|----------------------------------|----------------------------------|---|
| Non-independent members | Khaled Hussein Ali Reda | Omar Nasser Omar Makharesh | Bahaa El-Din Omar Khashoggi Faisal Hussain Badran Khaled Bakr Alem |
| | Jack George Sassy | | |
| | Karim Marawan Ali Hamada | | |
| | Bahaa El-Din Omar Khashoggi | | |
| Independent members | Omar Nasser Omar Makharesh | | |
| | Khaled Ahmed Abdulaziz Al-Hamdan | | |

It should be noted that not all independent members practice any executive work in the company and there are no executive members.

| Names of the members | Current jobs | Previous experiences, qualifications and positions |
|-------------------------|--|---|
| Khaled Hussein Ali Reda | Director of Financial Planning, Chairman of the Board of Directors of Haji Hussain Alireza & Co., and a member of the Board of Directors of Al Wasila Car Rental Company | He has held a BA in Business Administration from the University of California in 1990 and a Masters in Marketing from Pepperdine University in the United States of America in 1994. He held several administrative positions, including a member of the Board of Directors of Natco Computer Systems Company, a member of the Board of Directors of Haji Husein Alireza & Partners Co., and a member of the Board of Directors of Al Wasila Car Rental Company (Hertz) in the Kingdom of Saudi Arabia. |
| Jack George Sassy | Executive Director of UCA Insurance Company Bahrain | He has held a Bachelor of Laws from Saint Joseph University in Lebanon in 1973 and several training courses in insurance and |

Board of Directors' Report for the Year 2020

| | | |
|----------------------------------|---|---|
| | | reinsurance and has more than forty years of practical experience in management and insurance. He held the position of a member of the Board of Directors of the United Commercial Insurance Company in Lebanon. |
| Karim Marawan Ali Hamada | Manager of Marketing and Public Relations | He has held a Bachelor of Science in Political Science and Public Administration from the American University in Lebanon in 1988, and has practical experience of more than twenty-five years in management, public relations and marketing. He is a member of the Board of Directors of the United Commercial Company for Insurance in Lebanon. |
| Omar Nasser Omar Makharesh | CEO of Makharesh Office for Financial and Management Consulting | He has held a Bachelor's degree in Business Administration from Boston University in 1981, the General Certificate in Securities Dealings, CME1, Certificate of Conformity, Compliance Test, Anti-Money Laundering and Combating Terrorism Financing CME2 from the Institute of Banking. He has more than 35 years of practical experience in management, during which he held the position of Regional Director at Rasmala Company and Senior Manager in Corporate Management at Saudi Hollandi Bank. |
| Khaled Ahmed Abdulaziz Al-Hamdan | Member of the Board of Directors of the Counselor Ahmed Abdulaziz Al-Hamdan Group | He has held a BA in Business Administration from Cairo University in 2002. He participated in the membership of the boards of several companies in the Kingdom of Saudi Arabia, namely Al-Watan Newspaper, the Saudi Arabian Refineries Company, Onaizah Investment Company, Al-Qassim Development Company, Al-Baha Investment Company and Al-Wasatah Capital by providing consultations. He is the Chairman of the Commercial Committee of the Jeddah Chamber and Vice President of the Ahmed Al-Hamdan Development Group. |

Board of Directors' Report for the Year 2020

| | | |
|-----------------------------|--|--|
| Bahaa El-Din Omar Khashoggi | Director of Corporate Banking Group Saudi Fransi Bank | He has held a Bachelor's degree in Business Administration majoring in Accounting and Finance from the University of Texas in the United States of America. He has more than 18 years of experience in the field of management and corporate banking at Banque Saudi Fransi, which has earned him extensive experience in the field of management. |
| Faisal Hussain Badran | Partner at CDR Capital | He has held a Bachelor's degree in Economics and has more than thirty years of experience in the field of management and executive positions and is currently working as a partner in CDR Capital since 2016. |
| Khaled Bakr Alem | Vice CEO International Medical Center | He has held an Arab Board Certificate in Family Medicine with more than fourteen years of experience. He held several administrative positions and is currently the Vice President at the International Medical Center since 2013. |

A description of any interest of board members and their spouses and minor children in the shares or debt instruments of the company or any of its subsidiaries:

| Name of a director | Capacity | Balance at the start of the period 2020 | Balance at the end of the period 2020 | The net change in the number of shares | The percentage change in the number of shares |
|--|--------------------|---|---------------------------------------|--|---|
| Khaled Hussain Ali Rida (Chairman of the Board of Directors) | Non-executive | 48,571 | 48,571 | N / A | N / A |
| Jack George Sassy | Non-executive | N / A | N / A | N / A | N / A |
| Karim Marawan Ali Hamada | Non-executive | N / A | N / A | N / A | N / A |
| Omar Nasser Omar Makharesh (Vice President) | Independent member | 2,955 | 5 | 2,950 | 99.83% |

Board of Directors' Report for the Year 2020

| | | | | | |
|----------------------------------|--------------------|-------|-------|-------|-------|
| Khaled Ahmed Abdulaziz Al-Hamdan | Independent member | N / A | N / A | N / A | N / A |
| Bahaa El-Din Omar Khashoggi | Non-executive | N / A | N / A | N / A | N / A |

On Sunday 08/29/1441 AH, corresponding to 04/22/2020 AD, the member of the Board of Directors, Mr. Omar Nasser Omar Makhareh, submitted his resignation from his position as an independent deputy board member. The reasons for his resignation are based on what he sees in the presence of observations that may harm the company, and the failure of the board of directors to take the necessary corrective decisions. The company's board of directors has reservations about the reason for the resignation, and confirms that the board follows and applies the applicable regulations and relevant instructions and applies all the policies approved by the company's general meeting and its board of directors according to the regulations. Concerning the observations of the independent member, the Board assigned the Audit Committee to research the notes of Mr. Omar Makhareh, who submitted according to its confirmed report that the company is on the right track and that the company's policies are in line with the relevant regulations and instructions, as the report was presented to the members of the Board in the presence of the resigning member, and no comments were made about the report.

The Board of Directors approved this resignation on 04/09/1441 AH corresponding to 04/27/2020 AD, provided that it shall take effect from 04/09/1441 AH corresponding to 04/27/2020 AD. The Board of Directors approved the appointment of Mr. Bahaa Al-Din Omar Khashoggi (non-executive member) to the company's board of directors, according to the decision of the board held on 07/03/1441 AH corresponding to 04/11/2019 AD. The appointment of Mr. Bahaa Al-Din Omar Khashoggi was approved in the meeting held on 20/05/2020.

The Board of Directors approved the appointment of Mr. Faisal Hussain Badran (Independent Member) and Mr. Khaled Bakr Alem (Independent Member) in the Board of Directors of the company, according to the decision of the Board held on 15/12/1441 AH corresponding to 05/08/2020 AD. The appointment of Mr. / Faisal Hussein Badran and Mr. / Khaled Bakr a scientist in the meeting held on 09/28/2020 was approved.

The Board of Directors held (7) meetings during the period from January 1, 2020 to December 31, 2020, as follows:

| Name of a director | Meetings and their dates during the year 2020 | | | | | | |
|--------------------|---|-------|-------|-------|-------|-------|-------|
| | No. 1 | No. 2 | No. 3 | No. 4 | No. 5 | No. 6 | No. 7 |
| | 24/02 | 27/04 | 04/05 | 08/06 | 12/07 | 26/07 | 10/09 |

Board of Directors' Report for the Year 2020

| | | | | | | | |
|---|---------|-------------|---------|---------|---------|---------|---------|
| Khaled Hussein Ali Reda | Present | Present | Present | Present | Present | Present | Present |
| Jack George Sassy | Present | Present | Present | Present | Present | Present | Present |
| Karim Marawan Ali Hamada | Present | Present | Present | Present | Present | Present | Present |
| Omar Nasser Omar Makharesh | Present | Resignation | | | | | |
| Khaled Ahmed Abdulaziz Al-Hamdan | Present | Present | Present | Present | Present | Present | Present |
| Bahaa El-Din Omar Khashoggi | Present | Present | Present | Present | Present | Present | Present |
| Faisal Hussain Badran | | | | | | | Present |
| Khaled Bakr Alem | | | | | | | Present |

As for debt instruments, there is no balance for them at the beginning or end of the year 2020 AD or any dealings with them for members of the board of directors and their spouses and minor children. Through holding board meetings, the topics that are included in the agenda items are studied and discussed and final decisions are taken in them if required. It is also planned to improve their work performance during training sessions by third parties.

Benefits and rewards for members of the Board of Directors and senior executives:

Based on what is stipulated in the articles of association of the company, the remuneration of the members of the board of directors shall be a certain amount, an attendance allowance for sessions, benefits in rem, or a certain percentage of the net profits, while it is permissible to combine two or more of these benefits. The total remuneration and financial or in-rem benefits and remuneration a member of the Board of Directors receives does not exceed an annual amount of five hundred thousand riyals.

| Names of the members | Fixed rewards (amounts in thousands of riyals) | | | |
|----------------------------------|--|--|--|------------|
| | Annual bonus | Total allowance for attending the board sessions | Total allowance for attending committee sessions | Total |
| Independent members | | | | |
| Omar Nasser Makharesh | 60 | 3 | 4.5 | 67.5 |
| Khaled Ahmed Abdulaziz Al-Hamdan | 240 | 18 | 13.5 | 271.5 |
| Total | 300 | 21 | 18 | 339 |

Board of Directors' Report for the Year 2020

| | | | | |
|-------------------------|-----|----|-----|--------------|
| Khaled Hussein Ali Reda | 300 | 18 | 4.5 | 322.5 |
| Jack George Sassy | 180 | 12 | 4.5 | 196.5 |
| Karim Marawan | 180 | 12 | 4.5 | 196.5 |
| Hamadeh | | | | |
| Bahaa El-Din Omar | 180 | 18 | 4.5 | 202.5 |
| Khashoggi | | | | |
| Total | 840 | 60 | 18 | 918 |
| Executive members | | | | |
| N/A | - | - | - | - |
| Total | | | | 1,257 |

Hint: The amount of 1,257 thousand riyals includes amounts paid to members of the Board of Directors, including annual remuneration and allowances for attending board and committee meetings. As for the amount of 1,441 thousand riyals, it includes the sums paid to members of the audit committee from outside the board of directors, in addition to the allowances for attending the secretariat of the board and committees, in addition to some other petty cash expenses.

Executive Management:

| Statement | What earned by 5 senior executives, including the CEO and CFO |
|----------------------------------|---|
| Salaries and compensation | 3,885,000 |
| Fixed allowances | 1,079,964 |
| Variable bonuses | 155,988 |
| Performance-based annual bonuses | 733,188 |
| Total | 5,854,140 |

Remuneration of committee members:

It should be noted that committee members do not receive any fixed remuneration for committee membership, but an attendance allowance of 1.5 thousand riyals is calculated for each session in the committee for members of the board. An attendance allowance for members of the audit committee from outside the board of directors is calculated at a value of 3 thousand riyals for each session of the audit committee only. (Amounts in thousands of riyals)

| | |
|---------------------------------------|---|
| Members of the Audit Committee | Attendance allowances for the 2020 |
|---------------------------------------|---|

Board of Directors' Report for the Year 2020

| | sessions |
|--|-----------------|
| Khaled Ahmed Al-Hamdan (Chairman of the Committee) | 18 |
| Talal Kamal Al-Jedaibi | 18 |
| Khaled Mohammed Al-Zughaibi | 6 |
| Ali Saad Al-Sheikhi | 15 |
| Total | 57 |

| Executive Committee members | Attendance allowances for the 2020 sessions |
|---|--|
| Khaled Hussain Ali Reda (Chairman of the Committee) | 1.5 |
| Jack George Sassy | 1.5 |
| Omar Nasser Makharesh | 1.5 |
| Total | 4.5 |

| Members of the Nomination and Remuneration Committee | Attendance allowances for the 2020 sessions |
|---|--|
| Omar Nasser Makharesh (Chairman of the Committee) | 1.5 |
| Karim Marawan Hamadeh | 1.5 |
| Khaled Ahmed Al-Hamdan | 1.5 |
| Total | 4.5 |

| Members of the Investment Committee | Attendance allowances for the 2020 sessions |
|---|--|
| Khaled Hussain Ali Reda (Chairman of the Committee) | 1.5 |
| Jack George Sassy | 1.5 |
| Omar Nasser Makharesh | 1.5 |
| Bahaa El-Din Omar Khashoggi (present) | 1.5 |
| Total | 6 |

| Members of the Risk Committee | Attendance allowances for the 2020 sessions |
|---------------------------------------|--|
| Vacant (Chairman of the Committee) | - |
| Karim Marawan Hamadeh | 1.5 |
| Khaled Ahmed Al-Hamdan | 1.5 |
| Bahaa El-Din Omar Khashoggi (present) | 1.5 |
| Total | 4.5 |

Board of Directors' Report for the Year 2020

Description of any interest of senior executives and their spouses and minor children in the shares or debt instruments of the company or any of its subsidiaries:

| Percentage change | Net change | End of the year | | Start of the year | | The name of the beneficiary |
|-------------------|------------|------------------|------------------|-------------------|------------------|-----------------------------|
| | | Debt instruments | Number of Shares | Debt instruments | Number of Shares | |
| N / A | N / A | N / A | N / A | N / A | N / A | N / A |

* There are no variable bonuses paid for long-term incentive plans, bonus shares, or dividends.

* No member of the Board of Directors or senior executives has waived his salary or compensation.

Tenth - Committees:

The company has five committees emanating from the board of directors, which were formed with the beginning of the fourth session of the board of directors on December 18, 2017, while the approval of the regulatory authorities to form them was obtained in February 2018 to start the tasks assigned thereto. Each committee submits its recommendations to the Board of Directors within the framework of its competence as follows:

1- Executive Committee:

This committee consults with the chief executive officer in managing the affairs of the company and exercises all the powers decided by the board of directors according to what is stated in the company's articles of association. It follows up the implementation of the board's recommendations with the company's management and submits recommendations for future plans thereto. The following is a table showing the names of the members of the Executive Committee and the number of their meetings during the year 2020:

| Members of the Executive Committee | Capacity | Meeting No. 1 |
|------------------------------------|---------------------------|---------------|
| | | 23/02 |
| Khaled Hussein Ali Reda | Chairman of the Committee | Present |
| Omar Nasser Makharesh | Independent member | Present |
| Jack George Sassy | Non-independent member | Present |

2- Audit Committee:

Members of the Audit Committee (from outside the company) were elected for the fourth session of the Board that began on December 14, 2017 and for a period of three years ending

Board of Directors' Report for the Year 2020

on December 13, 2020 AD at the general meeting of shareholders held on December 14, 2017 AD.

| Names of the members of the Audit Committee | Current jobs | Previous experiences, qualifications and positions |
|---|---|--|
| Talal Kamal Al-Jedaibi | Head of Finance at SEDCO | He has held a bachelor's degree in accounting from King Fahd University of Petroleum and Minerals, and a master's degree in accounting science from the American University in Washington, in addition to a fellowship from the Saudi Organization for Certified Public Accountants. He is currently the Head of Finance and Operations at SEDCO Capital, and he has previously worked in many positions that earned him extensive experience in the field of financial auditing and auditing. |
| Khaled Mohammed Morshed Al Zughaihi | Chief Executive Officer of Al Zughaihi Group for Financial Consulting | He has held a BA in economics and administration in 1983 from East Michigan University, America, and worked as a financial advisor at the Ministry of Commerce in the Kingdom of Saudi Arabia with more than twenty years of practical experience in the field of financial consulting. |
| Ali Saad Ali Al-Sheikhi | Director of Sales Department at Saad Ali Al Shaikhi General Contracting | He has held a Bachelor's degree in Accounting in 2006 from King Abdulaziz University. He has practical experience of more than twelve years working through an external auditor in Zagzoog for Home Appliances, head of accounts at Al Waseela International Company for Advertising, bank accountant and accounts manager at Al Azizia Panda United Company in the Kingdom of Saudi Arabia. |

Among the most important responsibilities of the audit committee approved by the Board of Directors are the following:

- The duties of the audit committee include, but are not limited to, the following:
- Controlling over the internal audit function in the company.
- Recommending to the Board of Directors to approve the appointment or reappointment and dismissal of external auditors, determine their fees and evaluate their performance after verifying their independence and reviewing their work and terms of contracting

Board of Directors' Report for the Year 2020

with them. This includes ensuring that the nominated external auditors have the expertise needed to audit the business of insurance and / or reinsurance companies.

Appointing and dismissing the director of the compliance department or the compliance officer after obtaining a no-objection from the concerned authority in writing.

- Appointing and dismissing the director of the internal audit department or the internal auditor after obtaining a no-objection from the concerned authority in writing.
- Ensuring the independence of the external auditors from the company, the members of its board of directors, and the senior management of the company.
- Ensuring the independence of the internal audit department or the internal auditor in performing their duties, and ensuring that there are no restrictions on their work or the existence of anything that could negatively affect their work.
- Ensuring the independence of the Compliance Department or the Compliance Officer in performing their duties, and ensuring that there are no restrictions on their work or the existence of anything that could negatively affect their work.
- Discussing the initial annual and quarterly financial statements with the external auditors and senior management of the company before issuing the same.
- Studying and reviewing the initial annual and quarterly financial statements, and make recommendations to the Board of Directors in their regard.
- Studying the important accounting policies and procedures and the changes that may occur thereto.
- Studying the reports of the external auditors and make recommendations thereon to the Board of Directors.
- Evaluating the level of efficiency, effectiveness and objectivity of the work of the external auditors, the internal audit department or the internal auditor, as well as the compliance department or compliance officer. Studying the observations of the concerned authority and the relevant supervisory and supervisory authorities regarding any statutory violations or requesting corrective measures and submitting recommendations regarding them to the Board of Directors.
- Studying the observations of the concerned authority and the relevant supervisory and supervisory authorities regarding any statutory violations or requesting corrective measures and submitting recommendations regarding them to the Board of Directors.
- The audit committee reviews the company's financial statements, auditor's reports and notes, and provides its opinion, if any. The committee also prepares a report on its opinion on the efficiency of internal control within the company, and on any other activities within its competence.

This committee held (6) meetings during the year 2020 AD, as shown in the following table:

| Name of the committee member | Capacity | Meeting No. 1 | Meeting No. 2 | Meeting No. 3 | Meeting No. 4 | Meeting No. 5 | Meeting No. 6 |
|------------------------------|----------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | 10/02 | 12/03 | 03/05 | 03/06 | 13/08 | 10/12 |

Board of Directors' Report for the Year 2020

| | | | | | | | |
|-----------------------------|--|---------|---------|---------|---------|---------|---------|
| Khaled Ahmed Al-Hamdan | Chairman of the Committee Independent member | Present | Present | Present | Present | Present | Present |
| Talal Cal Al-Jedaibi | External member | Present | Present | Present | Present | Present | Present |
| Khaled Mohammed Al-Zughaibi | External member | Present | Absent | Absent | Absent | Present | Absent |
| Ali Saad Al-Sheikhi | External member | Absent | Present | Present | Present | Present | Present |

3- Risk Committee:

The formation of the committee and the preparation of its regulations were approved at the general meeting held on December 14, 2017 AD, while one meeting of the committee was held during the year 2020 AD, which contributed to keeping pace with rapid developments that may affect the effectiveness of risk management in the company.

| | Members of the Risk Committee | Capacity | Meeting No. 1 |
|---|-------------------------------|---------------------------|---------------|
| | | | 24/02 |
| 1 | Vacant | Chairman of the Committee | - |
| 2 | Karim Marawan Hamadeh | Non-independent member | Present |
| 3 | Khaled Ahmed Al-Hamdan | Independent member | Present |

4- Nomination and Remuneration Committee:

This committee works according to the law approved by the Board of Directors and is responsible for recommendations for nomination for membership of the Board of Directors and for the annual review of the required needs of appropriate skills for membership of the Board. It also reviews the structure of the Board of Directors and makes recommendations regarding the changes that can be made, in addition to establishing clear policies for the remuneration of the Board of Directors and senior executives. It is taken into account when setting these policies to use performance-related criteria. Below is a table showing the names of the members of the Nomination and Remuneration Committee and their attendance during the year 2020 AD.

Board of Directors' Report for the Year 2020

| Members of the Nomination and Remuneration Committee | Capacity | Meeting No. 1 |
|--|---------------------------|---------------|
| | | 23/02 |
| Omar Nasser Makharesh | Chairman of the Committee | Present |
| Karim Marawan Hamadeh | Independent member | Present |
| Khaled Ahmed Al-Hamdan | Independent member | Present |

5- Investment Committee:

The task of this committee is to analyze and follow up the investment policy, and to choose the most appropriate investment for the company's funds within the rules and controls stipulated by the Monetary Authority with the least possible risk. The investment policy of the company has been prepared and approved by the Board of Directors with full compliance with the executive regulations and regulations issued by the supervisory authorities. Below is a table showing the names of the members of the Investment Committee and the number of their meetings in 2020.

| Members of the Investment Committee | Capacity | Meeting No. No. 1 |
|-------------------------------------|---------------------------|-------------------|
| | | 24/02 |
| Khaled Hussein Ali Reda | Chairman of the Committee | Present |
| Jack George Sassy | Independent member | Present |
| Omar Nasser Makharesh | Non-independent member | Present |
| | Independent member | Present |

Eleventh - Internal Audit Department:

The tasks of the Internal Audit Department include, but are not limited to, the following:

- Examine and evaluate the adequacy and effectiveness of the company's internal control systems according to a methodology that relies on identifying risks and evaluating them in accordance with the applicable standards and based on the internal audit department's regulations approved by the audit committee.
- The Internal Audit Department submits its reports to the Audit Committee, based on the audit plan developed at the beginning of the year under the supervision of the Audit Committee.

Board of Directors' Report for the Year 2020

- Reports shall be sent in its final status to the Audit Committee with a copy to the Executive Management and the concerned departments and to recommend appropriate measures to be taken to address any observations contained in their reports.
- Developing the necessary controls to improve administrative performance and achieving a sound and effective control system, in order to achieve the company's objectives and protect the interests of shareholders and investors with high efficiency.
- Processing the claims payment, settlements and customer service validations.
- The participation of the audit committee in discussing any material observations related to the company's work.

Twelfth - Results of the annual review of the effectiveness and procedures of internal control:

The internal audit department in the company implemented the annual internal audit plan approved by the audit committee, and the reports of the important observations were submitted to the senior management and the audit committee. Accordingly, the executive management developed an action plan to implement and address all observations contained in the internal audit reports. With regard to the results of the annual review of the effectiveness of the company's internal control procedures, the audit committee believes that the internal control system in the company needs to develop some of its components and develop the risk control tools applied to the company to keep pace with the volume of business and the requirements of the company. The executive management of the company was discussed with the notes that were submitted by the internal audit, where the management indicated that a corrective plan had been prepared therefor, and the audit committee will follow up the implementation of the corrective plan during the year 2021 AD.

Thirteenth - Approval to the Financial Statements:

The annual financial statements for the year 2020 AD were approved by the Board of Directors on 08/08/1442 AH corresponding to 21/03/2021 AD. Thus, the Board of Directors extends its sincere thanks and gratitude to all shareholders for their high confidence in the company and those in charge of it, and the Board of Directors also records its appreciation for the management of the company and its employees for their efforts during the period of the subject of this report.