

**AL KOOT INSURANCE & REINSURANCE
COMPANY P.J.S.C.
DOHA - QATAR**

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

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2020

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of Al Koot Insurance & Reinsurance Company P.J.S.C.
Doha, State of Qatar

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Al Koot Insurance & Reinsurance Company P.J.S.C. (the 'Company'), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the applicable provision of Qatar Central Bank regulations ('QCB Regulations').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the Company's financial statements in the State of Qatar, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we considered necessary for the purposes of our audit. The Company has maintained proper accounting records and its financial statements are in agreement therewith. We are not aware of any violations of the Qatar Central Bank rules, the Qatar Commercial Companies Law No. 11 of 2015, and the terms of the Company's Articles of Association and any amendments thereto having occurred during the year which might have had a material effect on the Company's financial position or performance as at and for the year ended 31 December 2020.

26 January 2021
Doha
State of Qatar

Yacoub Hobeika
Qatar Auditor's Registry No. 289
KPMG

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020	2019
		QR	QR
ASSETS			
Cash and cash equivalents	5	77,829,121	30,455,151
Time deposits with maturities in excess of 3 months		85,197,938	181,782,150
Financial investments	6	712,312,835	610,838,195
Insurance and other receivables	7	257,985,365	447,509,849
Reinsurance contract assets	8	806,129,629	929,963,930
Due from related parties	9	37,793,757	30,236,427
Property and equipment	10	160,129,288	156,520,576
TOTAL ASSETS		2,137,377,933	2,387,306,278
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	218,600,000	218,600,000
Legal reserve	12	128,300,994	123,206,812
General reserve	13	150,000,000	150,000,000
Fair value reserve	14	22,474,901	6,429,639
Retained earnings		165,718,027	136,155,767
TOTAL EQUITY		685,093,922	634,392,218
LIABILITIES			
Insurance contract liabilities	8	1,228,652,619	1,317,242,492
Due to insurance and reinsurance companies	15	177,816,444	403,639,979
Other liabilities		25,104,246	25,816,622
Due to related parties	9	13,805,229	242,363
Employees' end of service benefits	16	6,905,473	5,972,604
TOTAL LIABILITIES		1,452,284,011	1,752,914,060
TOTAL EQUITY AND LIABILITIES		2,137,377,933	2,387,306,278

These financial statements were approved by the Board of Directors and signed on their behalf by the following on 26 January 2021.

Mr. Abdulrahman Ali Al-Abdulla
Chairman

Mr. Ahmed Rafee Al-Emadi
Chief Executive Officer



THE ACCOMPANYING NOTES ON PAGES 9 TO 45 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	2020 QR	2019 QR
Gross premiums		1,035,327,081	894,122,134
Reinsurers' share of gross premiums		(593,088,332)	(486,680,299)
Net premiums		442,238,749	407,441,835
Change in unearned premium	8	(28,905,739)	(3,352,021)
Earned insurance premiums		413,333,010	404,089,814
Net commission income / (expense)		1,989,674	(2,290,924)
Brokerage cost		(13,710,634)	(12,105,040)
Total underwriting revenues		401,612,050	389,693,850
Claims paid	17	(698,547,185)	(609,831,897)
Reinsurers' share of claims paid	17	404,176,508	266,796,493
Change in outstanding claims	17	(6,338,689)	(32,229,929)
Net claims incurred	17	(300,709,366)	(375,265,333)
NET UNDERWRITING RESULTS		100,902,684	14,428,517
Interest income		14,487,333	17,719,721
Net (loss) / gain on financial assets at fair value through profit and loss		(7,645,702)	33,309,297
Net gain on sale of financial investments		12,327,012	7,891,646
Dividend income		3,515,177	3,486,157
Profit distribution from managed funds		3,821,782	3,890,973
INVESTMENT AND OTHER INCOME		26,505,602	66,297,794
General and administrative expenses	18	(68,363,340)	(62,233,658)
Provision for impairment loss on financial assets	21	(7,028,756)	(2,522,396)
Total expenses		(75,392,096)	(64,756,054)
PROFIT BEFORE TAX		52,016,190	15,970,257
Income tax expense	19	(1,074,371)	-
PROFIT FOR THE YEAR		50,941,819	15,970,257



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AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	2019
	QR	QR
Profit for the year	<u>50,941,819</u>	<u>15,970,257</u>
Other comprehensive income		
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
Debt investments at FVOCI – net change in fair value	16,057,602	8,285,101
Debt investments at FVOCI – reclassified to profit or loss	(12,340)	1,554,375
	<u>16,045,262</u>	<u>9,839,476</u>
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Funds and equities at FVOCI – net change in fair value	(1,912,146)	-
Other comprehensive income for the year	<u>14,133,116</u>	<u>9,839,476</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>65,074,935</u>	<u>25,809,733</u>



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THE ACCOMPANYING NOTES ON PAGES 9 TO 45 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share Capital QR	Legal reserve QR	General reserve QR	Fair value reserve QR	Retained earnings QR	Total QR
Balance at January 1, 2019	218,600,000	121,609,786	150,000,000	(3,409,837)	121,782,536	608,582,485
<i>Total comprehensive income for the year</i>						
Profit for the year	-	-	-	-	15,970,257	15,970,257
Other comprehensive income for the year	-	-	-	9,839,476	-	9,839,476
<i>Total comprehensive income for the year</i>				9,839,476	15,970,257	25,809,733
<i>Transaction with the owners of the Company, contributions and distributions</i>						
Transfer to legal reserve	-	1,597,026	-	-	(1,597,026)	-
Balance at December 31, 2019	218,600,000	123,206,812	150,000,000	6,429,639	136,155,767	634,392,218
Balance at January 1, 2020	218,600,000	123,206,812	150,000,000	6,429,639	136,155,767	634,392,218
<i>Total comprehensive income for the year</i>						
Profit for the year	-	-	-	-	50,941,819	50,941,819
Other comprehensive income for the year	-	-	-	14,133,116	-	14,133,116
<i>Total comprehensive income for the year</i>				14,133,116	50,941,819	65,074,935
<i>Transaction with the owners of the Company, contributions and distributions</i>						
Transfer to legal reserve	-	5,094,182	-	-	(5,094,182)	-
Dividend (Note 11)	-	-	-	-	(14,373,231)	(14,373,231)
<i>Other transactions</i>						
Disposal of funds and equities at FVOCI reclassified to retained earnings	-	-	-	1,912,146	(1,912,146)	-
Balance at December 31, 2020	218,600,000	128,300,994	150,000,000	22,474,901	165,718,027	685,093,922

THE ACCOMPANYING NOTES ON PAGES 9 TO 45 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 QR	2019 QR
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		52,016,190	15,970,257
<i>Adjustments for:</i>			
Interest income		(14,487,333)	(17,719,721)
Depreciation	10	3,224,341	939,404
Net (loss) / gain on financial assets at fair value through profit or loss		7,645,702	(33,309,297)
Provision for expected credit loss	21	7,028,756	2,522,396
Provision for employees' end of service benefits	16	1,614,080	703,539
Net gain on disposal of financial investments		(12,327,012)	(7,891,646)
Profit distribution from managed funds		(3,821,782)	(3,890,973)
Dividend income		(3,515,177)	(3,486,157)
		<u>37,377,765</u>	<u>(46,162,198)</u>
Changes in			
Insurance and other receivables		189,435,129	(266,285,435)
Reinsurance contract assets		123,834,301	(337,398,313)
Due from related parties		(7,998,277)	5,229,276
Insurance contract liabilities		(88,589,873)	372,980,263
Due to insurance and reinsurance companies		(225,823,535)	244,844,979
Other liabilities		(712,376)	(3,781,060)
Due to related parties		12,488,495	(617,367)
Cash from / (used) in operating activities		<u>40,011,629</u>	<u>(31,189,855)</u>
Employees' end of service benefits paid		(681,211)	(654,654)
Net cash from / (used) in operating activities		<u>39,330,418</u>	<u>(31,844,509)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Movement in fixed deposits with maturities of more than 3 months		96,810,026	63,646,570
Proceeds from disposal of financial investments		437,263,653	166,292,729
Purchase of financial investments		(528,453,852)	(236,771,123)
Interest received		16,171,802	18,895,318
Purchase of property and equipment		(6,833,053)	(18,793,014)
Profit distribution from managed funds		3,821,782	3,890,973
Dividends received		3,515,177	3,486,157
Net cash from investing activities		<u>22,295,535</u>	<u>647,610</u>
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid	11	(14,373,231)	-
Cash used in financing activity		<u>(14,373,231)</u>	<u>-</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS			
		47,252,722	(31,196,899)
Cash and cash equivalents at 1 January		30,576,896	61,773,795
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	<u>77,829,618</u>	<u>30,576,896</u>

* Cash and cash equivalents after deduction of expected credit loss amounted to QR 77,829,121

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

1. REPORTING ENTITY

Al Koot Insurance & Reinsurance Company P.J.S.C. (the "Company") is a Company, which was previously operating as a wholly owned subsidiary of Qatar Petroleum ("QP") as per the Cabinet Resolution No. 27 of 2003 ratified by an Emiri Decree dated October 27, 2003. The Company commenced commercial operations on April 1, 2003. The registered office of the Company is located in Doha, State of Qatar.

The shares of QP were transferred to Gulf International Services Q.S.C. ("GIS") on February 12, 2008. GIS is a public shareholding company owned 10% by QP and 90% by individual investors and selected institutions.

The Company is engaged in the business of general and medical insurance and reinsurance except for vehicle insurance and insurance against the risk of death and accidents.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 New standards, amendments and interpretation are effective from 1 January 2020 but they do not have a material effect on the Company's financial statements.

- a) The below amendments to IFRS were effective from 1 January 2020.
- Amendments to References to Conceptual Framework in IFRS Standards.
 - Definition of Material (Amendments to IAS 1 and IAS 8).- Definition of a Business (Amendments to IFRS 3).
 - Interest Rates Benchmark Reforms – Phase 1 (Amendment to IFRS9, IAS 39 and IFRS 7).

2.2. New standards, amendments and interpretation issued but not yet effective

New standards or amendments	Effective date
- COVID-19-Related Rent Concessions (Amendment to IFRS 16)	1 June 2020
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
- Annual Improvements to IFRS Standards 2018 – 2020	1 January 2022
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
- Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023

3. BASIS OF ACCOUNTING

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

b) Basis of measurement

These financial statements have been prepared under the historical cost basis except for certain investments, which are measured at fair value at the end of each reporting period as follows:

- Investments measured at fair value through profit or loss ('FVTPL');
- Other Financial assets designated at fair value through profit or loss ('FVTPL'); and
- Financial investment measured at fair value through other comprehensive income ('FVOCI')

c) Functional and presentation currency

These financial statements are presented in Qatari Riyal (QR), which is the Company's functional and presentation currency.

3.1 SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these financial statements, except if mentioned otherwise.

a) Revenue recognition

(i) Premiums earned

Premiums and reinsurance premiums are taken into income over the terms of the policies to which they relate. Gross insurance and reinsurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences.

Unearned premiums represent the portion of net premiums written relating to the unexpired period of coverage calculated at actual number of days method (daily pro-rata basis). The change in the provision for unearned premium is taken to the statement of income in order that revenue is recognised over the period of risk.

(ii) Commission income and expenses

Commission income is earned from the reinsurer for the premium ceded during the year. Similarly, the commission expense is incurred for the insurance companies for the reinsurance premium written.

(iii) Interest income

Interest income is recognized in the statement of income as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

(iv) Dividend income

Dividend income is recognized when the dividend is received or when the right to receive the payment is established.

(v) Realised gains and losses

Realised gains and losses recorded in the statement of income include gains and losses on financial investments. Gains and losses on the sale of financial investments are calculated as the difference between net sales proceeds and the fair value at the last reporting period and are recorded on occurrence of the sale transaction.

b) Claims and expense recognition

Claims

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

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the end of the reporting period, whether reported or not. Provisions for reported claims, but not settled as at the end of the reporting period, are made on the individual case estimates. In addition, a provision based on a range of historical trends, empirical data and current assumptions is maintained for the cost of settling claims incurred but not reported at the end of the reporting period.

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Claims and expense recognition (continued)

Reinsurers' share of claims

Reinsurers' share of claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

c) Liability adequacy test

At the end of each reporting period, the Company assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future claims flows, the entire deficiency is immediately recognized in the statement of income.

d) Reinsurance

The Company enters into agreements with other parties for reinsurance purposes, in order to minimize insurance risk exposure from large claims and to ensure the risk management policy of the Company, in the normal course of business for all of its business classes. Reinsurance contract assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsurance business.

Reinsurance assets are reviewed for impairment at the end of each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measureable impact on the amounts that the Company will receive from the reinsurance companies. The impairment loss is recorded in the statement of profit or loss.

Reinsurance contract liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

e) Deferred acquisition costs (DAC)

DAC are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the statement of income, the deferred portion of the acquisition costs is included in the statement of financial position.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of income. DAC are included as a part of the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are either settled or disposed of.

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Insurance receivables

Insurance contract receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

g) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost.

h) Foreign currency transactions

Transactions in foreign currencies are translated into functional currency of Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- an investment in equity securities designated as at FVOCI (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

i) Financial instruments

i. Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

ii. Classification and subsequent measurement (continued)

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**i) Financial instruments (continued)****ii. Classification and subsequent measurement (continued)****Financial assets – Business model assessment (continued)**

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

ii. Classification and subsequent measurement (continued)

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Impairment

i. Non-derivative financial assets

Financial instruments and contract assets

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Company also recognises loss allowances for ECLs on lease receivables, which are disclosed as part of trade and other receivables.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables (including lease receivables) and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, that includes forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Company considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 300 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be Baa3 or higher per Moody's or BBB- or higher per standards and poors.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Impairment (continued)

i. Non-derivative financial assets (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 365 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Impairment (continued)

ii. Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

k) Cash and cash equivalents

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value. Cash and cash equivalents comprise cash in hand, cash at bank and term deposits with bank.

For the purpose of the statement of cash flows, cash and cash equivalents consists of cash on hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

l) Property and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Property and equipment (continued)

iii. Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Furniture and fixture	-	4 years
Office equipment	-	4 years
Computers	-	4 years
Vehicles	-	4 years
Building		25 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

m) Provisions

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

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Significant judgements and estimates

Provision for income tax

The Company calculates its provision for income tax based on the provisions of the applicable laws and regulations in the State of Qatar. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and/or liabilities in the period in which such determination is made.

Significant accounting policies

Income Tax

Income tax expense comprises current and deferred tax calculated as per the Memorandum of Understanding (MOU) signed between Qatar Petroleum, General Tax Authority and Ministry of Finance dated 4 February 2020 regarding settlement of income tax applicable to some public shareholding companies listed on Qatar Stock Exchange. It is recognised in profit or loss.

Current Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, and any adjustments to the tax payable or receivable in respect of previous years. It is calculated on the basis of the tax laws enacted (Income Tax Law No. 24 of 2018) or substantively enacted at the reporting date in the State of Qatar. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Provisions (continued)

Deferred Tax

Deferred tax is recognised in respect of temporary differences arising between the carrying amounts of assets and liabilities reported in the company's financial statements and their respective amounts used for tax purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled using tax rates based on tax laws that have been enacted (Income Tax Law No. 24 of 2018) or substantially enacted by the reporting date in the State of Qatar.

Deferred tax is not recognised as at the reporting date, the Company did not have significant temporary differences between the carrying amount of assets or liabilities on its statement of financial position and their respective amounts used for tax purposes.

n) Employees' end of service benefits

End of service gratuity plans

The Company provides end of service benefits to its expatriate employees in accordance with employment contracts and the Qatar Labour Law No. 14 of 2004. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period, and are payable to the employees on termination of their employment with the Company. The expected cost of these benefits are accrued over the period of employment. The Company does not perform the actuarial valuation as required by International accounting standard 19 'Employee Benefits' as it estimated that such valuation does not result to a significantly different level of provision. The calculation of the provision is performed by the management at the end of each year, and any change to the projected benefit obligation at the year-end is adjusted in the provision for employees' end of service benefits in profit or loss.

The Company has no expectation of settling its employees' end of service benefits obligation within 12 months from the reporting date and, therefore, it has classified the obligation within non-current liabilities in the statement of financial position. The provision is not discounted to present value as the effect of the time value of money is not expected to be significant.

Pension plan

Under Law No. 24 of 2002 on Retirement and Pension, the Company is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

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3.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Fair value measurement

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ‘active’ if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provision for outstanding claims

Considerable judgement by management is required in the estimation of amounts due to policyholders and third parties arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management’s estimates resulting in future changes in estimated liabilities.

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NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainty (continued)

Provision for outstanding claims (continued)

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the end of the reporting period. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends and loss ratios to predict future claims settlement trends with the support of external activities for certain line of business.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported (IBNR) on a half yearly basis.

The Company do not cover pandemics and are not liable to COVID-19 claims. However, for health insurance actuary has factored in the potential impact of the COVID-19 pandemic and allowed for a 15% margin on IBNR for the possible delay in reporting and deferment of medical services related to non-COVID claims as a result of the pandemic.

The outbreak of Coronavirus (Covid-19) continues to progress and evolve. The outbreak has had an impact on the demand and supply of healthcare services across the globe. New data on the spread of COVID-19 is still emerging. In addition, actions taken by governmental authorities and the healthcare system related to the COVID-19 pandemic are rapidly changing. Due to the limited information available on the pandemic, any analysis is subject to a substantially greater than usual level of uncertainty. These developments could impact estimated provisions and the assumptions may be revised significantly in 2021.

The management has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the provision for outstanding claims this has resulted in recognition of provision as at 31 December 2020.

Going concern

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

Unearned premiums

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. Unearned premiums are calculated on a daily pro rata basis.

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainty (continued)

Impairment of receivable

The Company assess loss allowance for the insurance receivable using the lifetime ECL model. At each reporting date, the Company assesses whether the Company's insurance receivables are credit-impaired. While assessing whether the receivables are 'credit-impaired' the Company assesses whether one or more events that have a detrimental impact on the estimated future cash flows of the receivable balances have occurred.

As at the reporting date, the management's assessment has concluded that amounted to QR 5,630,501 as of 31 December 2020 of the receivable balances were credit impaired.

Useful life of asset

The Company's estimate of useful economic lives of its property and equipment takes into account the renovation frequency of the asset and the future plans of the Company.

Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. All non-financial assets are tested for impairment when there are indicators that the carrying amount may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cashflows from the asset and choose a suitable discount rate in order to calculate the present values of those cash flows.

Allowance for impairment of financial assets

The Company has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment. This has resulted in staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances as disclosed in note 21.

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

5 CASH AND CASH EQUILEVENTS

	2020 QR	2019 QR
Cash in hand	15,000	15,000
Cash at bank- current accounts (i)	32,441,066	27,627,781
- call account	45,373,552	2,934,115
Cash and bank balances as presented in the cash flow statement	77,829,618	30,576,896
Less: ECL provision in respect of cash at bank (Note 21)	(497)	(121,745)
Cash and cash equivalent	77,829,121	30,455,151

(i) Cash held in bank current accounts earn no interest.

6. FINANCIAL INVESTMENTS

The carrying amounts of the Company's financial investments as at year end were as follows:

	2020 QR	2019 QR
<i>Investments measured at fair value through profit or loss (FVTPL)</i>		
- Quoted debt and equity securities held with banks (i)	252,210,790	245,952,806
- Quoted equity shares	113,246,044	96,264,606
	365,456,834	342,217,412
<i>Investments measured at fair value through other comprehensive income (FVOCI)</i>		
- Quoted debt securities (ii)	291,252,506	209,020,160
- Managed funds	55,601,000	59,598,128
- Unquoted shares	2,495	2,495
	346,856,001	268,620,783
Total Financial investments	712,312,835	610,838,195

(i) These represent financial assets held with banks. These are acquired and incurred principally for the purpose of selling or repurchasing it in the near term or to take advantage of short term market movements.

(ii) Debt securities at FVTOCI have stated interest rate of 1.625% to 10.5% (2019: 2.63% to 10.5%) and matured in one to nine years.

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

7. INSURANCE AND OTHER RECEIVABLES

	2020	2019
	QR	QR
Insurance contract receivables	255,108,213	444,274,880
Less: Allowance for impairment on premium receivables (Note 21)	(5,630,501)	(7,225,615)
	249,477,712	437,049,265
Accrued interest income	3,395,829	5,080,298
Staff advances	904,706	1,270,690
Others	4,207,118	4,109,596
	257,985,365	447,509,849

8. INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS

	2020				2019			
	Gross	Reinsurers' share	Net		Gross	Reinsurers' share	Net	
	QR	QR	QR		QR	QR	QR	
At January 1,								
Reported claims	847,872,574	(687,715,855)	160,156,719		545,742,096	(406,915,307)	138,826,789	
Unearned premiums	214,389,545	(129,816,380)	84,573,165		155,836,625	(74,615,481)	81,221,144	
IBNR and other technical reserves	254,980,373	(112,431,695)	142,548,678		242,683,508	(111,034,829)	131,648,679	
Total	1,317,242,492	(929,963,930)	387,278,562		944,262,229	(592,565,617)	351,696,612	
Movements during the year								
Reported claims	(261,519,659)	263,404,312	1,884,653		302,130,478	(280,800,548)	21,329,930	
Unearned premiums	53,298,073	(24,392,334)	28,905,739		58,552,920	(55,200,899)	3,352,021	
IBNR and other technical reserves	119,631,713	(115,177,677)	4,454,036		12,296,865	(1,396,866)	10,899,999	
Total	(88,589,873)	123,834,301	35,244,428		372,980,263	(337,398,313)	35,581,950	
At December 31,								
Reported claims	586,352,915	(424,311,543)	162,041,372		847,872,574	(687,715,855)	160,156,719	
Unearned premiums	267,687,618	(154,208,714)	113,478,904		214,389,545	(129,816,380)	84,573,165	
IBNR and other technical reserves	374,612,086	(227,609,372)	147,002,714		254,980,373	(112,431,695)	142,548,678	
Total	1,228,652,619	(806,129,629)	422,522,990		1,317,242,492	(929,963,930)	387,278,562	

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

8. INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (CONTINUED)

Claims development 2020

The following table shows the estimated cumulative incurred claims, including claims notified for each successive accident year at the end of each reporting period, together with cumulative payments to date:

	Accident year					Total
	2016 and before	2017	2018	2019	2020	
	QR	QR	QR	QR	QR	QR
Estimate of cumulative claims						
At end of the accident year	2,530,275,193	61,747,787	214,267,373	427,219,485	547,832,764	
One year later	2,860,133,514	220,263,609	499,174,155	729,570,840		
Two years later	2,893,459,270	206,543,422	550,269,170			
Three years later	2,748,010,217	206,232,739				
Four years later	2,616,998,031					
Current estimate of cumulative claims	2,616,998,031	206,232,739	550,269,170	729,570,840	547,832,764	4,650,903,544
Cumulative payments to date	(2,517,722,995)	(194,428,376)	(456,973,664)	(507,231,809)	(388,193,784)	(4,064,550,628)
Total cumulative claims recognized in the statement of financial position as of December 31, 2020	99,275,036	11,804,363	93,295,506	222,339,031	159,638,980	586,352,916

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NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

8. MOVEMENTS IN INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (CONTINUED)

Claims development 2019

The following table shows the estimated cumulative incurred claims, including claims notified for each successive accident year at the end of each reporting period, together with cumulative payments to date:

	Accident year					Total
	2015 and before	2016	2017	2018	2019	
	QR	QR	QR	QR	QR	QR
Estimate of cumulative claims						
At end of the accident year	2,217,835,685	91,475,511	181,676,425	313,347,045	775,495,201	-
One year later	2,679,994,557	180,138,957	220,263,609	499,174,155	-	-
Two years later	2,708,029,159	181,986,862	206,543,422	-	-	-
Three years later	2,708,029,159	170,020,494	-	-	-	-
Four years later	2,402,303,318	-	-	-	-	-
Current estimate of cumulative claims	2,402,303,318	170,020,494	206,543,422	499,174,155	775,495,201	4,053,536,590
Cumulative payments to date	(2,256,886,615)	(148,843,183)	(191,347,735)	(274,853,174)	(333,733,308)	(3,205,664,015)
Total cumulative claims recognized in the statement of financial position as of December 31, 2019	145,416,703	21,177,311	15,195,687	224,320,981	441,761,893	847,872,575

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NOTES TO THE FINANCIAL STATEMENTS

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9. RELATED PARTY DISCLOSURES

Related parties represent associated companies, shareholder, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. The significant related party transactions during the year were mainly in respect of insurance arrangements.

Related party transactions

Transactions with related parties included in the statement of income are as follows:

	2020	2019
	QR	QR
<i>Qatar Petroleum and its affiliates:</i>		
Direct premium	484,101,902	349,137,065
Direct claims paid	61,443,207	59,409,631
Expenses incurred by Qatar Petroleum on behalf of the Company	7,999,647	7,078,393

Related party balances

Balances with related parties included in the statement of financial position are as follows:

	2020		2019	
	Receivables	Payables	Receivables	Payables
	QR	QR	QR	QR
Qatar Petroleum and its affiliates	38,239,631	13,805,229	30,241,354	242,363
Less: Allowance on impairment of related party balances (Note 21)	(445,874)	-	(4,927)	-
	37,793,757	13,805,229	30,236,427	242,363

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2020	2019
	QR	QR
Short-term benefits	13,937,616	15,393,610
Board member sitting fees (Note 18)	830,000	850,000
End of service and other benefits	311,199	345,165
	15,078,815	16,588,775

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

10. PROPERTY AND EQUIPMENT

	Freehold Land	Building	Lease hold improvement	Furniture and fixture	Office equipment	Computers	Vehicles	Building under development	Total
Cost	QR	QR	QR	QR	QR	QR	QR	QR	QR
At January 1, 2019	88,529,983	-	3,588,230	1,066,089	476,221	13,193,998	427,000	48,127,375	155,408,896
Additions	-	1,731,106	-	20,125	203,257	5,725,345	158,200	10,954,981	18,793,014
Transfers	-	58,954,223	-	128,133	-	-	-	(59,082,356)	-
Disposals	-	-	(3,588,230)	(992,267)	(363,782)	-	-	-	(4,944,279)
At December 31, 2019	88,529,983	60,685,329	-	222,080	315,696	18,919,343	585,200	-	169,257,631
Additions	-	4,646,837	-	32,499	195,625	1,958,092	-	-	6,833,053
At December 31, 2020	88,529,983	65,332,166	-	254,579	511,321	20,877,435	585,200	-	176,090,684
Accumulated depreciation									
At January 1, 2019	-	-	3,588,230	1,044,532	442,472	11,239,696	427,000	-	16,741,930
Depreciation charge for the year	-	404,569	-	11,139	19,459	481,166	23,071	-	939,404
Disposals	-	-	(3,588,230)	(992,267)	(363,782)	-	-	-	(4,944,279)
At December 31, 2019	-	404,569	-	63,404	98,149	11,720,862	450,071	-	12,737,055
Depreciation charge for the year	-	2,596,599	-	63,202	35,983	489,006	39,551	-	3,224,341
At December 31, 2020	-	3,001,168	-	126,606	134,132	12,209,868	489,622	-	15,961,396
Net carrying value:									
December 31, 2020	88,529,983	62,330,998	-	127,973	377,189	8,667,567	95,578	-	160,129,288
December 31, 2019	88,529,983	60,280,760	-	158,676	217,547	7,198,481	135,129	48,127,375	156,520,576

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

11. SHARE CAPITAL

	Authorised capital	Issued and fully paid up 2020	Issued and fully paid up 2019
Share capital (QR)	500,000,000	218,600,000	218,600,000
Number of shares of QR 10 each	50,000,000	21,860,000	21,860,000

During the year, dividends of QR 14,373,231 were declared and paid relating to 2019 profits.

No dividends were declared or paid relating to 2020 profits.

12. LEGAL RESERVE

As required by Qatar Commercial Companies' Law and the Company's Articles of Association, 10% of the profit for the year should be transferred to legal reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. However, according to Qatar Central Bank (QCB) regulations, the reserve should be equal to 100% of the issued share capital.

This reserve is not available for distribution except in circumstances stipulated in the law.

13. GENERAL RESERVE

The amended Articles of Association of the Company requires that the balance of profit to be available, after the above mentioned transfer to the legal reserve, can be appropriated to a general reserve. Distributions to shareholders can only be made once the total of the legal and the general reserve reach QR 150,000,000. The balance under this reserve is not available for distribution, except in circumstances specified in the Articles of Association of the Company.

14. FAIR VALUE RESERVE

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities designated at FVOCI; and
- the cumulative net change in the fair value of debt securities at FVOCI until the assets are derecognised or reclassified. This amount is adjusted by the amount of loss allowance.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

2020	2019
QR	QR
163,924,719	389,698,828
13,891,725	13,941,151
177,816,444	403,639,979

Movements in the provision for Employees' end of service benefits are as follows:

As at December 31

2020	2019
QR	QR
5,972,604	5,923,719
1,614,080	703,539
(681,211)	(654,654)
6,905,473	5,972,604

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NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

18. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2020</u>	<u>2019</u>
	<u>QR</u>	<u>QR</u>
Salaries and other benefits	44,620,687	42,582,830
Rent	-	2,160,950
Professional and other fees	11,251,335	4,268,271
Office expenses	3,742,935	3,051,015
Depreciation (Note 10)	3,224,341	939,404
Board member sitting fees (Note 9)	830,000	850,000
Travel expenses	75,913	928,326
Advertisement and public relations	233,553	214,744
Investment management fees	2,102,083	3,857,621
Other expenses	2,282,493	3,380,497
	<u>68,363,340</u>	<u>62,233,658</u>

19. INCOME TAXES

Current tax expense

	<u>2020</u>	<u>2019</u>
	<u>QR</u>	<u>QR</u>
Current year	826,127	-
Changes in estimates relating to prior year	248,244	-
	<u>1,074,371</u>	<u>-</u>

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	<u>2020</u>	<u>2019</u>
	<u>QR</u>	<u>QR</u>
Profit before tax	<u>52,016,190</u>	<u>15,970,257</u>
Tax calculated at the applicable income tax rate 1.425%	741,231	-
Tax effect of expenses not deductible for tax purposes	84,896	-
Changes in estimates related to prior year	248,244	-
Income tax expense	<u>1,074,371</u>	<u>-</u>

The movement in the income tax provision were as follow

	<u>2020</u>	<u>2019</u>
	<u>QR</u>	<u>QR</u>
As at 1 January	-	-
Provision made	1,074,371	-
Provision used	-	-
As at 31 December (1)	<u>1,074,371</u>	<u>-</u>

- (1) As per the Memorandum of Understanding (MOU) signed between Qatar Petroleum, General Tax Authority and Ministry of Finance dated 4 February 2020 regarding settlement of income tax applicable to some public shareholding companies listed on Qatar Stock Exchange amount calculated as above is payable to Gulf International Services Q.P.S.C. (Parent Company).

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended December 31, 2019

20. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments include deposits, cash, investment securities, receivables, payables and certain other assets and liabilities.

The fair values of the financial assets and liabilities, with the exception of certain financial investments are not materially different from their carrying values.

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

20. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The Following table shows analyses of the fair values of the financial instruments by level of the fair value hierarchy

During the year ending 31 December 2020, there were no transfers between Level 1 and Level 2, in fair value measurements, and no transfers in and out of Level 3 fair value measurements.

As at 31 December 2020	FVPL –				
	FVOCI – debt instruments	equity instruments	Amortized cost	Other financial liabilities	Total carrying amount
Financial assets measured at fair value					
Financial assets at FVOCI					
Quoted debt securities and equities	291,252,506	-	-	-	291,252,506
Managed funds	55,601,000	-	-	-	55,601,000
Unquoted shares	2,495	-	-	-	2,495
Financial assets at FVTPL					
Equity instruments					
Quoted debt and equity securities held with banks	-	252,210,790	-	-	252,210,790
Quoted equity securities	-	113,246,044	-	-	113,246,044
Financial assets not measured at fair value					
Cash and cash equivalents	-	-	77,829,121	-	77,829,121
Term deposits with maturities in excess of 3 months	-	-	85,197,938	-	85,197,938
Insurance and other receivables	-	-	257,985,365	-	257,985,365
Reinsurance contract assets	-	-	806,129,629	-	806,129,629
Due from related parties	-	-	37,793,757	-	37,793,757
Financial liabilities not measured at fair value					
Insurance contract liabilities	-	-	(1,228,652,621)	-	(1,228,652,621)
Due to insurance and reinsurance companies	-	-	(177,816,444)	-	(177,816,444)
Other liabilities	-	-	-	(25,104,245)	(25,104,245)
Due to related parties	-	-	(13,805,229)	-	(13,805,229)
	346,856,001	365,456,834	(155,338,484)	(25,104,245)	531,870,106

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

20. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2019	FVOCI – debt instruments	FVPL – equity instruments	Amortized cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3
Financial assets measured at fair value								
Financial assets at FVOCI								
Quoted debt securities and equities	209,020,160	-	-	-	209,020,160	209,020,160	-	-
Managed funds	59,598,128	-	-	-	59,598,128	59,598,128	-	-
Unquoted shares	2,495	-	-	-	2,495	-	-	2,495
Financial assets at FVTPL	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-
Quoted debt and equity securities held with banks	-	245,952,806	-	-	245,952,806	245,952,806	-	-
Quoted equity securities	-	96,264,606	-	-	96,264,606	96,264,606	-	-
Financial assets not measured at fair value								
Cash and cash equivalents	-	-	30,455,151	-	30,455,151	-	-	-
Term deposits with maturities in excess of 3 months	-	-	181,782,150	-	181,782,150	-	-	-
Insurance and other receivables	-	-	447,509,849	-	447,509,849	-	-	-
Reinsurance contract assets	-	-	929,963,931	-	929,963,931	-	-	-
Due from related parties	-	-	30,236,427	-	30,236,427	-	-	-
Financial liabilities not measured at fair value								
Insurance contract liabilities	-	-	(1,317,242,494)	-	(1,317,242,494)	-	-	-
Due to insurance and reinsurance companies	-	-	(403,639,979)	-	(403,639,979)	-	-	-
Other liabilities	-	-	-	(25,816,621)	(25,816,621)	-	-	-
Due to related parties	-	-	(242,363)	-	(242,363)	-	-	-
	268,620,783	342,217,412	(101,177,328)	(25,816,621)	483,844,246			

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

21. RISK MANAGEMENT

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

Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Frequency and amounts of claims

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

Fire and general accident - Property

Property insurance is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the loss of earnings caused by the inability to use the insured properties.

For property insurance contracts the main risks are fire and business interruption.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims.

Marine

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in total or partial loss of cargoes. For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered.

Health

Health insurances is insurance against the risk of incurring medical expenses among individuals or the employees of corporate bodies. The strategy for the health class of business is to ensure that policies are written within the group and by proper cession.

Reinsurance risk

In common with other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess-of-loss reinsurance contracts.

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

21. RISK MANAGEMENT (CONTINUED)

Insurance risk (continued)

Reinsurance risk (continued)

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

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

Concentration of risks

The Company's insurance risk relates to policies written in the State of Qatar only.

Sources of uncertainty in the estimation of future claim payments

Claims on general insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, a larger element of the claims provision relates to incurred but not reported claims (IBNR) which are settled over a short to medium term period.

There are several variables that affect the amount and timing of cash flows from these contracts, these mainly relate to the inherent risks of the business activities carried out by individual policyholders and the risk management procedures adopted. The compensation paid on these contracts is the monetary awards granted for the loss suffered by the policy holders or third parties (for third party liability covers).

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation values and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise of provision for IBNR, provision for reported claims not yet paid and a provision for unexpired risks as at the reporting date. In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formula where greater weight is given to actual claims experience as time passes.

Sensitivity of changes in assumption

The Company does not have any single insurance contract or a small number of related contracts that cover low frequency, high-severity risks such as earthquakes, or insurance contracts covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation. A +/- 10% change in the net claims incurred will have an increase/decrease of QR 30,070,937 on the statement of income (2019: QR 37,526,533).

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

21. RISK MANAGEMENT (CONTINUED)

Insurance risk (continued)

Claims development

The Company maintains strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

Financial risk

The Company's principal instruments are investments at fair value through profit or loss, fair value through other comprehensive income, amortised cost investments, receivables arising from insurance and reinsurance contracts and cash and cash equivalents.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, market price risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarized below:

Regulatory framework risk

Regulators are primarily interested in protecting the rights of the policyholders and monitor these rights closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic disasters.

The operations of the Company are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitor the activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the part of the reinsurance companies to meet unforeseen liabilities as these arise.

Foreign currency risk

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

Other than balances in United States Dollars, to which the Qatari Riyal is pegged, there is no significant foreign currency assets or liabilities due in foreign currencies included in the financial statement.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company is exposed to interest rate risk on certain of its financial investment and deposits. The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and interest bearing investments are denominated.

The following table demonstrates the sensitivity of the statement of income to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the Company's profit for the year, based on the floating rate financial assets and financial liabilities held at December 31, 2020.

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

21. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

Interest rate risk (continued)

	Increase / decrease in basis points	Effect on profit for the year QR
2020	<u>+ 25</u>	<u>1,035,994</u>
2019	<u>+ 25</u>	<u>984,910</u>

Credit risk

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

The Company seeks to limit its credit risk with respect to customers by monitoring outstanding receivables. On the other hand, three reinsurance companies account for 61% of the reinsurance balances receivable as of December 31, 2020 (2019: 57%).

The Company manages credit risk on its investments by ensuring that investments are only made with counter-parties that have a good credit rating. The Company does not have an internal credit rating of counter-parties and considers all counter-parties to be of the same credit quality.

The table below shows the maximum exposure to credit for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting.

	2020 QR	2019 QR
Cash at banks	77,814,618	30,561,896
Time deposits with maturities in excess of 3 months	85,199,794	181,782,150
Financial investments	712,312,835	610,838,195
Due from related parties	37,793,757	30,236,427
Reinsurance contract assets	424,311,543	687,715,856
Insurance contract receivables (Note 7)	255,108,213	444,274,880
	<u>1,592,540,760</u>	<u>1,985,409,404</u>

Credit Quality

The credit quality of financial assets is managed by the Company using external credit risk ratings. The Company follows external credit mechanism of Moody's and Fitch Group rating agencies for grading relationships across its investment portfolio and other financial instruments.

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

21. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

Credit risk (continued)

Credit Quality (continued)

All investments are assigned a rating in accordance with the defined criteria.

Investment Securities

Investment securities at FVOCI – Debt

Not impaired (AAA to B- and NR)

Loss allowance

Carrying amount

	2020			2019		
	Stage 1 QR	Stage 2 QR	Total QR	Stage 1 QR	Stage 2 QR	Total QR
Not impaired (AAA to B- and NR)	206,040,219	85,212,287	291,252,506	183,792,012	25,228,148	209,020,160
Loss allowance	(163,422)	(9,216,395)	(9,379,817)	(245,441)	(604,391)	(849,832)
Carrying amount	205,876,797	75,995,892	281,872,689	183,546,571	24,623,757	208,170,328

Insurance receivables and related parties balances

The Company uses an allowance matrix to measure the ECLs on insurance receivables and related party balances

Past Due	Loss Rate	Gross Carrying amount	Loss allowance
Current	0.9%	144,394,517	1,332,491
1 - 30 days	4%	19,365,710	772,028
31 - 60 days	12.3%	2,027,024	248,754
61 - 90 days	15.1%	2,225,653	337,079
91 - 180 days	18%	4,187,394	754,963
181 - 365 days	53.1%	748,775	397,651
Above 365 days	59.8%	3,737,488	2,233,409
		176,686,562	6,076,375

Loss rates are based on the actual credit loss experience over the past three years. The rates are multiplied by forward looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company view of economic conditions over the expected lives of the receivables. Forward looking factors are based on actual and forecast macro-economic factors (primarily GDP) and is considered to be positive.

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

21. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

Credit risk (continued)

Credit Quality (continued)

MOVEMENT OF EXPECTED CREDIT LOSSES

	2020		2019			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL	Total ECL		Stage 1: 12-month ECL	Stage 2: Lifetime ECL
			QR	QR		
<i>Balance at January 1</i>						
Debt securities – FVOCI	245,441	604,391	849,832	181,232	598,757	779,989
Debt securities – Amortised cost	-	-	-	772	-	772
Bank balances and deposits	349,415	-	349,415	1,169,979	-	1,169,979
Due from related parties	4,927	-	4,927	4,980	-	4,980
Insurance contract receivables	7,225,615	-	7,225,615	3,951,673	-	3,951,673
	7,825,398	604,391	8,429,789	5,308,636	598,757	5,907,393
<i>Net re-measurement of loss allowance</i>						
Debt securities – FVOCI	(82,019)	8,612,004	8,529,985	64,209	5,634	69,843
Debt securities – Amortised cost	-	-	-	(772)	-	(772)
Bank balances and deposits	(347,062)	-	(347,062)	(820,564)	-	(820,564)
Due from related parties	440,947	-	440,947	(53)	-	(53)
Insurance contract receivables	(1,595,114)	-	(1,595,114)	3,273,942	-	3,273,942
	(1,583,248)	8,612,004	7,028,756	2,516,762	5,634	2,522,396
<i>Balance at 31 December</i>						
Debt securities – FVOCI	163,422	9,216,395	9,379,817	245,441	604,391	849,832
Bank balances and deposits	2,353	-	2,353	349,415	-	349,415
Due from related parties	445,874	-	445,874	4,927	-	4,927
Insurance contract receivables	5,630,501	-	5,630,501	7,225,615	-	7,225,615
	6,242,150	9,216,395	15,458,545	7,825,398	604,391	8,429,789

AL KOOT INSURANCE & REINSURANCE COMPANY P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

21. RISK MANAGEMENT (continued)

Financial risk (continued)

Credit risk (continued)

Credit Quality (continued)

The following table provides an age analysis of unimpaired insurance receivables as at year end:

	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>		
			<i>< 4 months</i>	<i>5 –8 months</i>	<i>>9 months</i>
	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>
2020	255,108,213	60,547,700	106,336,776	39,224,178	48,999,558
2019	444,274,880	53,892,348	189,516,398	132,035,230	68,830,904

Unimpaired financial assets are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over financial assets and all are, therefore, unsecured.

At 31 December 2020, the exposure to credit risk for insurance receivables by geographic region was as follows.

	Carrying Amount	
	2020	2019
	QR	QR
Qatar	218,158,412	391,688,099
Other GCC	7,884,127	5,329,111
Europe	19,136,412	28,392,608
Asia	9,929,262	18,693,101
Rest of world	-	171,961
	255,108,213	444,274,880

The exposure to credit risk for debt securities at amortised cost, FVOCI and FVTPL at the reporting date by geographic region was as follows.

	Carrying Amount	
	2020	2019
	QR	QR
Qatar	215,070,299	158,975,353
Other GCC	164,733,398	151,733,435
Europe	54,677,013	45,666,985
Asia	30,752,050	22,971,456
North America	2,791,836	2,818,725
	468,024,596	382,165,954

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NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

21. RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on regular basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in local quoted securities.

The majority of time deposits held by the Company at the end of the reporting period had original maturity periods not exceeding one year.

The table below summarizes the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Less than one year	More than one year	No term	Total	Less than one year	More than one year	No term	Total
	QR	QR	QR	QR	QR	QR	QR	QR
Insurance contract liabilities	-	-	1,228,652,621	1,228,652,621	-	-	1,317,242,492	1,317,242,492
Reinsurance balances payable	177,816,444	-	-	177,816,444	403,639,979	-	-	403,639,979
Other liabilities	25,104,244	-	-	25,104,244	25,816,622	-	-	25,816,622
Due to related parties	13,805,229	-	-	13,805,229	242,363	-	-	242,363
	216,725,917	-	1,228,652,621	1,445,378,538	429,698,964	-	1,317,242,492	1,746,941,456

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NOTES TO THE FINANCIAL STATEMENTS

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21. RISK MANAGEMENT (CONTINUED)

Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The Company's equity price risk exposure relates to financial assets whose value will fluctuate as a result of changes in market prices.

The Company limits equity price risk by maintaining a diversified portfolio and by continuous monitoring of its investments. The majority of the Company's equity investments comprise securities quoted on the Qatar Exchange.

A 10% change in the prices of equities, with all other variables held constant, would impact equity and statement of income by QR 13.08 million (2019: QR 11.44 million).

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' interest. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes for the years ended December 31, 2020 and 2019. Capital comprises share capital, legal reserve, general reserve, investment revaluation reserve and retained earnings, and is measured at QR 685,093,921 (2019: QR 634,392,218).

22. COMMITMENTS AND CONTINGENCIES

a) Guarantees

The Company had contingent liabilities in respect of tender guarantees and other guarantees from which it is anticipated that no material liabilities will arise, amounting to QR 8,594,966 (2019: QR 10,506,260). As at the end of reporting period, time deposits amounting to QR 23,704,883 (2019: QR 23,509,593) have been provided as security for the guarantees.

c) Legal Claims

The Company, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. As of the end of the reporting period, the result of the pending or threatened legal proceeding is unpredictable. No further disclosures are made to avoid prejudicing the position of the parties involved in the dispute.

23. COMPARATIVE INFORMATION

The comparative figures presented have been reclassified where necessary to preserve consistency with the current period figures. However, such reclassification did not have any effect on the net profit or the total equity for the comparative period.

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NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

24. SUBSEQUENT EVENTS

There were no significant events after the reporting date, which have bearing on the understanding of these financial statements.

25. IMPACT OF COVID-19

The coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment.

Management is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance.

Management has considered potential impacts of the current economic volatility in determination of the reported amounts of the Company's financial and non-financial assets and they are considered to represent management's best assessment based on observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

Independent Auditor's Report on page 1,2 and 3.