Walaa Cooperative Insurance Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

December 31, 2018

WALAA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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Independent Auditors' Report

To the Shareholders of
Walaa Cooperative Insurance Company
(A Saudi Joint Stock Company)

Opinion
We have audited the financial statements of Walaa Cooperative Insurance Company (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

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

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

Independent Auditors' Report (continued)

To the Shareholders of
Walaa Cooperative Insurance Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
Valuation of ultimate claim liabilities arising from insurance contracts As at 31 December 2018, outstanding claims, claims incurred but not reported (IBNR), additional premium reserves and other technical reserves amounted to Saudi Riyals 181.5 million, Saudi Riyals 197.8 million, Saudi Riyals 8.5 million and Saudi Riyals 26.4 million respectively as reported in Note 9.1 to the financial statements. The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of actuarial methods are used by the actuary to determine these technical reserves. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We considered this as a key audit matter since use of management assumptions and judgements could result in material over / understatement of the Company's profitability. *Refer to note 2 (d) (i) which discloses the estimated liability arising from claims under insurance contracts and note 3 (e) which explains significant accounting policies for gross outstanding claims.*	We understood and evaluated key controls around the claims handling and technical reserve setting processes of the Company including completeness and accuracy of claims data used in the actuarial reserving process. We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR by comparing it to accounting records. In order to assess management's methodologies and assumptions, we were assisted by our actuary specialist to understand and evaluate the Company's actuarial practices and the technical reserves established. In order to obtain comfort over the Company's actuarial report, our actuarial specialist performed the following: • Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. • Assessed key actuarial assumptions including claims ratios and expected frequency and severity of claims. We assessed these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge. • Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.

Independent Auditors' Report (continued)

To the Shareholders of
Walaa Cooperative Insurance Company
(A Saudi Joint Stock Company)

Other Information

The management of the Company is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

The management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Regulations for Companies, and the Company's by-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Independent Auditors' Report (continued)

To the Shareholders of
Walaa Cooperative Insurance Company
(A Saudi Joint Stock Company)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)
As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;

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

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

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

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

Independent Auditors' Report (continued)

To the Shareholders of
Walaa Cooperative Insurance Company
(A Saudi Joint Stock Company)

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

Report on legal and other regulatory requirements
Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance with the requirements of Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws with regards to they affect the preparation and presentation of the financial statements.

KPMG Al Fozan & Partners
Certified Public Accountants
P.O. Box 4803, Al Khobar 31952
Kingdom of Saudi Arabia

Abdulaziz Abdullah Alnaim
Certified Public Accountant
Registration No. 394

For Al-Bassam & Co.
Allied Accountants
P. O. BOX 4636, Al Khobar 31952
Kingdom of Saudi Arabia

Ibrahim Ahmed Al Bassam
Certified Public Accountant
Registration No. 337

24 Rajab 1440H
31 March 2019G

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents	7	1,122,329	309,919
Short term deposits		-	824,833
Premiums and reinsurers' receivable - net	8	202,416	127,341
Reinsurers' share of unearned premiums	9.2	195,562	130,247
Reinsurers' share of outstanding claims	9.1	134,638	110,606
Reinsurers' share of claims incurred but not reported	9.1	41,538	42,106
Deferred policy acquisition costs	9.3	23,570	37,018
Investments - available-for-sale	6	162,876	96,767
Due from insurance operations		26,507	15,064
Prepaid expenses and other assets		34,083	28,391
Property and equipment, net	4	9,415	8,691
Intangible assets	5	1,334	504
Statutory deposit		44,000	40,000
Accrued income on statutory deposit		4,263	3,178
Accrued commission income	7	4,437	5,486
TOTAL ASSETS		1,996,968	1,780,151

The accompanying notes 1 to 29 form an integral part of these financial statements.

Chief Financial Officer (Acting) | Chief Executive Officer | Board Member

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION (Continued)
AS AT DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Notes	December 31, 2018	December 31, 2017
LIABILITIES			
Policyholders claims payable		16,712	13,760
Accrued and other liabilities	11	130,114	74,248
Reinsurers' balances payable		140,897	61,791
Unearned premiums	9.2	536,608	538,493
Unearned reinsurance commission	9.3	12,443	9,842
Outstanding claims	9.1	181,504	160,619
Claims incurred but not reported	9.1	197,760	255,904
Additional premium reserves	9.1	8,525	3,197
Other technical reserves	9.1	26,379	5,316
Due to shareholders' operations		26,507	15,064
End-of-service indemnities	13	14,622	12,779
Zakat and income tax	18	28,532	25,715
Accrued commission income payable to SAMA		4,263	3,178
Surplus distribution payable	12	13,495	31,055
TOTAL LIABILITIES		1,328,361	1,210,961
EQUITY			
Share capital	19	440,000	400,000
Share premium	19	30,108	30,108
Statutory reserve		48,827	31,722
Retained earnings		155,306	126,888
Fair value reserve on investments - available-for-sale	6	(3,418)	(17,354)
TOTAL SHAREHOLDERS' EQUITY		670,823	571,364
Remeasurement reserve of defined benefit obligation - related to insurance operations	13	(2,216)	(2,174)
TOTAL EQUITY		668,607	569,190
TOTAL LIABILITIES AND EQUITY		1,996,968	1,780,151
Commitments and contingencies	10		

The accompanying notes 1 to 29 form an integral part of these financial statements.

Chief Financial Officer (Acting)	Chief Executive Officer	Board Member

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Notes	2018	2017
REVENUES			
Gross premiums written			
- Direct		1,104,630	1,101,751
- Reinsurance		327	581
	9.2	1,104,957	1,102,332
Reinsurance premiums ceded			
Local ceded		(8,439)	(6,032)
Foreign ceded		(350,105)	(245,184)
	9.2	(358,544)	(251,216)
Excess of loss expenses	9.2	(15,284)	(9,528)
Net premiums written		731,129	841,588
Changes in unearned premiums	9.2	1,885	(43,172)
Changes in reinsurers' share of unearned premiums	9.2	65,315	(6,321)
Net premiums earned		798,329	792,095
Reinsurance commissions	9.3	28,564	16,946
Other underwriting income		3,977	6,156
NET REVENUES		830,870	815,197
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid		517,351	501,004
Expenses incurred related to claims		40,061	31,210
Reinsurers' share of claims paid		(26,447)	(32,056)
Net claims and other benefits paid		530,965	500,158
Changes in outstanding claims	9.1	20,885	(46,895)
Changes in reinsurance share of outstanding claims	9.1	(14,032)	24,833
Changes in IBNR	9.1	(58,144)	33,138
Changes in reinsurance share of IBNR	9.1	568	(26,777)
Net claims and other benefits incurred		480,242	484,457
Additional premium reserves	9.1	5,328	2,444
Other technical reserves	9.1	21,063	(5,154)
Policy acquisition costs	9.3	71,595	73,400
Other underwriting expenses		9,677	3,325
TOTAL UNDERWRITING COSTS AND EXPENSES		587,905	558,472
NET UNDERWRITING INCOME		242,965	256,725

The accompanying notes 1 to 29 form an integral part of these financial statements.

Chief Financial Officer (Acting) | Chief Executive Officer | Board Member

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF INCOME (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Notes	2018	2017
OTHER (EXPENSES) / INCOME			
Allowance for doubtful debts	8	(12,605)	(10,718)
General and administrative expenses	21	(132,636)	(96,281)
Commission income	22	20,430	13,277
Investment and dividend income	22	1,191	641
Losses on available for sale investments	23	(7,633)	(5,405)
TOTAL OTHER EXPENSES		(131,253)	(98,486)
Total income for the year		111,712	158,239
Surplus attributed to the insurance operations		(11,347)	(16,508)
Total income for the year attributable to the shareholders		100,365	141,731
Earnings per share (expressed in SAR per share)			
Basic and diluted EPS (2017: restated)	24	2.28	3.22

The accompanying notes 1 to 29 form an integral part of these financial statements.

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Chief Financial Officer (Acting)

Chief Executive Officer

Board Member

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	2018	2017
Total income for the year		111,712	158,239
Other comprehensive income / (loss)			
Items that will not be reclassified to statement of income in subsequent years			
-Actuarial losses on defined benefit obligation	13	(42)	(2,174)
Items that are or may be reclassified to statements of income in subsequent years			
- Available for sale investments:			
- Net change in fair value	6	6,303	1,740
- Net amounts transferred to statement of income	23	7,633	5,405
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		125,606	163,210
Total comprehensive income attributed to the insurance operations		(11,305)	(14,334)
Total comprehensive income for the year attributable to the shareholders		114,301	148,876

The accompanying notes 1 to 29 form an integral part of these financial statements.

Chief Financial Officer (Acting) | Chief Executive Officer | Board Member

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Notes	Share capital	Share premium	Statutory reserve	Retained earnings	Fair value reserve loss on investments	Total Shareholders' equity	Remeasur-ement reserve of defined benefit obligation	Total Equity
2018									
Balance at the beginning of the year		400,000	30,108	31,722	126,888	(17,354)	571,364	(2,174)	569,190
Total comprehensive income for the year									
Unrealized fair value changes on available-for-sale investments, net	6	-	-	-	-	6,303	6,303		6,303
Actuarial losses on defined benefits obligation – related to insurance operations	13	-	-	-	-	-	-	(42)	(42)
Transfer to statement of income	23	-	-	-		7,633	7,633		7,633
Net income for the year attributable to shareholders		-	-	-	100,365	-	100,365	-	100,365
Total comprehensive income for the year attributable to shareholders		-	-	-	100,365	13,936	114,301	(42)	114,259
Bonus shares	19	40,000	-	-	(40,000)	-	-		-
Zakat charge for the year	18	-	-	-	(13,647)	-	(13,647)		(13,647)
Income tax charge for the year	18				(1,195)	-	(1,195)		(1,195)
Transfer to statutory reserve		-	-	17,105	(17,105)	-	-		-
Balance at the end of the year		440,000	30,108	48,827	155,306	(3,418)	670,823	(2,216)	668,607

The accompanying notes 1 to 29 form an integral part of these financial statements.

Chief Financial Officer (Acting)

Chief Executive Officer

Board Member

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Notes	Share capital	Share premium	Statutory reserve	Retained earnings	Fair value reserve loss on investments	Total Shareholders' equity	Remeasur-ement reserve of defined benefit obligation	Total Equity
2017									
Balance at the beginning of the year		400,000	30,108	5,976	23,903	(24,499)	435,488	-	435,488
Total comprehensive income for the year									
Unrealized fair value changes on available-for-sale investments, net	6	-	-	-		1,740	1,740	-	1,740
Actuarial losses on defined benefits obligation - related to insurance operations	13	-	-	-	-	-	-	(2,174)	(2,174)
Transfer to statement of income		-	-	-		5,405	5,405	-	5,405
Net income for the period attributable to shareholders		-	-	-	141,731	-	141,731	-	141,731
Total comprehensive income for the year attributable to shareholders		-	-	-	141,731	7,145	148,876	(2,174)	146,702
Zakat charge for the year	18	-	-	-	(11,755)	-	(11,755)	-	(11,755)
Income tax charge for the year	18			-	(1,245)	-	(1,245)	-	(1,245)
Transfer to statutory reserve		-	-	25,746	(25,746)	-	-	-	
Balance at the end of the year		400,000	30,108	31,722	126,888	(17,354)	571,364	(2,174)	569,190

The accompanying notes 1 to 29 form an integral part of these financial statements.

Chief Financial Officer (Acting)

Chief Executive Officer

Board Member

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		111,712	158,239
Adjustments for non-cash items:			
Depreciation of property and equipment	4	3,453	3,035
Amortization of intangible assets	5	695	293
Allowance for doubtful debts	8	12,605	10,718
Dividend and loss on investments, net		6,442	4,764
Commission income		(20,430)	(13,277)
Provision for end-of-service indemnities	13.2	2,891	4,264
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		(95,210)	(33,017)
Reinsurers' share of unearned premiums		(65,315)	6,321
Reinsurers' share of outstanding claims		(14,032)	24,833
Reinsurers' share of claims incurred but not reported		568	(26,777)
Deferred policy acquisition costs		13,448	(4,478)
Prepaid expenses and other assets		(5,692)	18,909
Policyholders claims payables		2,952	3,922
Accrued and other liabilities		24,489	8,904
Reinsurers' balances payable		79,106	46,123
Unearned premiums		(1,885)	43,172
Unearned reinsurance commission		2,601	2,633
Outstanding claims		20,885	(46,895)
Claims incurred but not reported		(58,144)	33,138
Additional premium reserves		5,328	2,444
Other technical reserves		21,063	(5,155)
		47,530	242,113
End-of-service indemnities paid	13.2	(1,090)	(927)
Zakat and income tax paid	18	(12,025)	(10,993)
Net cash generated from operating activities		34,415	230,193
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions in intangible assets	5	(1,525)	(390)
(Additions) / disposal in investments	6	(60,000)	14,595
Commission income received		21,479	7,791
Dividend received		1,385	641
Disposals/ (additions) of short term deposits		824,833	(824,833)
Additions in property and equipment	4	(4,177)	(2,433)
Net cash generated from/(used in) investing activities		781,995	(804,629)

The accompanying notes 1 to 29 form an integral part of these financial statements.

mohammed

Chief Financial Officer (Acting)

Chief Executive Officer

Board Member

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Notes	2018	2017
CASH FLOWS FROM FINANCING ACTIVITY			
Increase in statutory deposit		(4,000)	-
Net cash used in financing activity		(4,000)	-
Net change in cash and cash equivalents		812,410	(574,436)
Cash and cash equivalents, beginning of the year		309,919	884,355
Cash and cash equivalents, end of the year	7	1,122,329	309,919
NON-CASH INFORMATION			
Unrealized changes in fair value of available-for-sale investments	6	6,303	1,740
Actuarial loss on end-of-service indemnities	13	(42)	(2,174)

The accompanying notes 1 to 29 form an integral part of these financial statements.

Chief Financial Officer (Acting) | Chief Executive Officer | Board Member

1. GENERAL

Walaa Cooperative Insurance Company (a Joint Stock Company incorporated in Kingdom of Saudi Arabia), "the Company", was formed pursuant to Royal Decree No. (S/114) dated 02/05/1428H. The Company operates under Commercial Registration no. 2051034982 dated Jumada II 19, 1428H corresponding to July 4, 2007. The registered address of the Company's head office is as follows:

Walaa Cooperative Insurance Company
Head Office
Custodian of Two Holy Mosques Road
P.O. Box 31616
Al-Khobar 31952, Saudi Arabia

The purpose of the Company is to transact cooperative insurance operations and all related activities including reinsurance and agency activities. Its principal lines of business include medical, motor, marine, fire, engineering, energy, aviation and casualty insurance.

On Jumada II 2, 1424H, corresponding to July 31, 2003, the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On Jumada II, 28 1429H corresponding to July 2, 2008, the Saudi Arabian Monetary Authority ("SAMA"), as the principal authority responsible for the application and administration of the Insurance Law and its Implementing Regulations, granted the Company a license number (TMN/16/2008) to transact insurance activities in the Kingdom of Saudi Arabia.

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

The General Assembly on May 29, 2018 approved 10% bonus share during the year, as a result the share capital of the Company has increased from SR 400 million to SR 440 million (refer note 19). The Company has completed the regulatory requirements and updated its Commercial Registration and Articles of Association.

During the year, the company obtained Saudi Arabian Monetary Authority letter No.6813/41 dated 03/07/2018 approving the opening of 47 points of sales located around the Kingdom. In relation with the opening of these new sales points, the Company has signed a memorandum of understanding with a local entity to source trained staff and assist in identifying favorable locations to expand the Company's retail branch network.

Proposed merger

The Board of Directors in their meeting held on April 15, 2018 approved the start of the initial understanding with Al-Sagr Cooperative Insurance Company ("Al-Sagr") to study the economic feasibility of the merger of the two companies. On April 26, 2018, Company signed a non-binding Memorandum of Understanding ("MOU") with Al-Sagr to conduct the technical, financial and legal due diligence and continue non-binding discussions on terms and conditions of the proposed merger. The MOU will end when the two companies sign the merger agreement or after six months from the date of the MOU. Further, both companies were eligible to end MOU only by written notice to other party. However, the Board of Directors decided in their meeting held on September 05, 2018 not to continue these discussions due to the non-feasibility of merging with Al-Sagr Cooperative Insurance Company.

2. BASIS OF PREPARATION

(a) Basis of presentation and measurement

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by SAMA for the accounting of Zakat and income tax", which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued on a quarterly basis through shareholders' equity under retained earnings.

These financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of available-for-sale investments and end of service benefits. The Company's statement of financial position is not presented using a current/non-current classification. Except for property and equipment, intangible assets, statutory deposit, and end-of-service benefits all other assets and liabilities are of short-term nature, unless, stated otherwise.

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly (Note 27). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income, statement of comprehensive income and cash flows of the insurance operations and shareholders' operations which are presented in Note 27 of the financial information have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations. SAMA implementing regulations require the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company-level financial information in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances.

(b) Functional and presentation currency

These financial statements have been presented in Saudi Arabian Riyals (SAR) thousands, which is also the functional currency of the Company. All financial information presented in Saudi Arabian Riyal has been rounded to the nearest thousands, except where otherwise indicated

(c) Fiscal year

The Company follows a fiscal year ending December 31.

2. BASIS OF PREPARATION (continued)

(d) Critical accounting judgments, estimates and assumptions

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

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

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

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

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

The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Actuary had also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

ii) Impairment of financial assets

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. Generally, a period of twelve months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

iii) Impairment of receivables

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

iv) Fair value of financial instruments

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

2. BASIS OF PREPARATION (continued)

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

iv) Fair value of financial instruments (continued)

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented and adoption of the amendments to existing standards mentioned below which has had no material impact on these financial statements on the current year or prior years and are expected to have an insignificant effect in future years:

a) New International Financial Reporting Standards (IFRS), International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

- IFRS 15 – "Revenue from Contracts with Customers" applicable from 1 January 2018 presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard could have a significant impact on how and when revenue is recognized (except for contracts that are within the scope of the Standards on lease, insurance contracts and financial instruments), with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred. The application of this new standard has no material impact on the Company's financial information.

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) effective for annual year on or after January 1, 2018.

- Transfers of Investment Property (Amendments to IAS 40) effective for annual year on or after January 1, 2018.

- Annual Improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 1 and IAS 28) effective for annual year on or after January 1, 2018.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration effective for annual year on or after January 1, 2018.

b) Standards, interpretations and amendments to published standards that will be effective for the years commencing on or after January 1, 2019 and have not been early adopted by the Company

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial information are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards, interpretations and amendments to published standards that will be effective for the years commencing on or after January 1, 2019 and have not been early adopted by the Company (continued)

The Company's management decided not to choose the early adoption of the following new and amended standards and interpretations issued which will become effective for the year commencing after January 1, 2019:

- The implementation of IFRS 9 is expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in OCI, are expected to increase due to the introduction of the expected credit loss methodology. The Company will avail of the exemptions available to insurers and is considering deferring the implementation of IFRS 9 until a later date, but no later than January 1, 2021. The impact of the adoption of IFRS 9 on the Company's financial information will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. At the date of publication of these financial information, it was not practicable to quantify what the potential impact would be on the financial statements once IFRS 9 will be adopted.

- IFRS 16 – "Leases", applicable for the year beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The management believes that the adoption of IFRS 16 will not have a material impact on the Company's financial information.

- IFRS 17 'Insurance contracts' was published on May 18, 2017 with the effective date of 1 January 2022. IFRS 17 provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features. For non-life and short-term life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk, for which confidence level equivalent disclosure will be required. Further, IFRS 17 will change the presentation of insurance contract revenue, as gross premium written will no longer be presented in profit or loss. At the date of publication of these financial information, it was not practicable to quantify what the potential impact would be on the financial information once IFRS 17 will be adopted.

- IFRIC 23 Uncertainty over Income Tax Treatments effective for annual year on or after January 1, 2019.

- Long-term interests in Associates and Joint Ventures (Amendments to IAS 28) effective for annual year on or after January 1, 2019

- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19) effective for annual year on or after January 1, 2019.

- Annual Improvements to IFRSs 2015–2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23) effective for annual year on or after January 1, 2019.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) available for early adoption /effective date deferred indefinitely.

- Amendment to references to conceptual framework in IFRS standards effective for annual year on or after January 1, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Insurance contracts

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

d) Revenue Recognition

Recognition of premium and commission revenue

Premiums and commission are recorded in the statement of income based on 365 days pro rata method except for long term polices (construction and engineering) and marine cargo. Unearned premiums are calculated on a straight line method over the insurance policy coverage except for:

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

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

Reinsurance assumed

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to insurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured.

Commission income

Commission income on time deposits and held-to-maturity investments is recognized on a time proportion basis using the effective interest rate method.

Dividend income

Dividend income on equity instruments classified under available for sale investments is recognized when the right to receive payment is established.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Claims

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

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

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

f) Salvage and subrogation reimbursement

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

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

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

g) Reinsurance contracts held

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 3(c) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. An asset or liability is recorded in the statement of financial position - insurance operations' representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income as incurred. For details please refer 3(o).

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Deferred policy acquisition costs

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

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

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

i) Liability adequacy test

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

j) Receivables

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in "Other operating expenses" in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, settled or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 8 fall under the scope of IFRS 4 "Insurance contracts".

k) Investments - available for sale

Available-for-sale financial assets are those non-derivative financial assets that are neither classified as held for trading or held to maturity or loans and receivables, nor are designated at fair value through profit or loss. Such investments are initially recorded at cost, being the fair value of the consideration given including transaction costs directly attributable to the acquisition of the investment and subsequently measured at fair value. Cumulative changes in fair value of such investments are recognized in other comprehensive income in the statement of comprehensive income under "Net change in fair value – Available for sale investments". Realized gains or losses on sale of these investments are reported in the related statements of income under "Realized gain / (loss) on investments available for sale investments."

Dividend, commission income and foreign currency gain/(loss) on available-for-sale investments are recognized in the related statements of income or statement of comprehensive income, as part of the net investment income / loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Investments - available for sales (continued)

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

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

Reclassification:

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to HTM is permitted only when the entity has the ability and intention to hold the financial asset until maturity. For a financial asset reclassified out of the available-for-sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the Effective Interest Rate "EIR". If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

l) De-recognition of financial instruments

The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party and the Company has also transferred substantially all risks and rewards of ownership.

m) Offsetting

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

n) Trade date accounting

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

o) Impairment of financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Impairment of financial assets (continued)

Evidence of impairment may include:

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

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

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

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

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the statement of income under "Gain / (loss) on available for sale investments.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

p) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred. The cost of other items of property and equipment is depreciated on the straight line method to allocate the cost over estimated useful lives, as follows:

	No of years
Computer equipment	4
Furniture, fixture and office equipment	5
Vehicles	4

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Property and equipment (continued)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in "Other Income, net" in the statement of income

q) Intangible assets

Separately acquired intangible assets (Computer software) are shown at historical cost. They have a finite useful life and are subsequent carried at cost less accumulated amortization and impairment losses. The Company amortises intangible assets with a limited useful life using straight-line method over the period of 4 years.

r) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of income with in operating expenses on a straight-line basis over the period of the lease.

s) Impairment of non-financial assets

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

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

t) Provisions, accrued expenses and other liabilities

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

u) Employees' end-of-service benefits

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made at the present value of expected future payments in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds like dollar denominated KSA Sovereign Bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The benefit payments obligation is discharged as and when it falls due. Re-measurements (actuarial gains/ losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income.

v) Zakat and income tax

The Company is subject to zakat and tax in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of net adjusted income for the year. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. Zakat and Income tax is accrued on a quarterly basis. Effective January 1, 2017, based on the Circular issued by SAMA, the Company amended its accounting policy to charge zakat and tax directly into retained earnings in the statement of changes in shareholders' equity instead of statement of income

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the year in which the dividends are approved by the Company's shareholders.

x) Cash and cash equivalents

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

y) Cash flow statement

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

z) Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Saudi Riyals at the rate of exchange prevailing at the statement of financial position date. All differences are taken to the statements of income and comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Foreign exchange gains or losses on available-for-sale investments are recognized in "Other income, net" in the statement of income and statement of comprehensive income. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

aa) Statutory reserve

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

bb) Operating segments

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment), which is subject to risk and rewards that are different from those of other segments. For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Medical insurance provides coverage for health insurance.
- Motor insurance provides coverage for vehicles' insurance.
- Property insurance provides coverage for property insurance.
- Engineering insurance provides coverage for engineering and contract works.
- Other insurance provides coverage for marine and other general insurance.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

bb) Operating segments (continued)

No inter-segment transactions occurred during the year. If any transaction was to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

Shareholders' income is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

cc) Unearned reinsurance commission

Commission income on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. Amortisation is recorded in the statement of income.

dd) Short-term deposits

Short-term deposits comprise of time deposits with banks with maturity periods of more than three months and less than one year from the date of acquisition.

ee) Fair values

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

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

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

4. PROPERTY AND EQUIPMENT, NET

	Furniture and fixtures	Computer equipment	Vehicles	Total 2018	Total 2017
Cost:					
January 1	11,809	7,832	375	**20,016**	17,583
Additions	1,116	3,061	-	**4,177**	2,433
December 31	12,925	10,893	375	**24,193**	20,016
Accumulated Depreciation:					
January 1	5,578	5,372	375	**11,325**	8,290
Charge for the year	1,877	1,576	-	**3,453**	3,035
December 31	7,455	6,948	375	**14,778**	11,325
Net book value					
December 31, 2018	**5,470**	**3,945**	-	**9,415**	-
December 31, 2017	6,231	2,460	-	-	8,691

5. INTANGIBLE ASSETS

	Internally generated software	
	2018	2017
Cost:		
January 1	**2,248**	1,858
Additions	**1,525**	390
December 31	**3,773**	2,248
Accumulated amortisation		
January 1	**1,744**	1,451
Charge for the year	**695**	293
December 31	**2,439**	1,744
Net book value		
December 31	**1,334**	504

6. INVESTMENTS

Investments are classified as follows:

	Shareholders' operations	
	December 31, 2018	December 31, 2017
Available for sale investments	**162,876**	96,767

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

6. INVESTMENTS (continued)

i) **Available for sale**

	Domestic		International		Total	
	2018	2017	2018	2017	2018	2017
Equities	162,876	96,767	-	-	162,876	96,767
Available for sale	162,876	96,767	-	-	162,876	96,767

Movement in available for sale investments are as follows:

	Quoted securities	Unquoted securities	Total
As at January 1, 2017	86,499	23,123	109,622
Disposals	(14,595)	-	(14,595)
Changes in fair value of investments, net	1,740	-	1,740
As at December 31, 2017	73,644	23,123	96,767
As of January 1, 2018	73,644	23,123	96,767
Purchases	60,000	-	60,000
Adjustments	(194)	-	(194)
Changes in fair value of investments, net	6,303	-	6,303
As at December 31, 2018	139,753	23,123	162,876

7. CASH AND CASH EQUIVALENTS

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

	Insurance operations	
	December 31, 2018	December 31, 2017
Bank balances and cash	222,652	289,505
Deposits maturing within 3 months from the acquisition date	431,354	-
Total	654,006	289,505

	Shareholders' operations	
	December 31, 2018	December 31, 2017
Bank balances and cash	20,624	20,414
Deposits maturing within 3 months from the acquisition date	447,699	-
Total	468,323	20,414

Deposits are maintained with financial institutions and have a maturity of three months or less from the date of acquisition. These earn commission at an average rate of 2.5% per annum as at December 31, 2018 (2017: 1.29% per annum). Bank balances and deposits are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

8. PREMIUMS AND REINSURERS' RECEIVABLE - NET

Receivables comprise amounts due from the following:

	December 31, 2018	December 31, 2017
Policyholders	58,069	52,490
Brokers and agents	187,434	105,878
Related parties (note 17)	575	371
Receivables from reinsurers	1,788	1,447
	247,866	160,186
Provision for doubtful receivables	(45,450)	(32,845)
Premiums and reinsurers' receivable – net	202,416	127,341

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

	2018	2017
Balance, January 1	32,845	22,127
Provision for the year	12,605	10,718
Balance, December 31	45,450	32,845

As at December 31, the ageing of receivables is as follows:

Premiums receivable

Premium and reinsurance receivables	Total	Neither impaired nor past due	Past due but not impaired 91-180 days	181-360 days	More than 360 days
- Policyholders'	201,347	125,130	35,548	34,135	6,534
- Due from related parties	535	411	8	116	-
- Receivable from reinsurers	534	-	84	41	409
2018	202,416	125,541	35,640	34,292	6,943

Premium and reinsurance receivables	Total	Neither impaired nor past due	91-180 days	181-360 days	More than 360 days
- Policyholders'	130,521	81,217	30,117	13,136	6,051
- Due from related parties	278	31	3	239	5
- Receivable from reinsurers	362	-	-	-	362
2017	131,161	81,248	30,120	13,375	6,418

The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts. The five largest customers accounts for 33% (December 31, 2017: 39%) of the premiums receivable as at December 31, 2018.

Provision for doubtful debts includes an amount of SAR 4.7 million (2017: SAR 3.8 million) recorded on account of value added tax.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

9. TECHNICAL RESERVES

9.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	December 31, 2018	December 31, 2017
Outstanding claims	190,757	150,619
Less: Realizable value of salvage and subrogation (note 9.1.1)	(9,253)	-
	181,504	150,619
Claims incurred but not reported	298,561	255,904
Less: IBNR related to salvages and subrogation (note 9.1.1)	(100,801)	-
IBNR related to Outstanding claims	197,760	255,904
Additional premium reserves:		
- Premium deficiency reserve	7,975	3,197
- Additional unexpired risk reserve	550	-
	8,525	3,197
Other technical reserves:		
- Claims handling expense provision	11,687	-
- Unallocated loss adjustment expense provision	14,024	3,192
- Non-proportional reinsurance accrual reserve	668	2,124
	26,379	5,316
	414,168	425,036
Less:		
- Reinsurers' share of outstanding claims	124,638	110,606
- Reinsurers' share of claims incurred but not reported	41,538	42,106
	166,176	152,712
Net outstanding claims and reserves	247,992	272,324

9.1.1 Salvage and subrogation

	December 31, 2018	December 31, 2017
Salvage and subrogation	110,054	-
IBNR related to salvages and subrogation	(100,801)	-
Realizable value of salvage and subrogation	9,253	-

9.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	For the year ended December 31, 2018		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	538,493	(130,247)	408,246
Premiums written during the year	1,104,957	(373,828)	731,129
Premiums earned during the year	(1,106,842)	308,513	(798,329)
Balance as at the end of the year	536,608	(195,562)	341,046

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

9. TECHNICAL RESERVES (continued)

9.2 Movement in unearned premiums (continued)

	For the year ended December 31, 2017		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	495,321	(136,568)	358,753
Premiums written during the year	1,102,332	(260,744)	841,588
Premiums earned during the year	(1,059,160)	267,065	(792,095)
Balance as at the end of the year	538,493	(130,247)	408,246

9.3 Movement in deferred policy acquisition costs and unearned reinsurance commission

	For the year ended December 31, 2018	
	Deferred policy acquisition cost	Unearned reinsurance commission
Balance, January 1	37,018	9,842
Incurred during the year	58,147	31,165
Amortized/ earned during the year	(71,595)	(28,564)
Balance, December 31	23,570	12,443

	For the year ended December 31, 2017	
	Deferred policy acquisition cost	Unearned reinsurance commission
Balance, January 1	32,540	7,209
Incurred during the year	77,878	19,579
Amortized/ earned during the year	(73,400)	(16,946)
Balance, December 31	37,018	9,842

10. COMMITMENTS AND CONTINGENCIES

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

	December 31, 2018	December 31, 2017
Letters of guarantee	5,300	6,089
Total	5,300	6,089

The company has submitted these bank guarantees to various parties which are fully covered by margin deposits amounting to SAR 5.3 million (2017: SAR 6.1 million).

b) The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. The Company's management, based on independent legal advice, believes that the outcome of court cases will not have a material impact on the Company's income or financial condition.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

11. ACCRUED AND OTHER LIABILITIES

	2018	2017
Accrued expenses	26,846	17,607
Marketing representative commissions	25,707	27,665
Payable - General Authority of Zakat and Tax – VAT	5,712	-
Provision for leave encashment	2,188	1,468
Employees' savings plan	549	306
Other liabilities	59,112	27,202
	120,114	74,248

12. SURPLUS DISTRIBUTION PAYABLE

	2018	2017
Opening surplus distribution payable as at January 1,	31,055	14,547
Total income attributed to the insurance operations during the year	11,347	16,508
Credited to policyholders' accounts	(28,907)	-
Closing surplus distribution payable as at December 31,	13,495	31,055

13. EMPLOYEE'S END OF SERVICE BENEFITS

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

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

	2018	2017
Present value of defined benefit obligation	14,622	12,779

13.2 Movement of defined benefit obligation

	2018	2017
Opening balance	12,779	7,268
Charge to statement of income	2,891	4,264
Charge to statement of comprehensive income	42	2,174
Payment of benefits during the year	(1,090)	(927)
Closing balance	14,622	12,779

13.3 Reconciliation of present value of defined benefit obligation

	2018	2017
Present value of defined benefit obligation as at January 1	12,779	7,268
Current service costs	2,469	3,894
Financial costs	422	370
Actuarial loss from experience adjustments	42	2,174
Benefits paid during the year	(1,090)	(927)
Present value of defined benefit obligation as at December 31	14,622	12,779

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

13. EMPLOYEE'S END OF SERVICE BENEFITS (continued)

13.4 Principal actuarial assumptions

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

	2018	2017
Valuation discount rate	4.50%	3.10%
Expected rate of increase in salary level across different age bands	4.50%	4.50%

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

	2018	2017
	Impact on defined benefit obligation	
Valuation discount rate		
- Increase by 0.5%	13,953	12,135
- Decrease by 0.5%	15,349	13,481
Expected rate of increase in salary level across different age bands		
- Increase by 0.5%	15,068	13,217
- Decrease by 0.5%	14,204	12,369

14. CLAIMS DEVELOPMENT TABLE

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the periods beginning from year 2009 onwards whose claim experience has not been fully developed.
Claims triangulation analysis is by accident years, spanning a number of financial years.

Claims development table gross of reinsurance:

2018

Accident year	2013 & Earlier	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims cost gross of reinsurance:							
At the end of accident year	-	387,694	439,814	513,609	578,744	600,983	600,983
One year later	-	373,891	410,761	408,368	513,928	-	513,928
Two years later	-	361,727	411,664	373,951	-	-	373,951
Three years later	-	360,446	398,943	-	-	-	398,943
Four years later	-	359,348	-	-	-	-	359,348
Five years later	520,134	-	-	-	-	-	520,134
Current estimate of cumulative claims	520,134	359,348	398,943	373,951	513,928	600,983	2,767,287
Cumulative payments to date	(525,267)	(298,613)	(370,945)	(352,083)	(429,120)	(411,995)	(2,388,023)
Liability recognized in statement of financial position	(5,133)	60,735	27,998	21,868	84,808	188,988	379,264
Premium deficiency reserve							7,975
Outstanding claims and reserves							387,239

14. CLAIMS DEVELOPMENT TABLE (Continued)

2017

Accident year	2012 & Earlier	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims cost gross of reinsurance:							
At the end of accident year	-	212,853	395,301	465,608	515,051	578,744	578,744
One year later	-	204,940	379,630	413,273	408,368	-	408,368
Two years later	-	182,367	361,386	411,864	-	-	411,864
Three years later	-	167,260	360,446	-	-	-	360,446
Four years later	-	173,218	-	-	-	-	173,218
Five years later	373,889	-	-	-	-	-	373,889
Current estimate of cumulative claims	373,889	173,218	360,446	411,864	408,368	578,744	2,306,529
Cumulative payments to date	(372,890)	(171,466)	(297,500)	(366,280)	(337,549)	(344,321)	(1,890,006)
Liability recognized in statement of financial position	999	1,752	62,946	45,584	70,819	234,423	416,523
Premium deficiency reserve							3,197
Outstanding claims and reserves							419,720

Claims development table net of reinsurance:

2018

Accident year	2013 & Earlier	2014	2015	2016	2017	2018	Total
				SAR '000			
At the end of accident year	-	217,436	388,992	454,496	528,730	560,868	560,868
One year later	-	224,573	346,980	361,782	460,899	-	460,899
Two years later	-	218,104	353,925	340,833	-	-	340,833
Three years later	-	219,391	340,393	-	-	-	340,393
Four years later	-	216,282	-	-	-	-	216,282
Five years later	385,337	-	-	-	-	-	385,337
Current estimate of cumulative claims	385,337	216,282	340,393	340,833	460,899	560,868	2,304,612
Cumulative payments to date	(392,154)	(211,309)	(330,567)	(326,758)	(421,945)	(408,791)	(2,091,524)
Liability recognized in statement of financial position	(6,817)	4,973	9,826	14,075	38,954	152,077	213,088
Premium deficiency reserve							7,975
Outstanding claims and reserves							221,063

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

14. CLAIMS DEVELOPMENT TABLE (Continued)

Claims development table net of reinsurance (continued)

2017

Accident year	2012 & Earlier	2013	2014	2015	2016	2017	Total
At the end of accident year	-	126,465	219,701	392,148	455,789	528,730	528,730
One year later	-	122,665	225,230	348,876	361,782	-	361,782
Two years later	-	120,950	218,201	353,925	-	-	353,925
Three years later	-	120,661	219,391	-	-	-	219,391
Four years later	-	120,333	-	-	-	-	120,333
Five years later	305,254	-	-	-	-	-	305,254
Current estimate of cumulative claims	305,254	120,333	219,391	353,925	361,782	528,730	1,889,415
Cumulative payments to date	(306,044)	(119,670)	(211,472)	(328,795)	(316,973)	(342,650)	(1,625,604)
Liability recognized in statement of financial position	(790)	663	7,919	25,130	44,809	186,080	263,811
Premium deficiency reserve							3,197
Outstanding claims and reserves							267,008

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The management assessed that cash and short-term deposits, premium and reinsurance receivables, receivables from related parties, trade and other payables and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

a. Carrying amounts and fair value

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

Shareholders' Operations		**Fair value**			
December 31, 2018	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
- Available for sale investments					
- Quoted securities	139,753	139,753	-	-	139,753
	139,753	139,753	-	-	139,753

Shareholders' Operations		Fair value			
December 31, 2017	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
- Available for sale investments					
- Quoted securities	73,644	73,644	-	-	73,644
	73,644	73,644	-	-	73,644

b. Measurement of fair values

The Company has investments amounting to SR 23 million in unquoted securities. These investments have not been measured at fair values in the absence of active market or other means of reliably measuring their fair values. However, the management believes that there is no major difference between the carrying values and fair values of these investments.

Transfer between the levels

During the year, there were no transfers into or out of each level.

16. OPERATING SEGMENTS

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

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

Segment assets do not include cash and cash equivalents, short term deposits, premiums and insurance balances receivable - net, due from shareholders' operations, accrued commission income, prepaid expenses and other assets, property and equipment and intangible assets. Accordingly, they are included in unallocated assets.

Segment liabilities do not include policyholders' claims payables, accrued and other liabilities, reinsurance balances payable, due to shareholders' operations, end-of-service indemnities and accrual loss thereon, and insurance operations' surplus. Accordingly, they are included in unallocated liabilities.

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

Segments do not include shareholders' assets and liabilities and equity hence, these are presented under unallocated assets / liabilities accordingly.

The segment information provided to the Company's Board of Directors for the reportable segments for the Company's total assets and liabilities at December 31, 2018 and December 31, 2017, its total revenues, expenses, and net income for the year then ended, are as follows:

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

16. OPERATING SEGMENTS (continued)

	As at December 31, 2018							
	Insurance operations							
	Medical	Motor	Property	Engineering	Others	Total - Insurance operations	Shareholders' operations	Total
Assets								
Reinsurers' share of unearned premiums	-	-	112,811	41,391	41,360	195,562	-	195,562
Reinsurers' share of outstanding claims	-	463	75,479	37,570	11,126	124,638	-	124,638
Reinsurers' share claims incurred but not reported			4,215	13,865	23,458	41,538	-	41,538
Deferred policy acquisition costs	2,455	13,219	2,608	1,499	3,789	23,570	-	23,570
Unallocated assets	-	-	-	-	-	903,006	708,654	1,611,660
Total assets	2,455	13,682	195,113	94,325	79,733	1,288,314	708,654	1,996,968
Liabilities and shareholders' equity								
Unearned premiums	37,608	286,699	114,224	43,580	54,497	536,608	-	536,608
Unearned reinsurance commission	-	-	5,068	3,199	4,176	12,443	-	12,443
Outstanding claims	26,847	13,296	79,149	38,890	23,322	181,504	-	181,504
Claims incurred but not reported	11,374	132,793	5,734	14,580	33,279	197,760	-	197,760
Additional premium reserves	7,673	-	-	550	302	8,525	-	8,525
Other technical reserves	382	21,103	2,122	1,340	1,432	26,379	-	26,379
Unallocated liabilities and shareholders' equity	-	-	-	-	-	325,095	708,654	1,033,749
Total liabilities and shareholders' equity	83,884	453,891	206,297	102,139	117,008	1,288,314	708,654	1,996,968

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

16. OPERATING SEGMENTS (continued)

	As at December 31, 2017							
	Insurance operations							
	Medical	Motor	Property	Engineering	Others	Total - Insurance operations	Shareholders' operations	Total
Assets								
Reinsurers' share of unearned premiums	-	-	59,008	39,954	31,255	130,247		130,247
Reinsurers' share of outstanding claims	-	15	76,521	29,197	4,873	110,606	-	110,606
Reinsurers' share of claims incurred but not reported	-	422	4,925	9,627	27,132	42,106	-	42,106
Deferred policy acquisition costs	4,031	26,807	1,293	1,449	3,438	37,018	-	37,018
Unallocated assets						857,776	602,398	1,460,174
Total assets	4,031	27,244	141,747	80,257	66,698	1,177,753	602,398	1,780,151
Liabilities and shareholders' equity								
Unearned premiums	52,637	341,100	60,161	42,695	41,900	538,493	-	538,493
Unearned reinsurance commission	-	-	2,540	3,685	3,617	9,842	-	9,842
Outstanding claims	15,427	13,645	81,540	30,826	19,181	160,619	-	160,619
Claims incurred but not reported	9,180	195,895	6,296	10,157	34,376	255,904	-	255,904
Additional premium reserves	-	-	2,125	-	1,072	3,197	-	3,197
Other technical reserves	-	4,096	471	256	493	5,316	-	5,316
Unallocated liabilities and shareholders' equity						204,382	602,398	806,780
Total liabilities and shareholders' equity	77,244	554,736	153,133	87,619	100,639	1,177,753	602,398	1,780,151

WALAA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

16. OPERATING SEGMENTS (continued)

	For the year ended December 31, 2018					
	Medical	**Motor**	**Property**	**Engineering**	**Others**	**Total**
REVENUES						
Gross premiums written						
- Direct	95,569	612,213	197,204	73,092	126,552	1,104,630
- Reinsurance	-	-	352	(25)	-	327
	95,569	612,213	197,556	73,067	126,552	1,104,957
Reinsurance premiums ceded						
- Local ceded	-	-	(4,124)	(4,315)	-	(8,439)
- Foreign ceded	-	(173)	(189,582)	(65,689)	(94,661)	(350,105)
		(173)	(193,706)	(70,004)	(94,661)	(358,544)
Excess of loss expenses	(8,555)	(4,677)	(588)	(588)	(876)	(15,284)
Net premiums written	87,014	607,363	3,262	2,475	31,015	731,129
Changes in unearned premiums, net	15,029	54,401	(261)	523	(2,492)	67,200
Net premiums earned	102,043	661,764	3,001	2,998	28,523	798,329
Reinsurance commissions	-	5	7,786	12,131	8,542	28,564
Other underwriting income	-	3,904	9	7	57	3,977
TOTAL REVENUES	102,043	665,673	10,796	15,136	37,122	830,870
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	80,442	402,046	8,584	9,269	17,010	517,351
Expenses incurred related to claims	5,843	34,218	-	-	-	40,061
Reinsurers' share of claims paid	(7,615)	(845)	(6,614)	(7,491)	(3,882)	(26,447)
Net claims and other benefits paid	78,670	435,419	1,970	1,778	13,128	530,965
Changes in outstanding claims, net	11,421	(797)	(1,349)	(309)	(2,113)	6,853
Changes in IBNR, net	2,193	(62,680)	149	187	2,575	(57,576)
Net claims and other benefits incurred	92,284	371,942	770	1,656	13,590	480,242
Additional premium reserves	7,673	-	(2,125)	550	(770)	5,328
Other technical reserves	382	17,007	1,651	1,084	939	21,063
Policy acquisition costs	10,250	46,112	4,834	2,432	7,967	71,595
Other underwriting expenses	3,712	5,905	-	-	60	9,677
TOTAL UNDERWRITING COSTS AND EXPENSES	114,301	440,966	5,130	5,722	21,786	587,905
NET UNDERWRITING INCOME / EXPENSE	(12,258)	224,707	5,666	9,314	15,336	242,965
OTHER OPERATING (EXPENSES)/ INCOME						
Allowance for doubtful debts						(12,605)
General and administrative expenses						(132,636)
Commission income on deposits						20,430
Investment and dividend income						1,191
Impairment of investments						(7,633)
TOTAL OTHER OPERATING EXPENSES						(131,253)
NET INCOME FOR THE YEAR						111,712
Total income for the year attributable to insurance operations						(11,347)
NET INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS						100,365

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

16. OPERATING SEGMENTS (continued)

	For the year ended December 31, 2017					
	Medical	Motor	Property	Engineering	Others	Total
REVENUES						
Gross premiums written						
- Direct	103,299	706,600	93,563	87,010	111,279	1,101,751
- Reinsurance	-	-	378	203	-	581
	103,299	706,600	93,941	87,213	111,279	1,102,332
Reinsurance premiums ceded						
- Local ceded	-	-	(3,323)	(2,709)	-	(6,032)
- Foreign ceded	-	-	(87,155)	(79,395)	(78,634)	(245,184)
			(90,478)	(82,104)	(78,634)	(251,216)
Excess of loss expenses	(2,895)	(4,447)	(615)	(615)	(956)	(9,528)
Net premiums written	100,404	702,153	2,848	4,494	31,689	841,588
Changes in unearned premiums, net	8,242	(59,530)	750	266	779	(49,493)
Net premiums earned	108,646	642,623	3,598	4,760	32,468	792,095
Reinsurance commissions	-	-	5,934	6,216	4,796	16,946
Other underwriting income	-	5,964	9	6	177	6,156
TOTAL REVENUES	108,646	648,587	9,541	10,982	37,441	815,197
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	70,334	382,163	21,630	9,406	17,471	501,004
Expenses incurred related to claims	5,484	25,726	-	-	-	31,210
Reinsurers' share of claims paid	(1,836)	(1,232)	(17,700)	(7,921)	(3,367)	(32,056)
Net claims and other benefits paid	73,982	406,657	3,930	1,485	14,104	500,158
Changes in outstanding claims, net	(7,813)	(11,841)	(2,427)	(1,036)	1,055	(22,062)
Changes in IBNR, net	(14,879)	16,297	31	32	4,880	6,361
Net claims and other benefits incurred	51,290	411,113	1,534	481	20,039	484,457
Additional premium reserves	-	-	2,125	(753)	1,072	2,444
Other technical reserves	(2,119)	(3,532)	241	(239)	495	(5,154)
Policy acquisition costs	9,649	52,546	3,726	1,602	5,877	73,400
Other underwriting expenses	440	2,685	-	-	200	3,325
TOTAL UNDERWRITING COSTS AND EXPENSES	59,260	462,812	7,626	1,091	27,683	558,472
NET UNDERWRITING INCOME	49,386	185,775	1,915	9,891	9,758	256,725
OTHER OPERATING (EXPENSES)/ INCOME						
Allowance for doubtful debts						(10,718)
General and administrative expenses						(96,281)
Commission income on deposits						13,277
Investment and dividend income						641
Realized loss on investments						(5,405)
TOTAL OTHER OPERATING EXPENSES						(98,486)
NET INCOME FOR THE YEAR						158,239
Total income for the year attributable to insurance operations						(16,508)
NET INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS						141,731

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

17. RELATED PARTY TRANSACTIONS AND BALANCES

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

	Transactions for the year ended		Net balance receivable / (payable) as at	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Entities controlled, jointly controlled or significantly influenced by related parties				
Insurance premium written /receivables from				
- BOD and related parties	2,815	3,804	413	222
- Key management personnel	23	20	-	-
Claims paid and payable to BOD and their related parties	2,024	1,557	(295)	(233)
Others	506	20	(210)	(41)

Remuneration and compensation of BOD Members and Top Executives

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and 5 top executives for the year ended December 31, 2018 and 2017:

2018	BOD members (Non-Executive)	Top Executives including the CEO and CFO
Salaries and allowances	-	4,763
Annual remuneration	5,032	-
End of service indemnities	-	603
Total	5,032	5,366

2017	BOD members (Non-Executive)	Top Executives including the CEO and CFO
Salaries and allowances	-	7,403
Annual remuneration	5,214	-
End of service indemnities	-	504
Total	5,214	7,907

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

18. ZAKAT AND INCOME TAX

Zakat

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

	2018	2017
Share capital	400,000	400,000
Reserves, opening provisions and other adjustments	233,513	82,843
Book value of long term assets	(173,625)	(145,962)
	459,888	336,881
Adjusted income for the year	116,241	159,353
Zakat base	576,129	496,234
Saudi shareholder's share of Zakat base @ 94.75%	545,882	470,182
Zakat due at 2.5%	13,647	11,755

The differences between the financial and zakat able results are mainly due to provisions, which are not allowed in the calculation of adjusted income. The movement in the zakat provision for the year was as follows:

	2018	2017
Balance, January 1	25,712	21,265
Provided during the year	13,647	11,755
Payments during the year	(12,025)	(7,308)
Balance, December 31	27,334	25,712

Income tax:

	2018	2017
Net income for the year	100,365	141,731
Provisions charged during the year for end of service benefits	2,891	4,264
Provision charged during the year for doubtful debts	12,605	10,718
Others	380	2,640
	116,241	159,353
Foreign shareholders' share of tax base @ 5.25%	6,103	8,366
Payments of end of service benefits	(1,090)	(927)
Others	(1,319)	(334)
	(2,409)	(1,261)
Foreign shareholders' share of tax payments	(126)	(66)
Less: Others	-	(2,074)
Tax base	5,977	6,226
Tax at 20%	1,195	1,245

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

18. ZAKAT AND INCOME TAX (Continued)

Income tax charge for the current year is calculated at 20% of the adjusted taxable income on the portion of equity owned by the foreign shareholders. The movement in the tax provision for the year was as follows:

	2018	2017
Balance, January 1	3	2,443
Provided during the year	1,195	1,245
Payments during the year	-	(3,685)
Balance, December 31	1,198	3

Status of assessments

The Company had filed Zakat and income tax returns with the General Authority of Zakat and Tax ("GAZT") up to the year ended 31 December 2017 and obtained the required certificate from GAZT that is valid up to April 30, 2019.

Subsequent to the year ended December 31, 2018, the Company has received an assessment order for the year 2016 for an additional zakat and tax liability amounting to SR 20 million. The management of the Company is reviewing the assessment letter in order to respond in the specified time period and is confident that the additional liability would be adjusted significantly in favour of the Company.

19. SHARE CAPITAL

The authorized, issued and paid up capital of the Company was SAR 440 million at December 31, 2018 (December 31, 2017: SAR 400 million) consisting of 44 million shares (December 31, 2017: 40 million shares) of SAR 10 each.

In the year 2015, the Company had increased its share capital from SAR 200 million to SAR 400 million, by issuing 20 million right shares to its existing shareholders, which were offered at an exercise price of SAR 12 per share. This resulted in a share premium less issuance cost amounting to SAR 30.1 million.

The Company's Board of Directors in their meeting held on October 29, 2017 corresponding to 9 Safar 1439H recommended to Extraordinary General Assembly Meeting to increase share capital of the Company by issuing 4 million bonus shares which was approved by Extraordinary General Assembly on May 29, 2018 corresponding to 14 Ramadan 1439H. The Capital Market Authority in its resolution dated April 18, 2018 approved this increase in capital by issuing bonus shares.

Shareholding structure of the Company is as below.

	December 31, 2018		
	Authorized and issued		Paid up
	No. of Shares "000"	SAR "000"	
International General Insurance Company	2,310	23,100	23,100
Others	41,690	416,900	416,900
Total	44,000	440,000	440,000

	December 31, 2017		
	Authorized and issued		Paid up
	No. of Shares "000"	SAR "000"	
International General Insurance Company	2,100	21,000	21,000
Others	37,900	379,000	379,000
Total	40,000	400,000	400,000

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

20. CAPITAL MANAGEMENT

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares.

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

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

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

The Company's net admissible assets as at December 31, 2018 are 284% (2017: 276%) of the required minimum margin for solvency. Further, the Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at December 31, 2018 consists of paid-up share capital of SAR 440 million, statutory reserves of SAR 49 million and retained earnings of SAR 155 million (December 31, 2017: paid-up share capital of SAR 400 million, statutory reserves of SAR 32 million and retained earnings of SAR 127 million.) in the statement of financial position.

In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Salaries, benefits and remunerations	72,455	62,149
Advertising, marketing and branch development expenses	20,976	1,917
Rent	6,168	5,404
Insurance, utilities and maintenance	5,132	3,950
Depreciation and amortization	4,148	3,328
Communications	2,415	163
Office supplies and printing	1,367	1,137
Training and education	867	604
Others	19,108	17,629
	132,636	96,281

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

22. INVESTMENT INCOME

	2018	2017
Available for sale financial assets		
Investment and dividend income	1,191	641
Cash and short term deposits		
Special commission income	20,430	13,277
	21,621	13,918

23. NET REALISED LOSSES

	2018	2017
Available for sale financial assets		
Realised loss on available for sales investments	-	(5,405)
Impairment of investments	(7,633)	-
Total net realised losses for available for sale financial assets	(7,633)	(5,405)

24. BONUS SHARES AND EARNINGS PER SHARE ("EPS")

The Company's Board of Directors in their meeting held on October 29, 2017 corresponding to 9 Safar 1439H recommended to Extraordinary General Assembly Meeting to increase share capital of the Company by issuing 4 million bonus shares which was approved by Extraordinary General Assembly on May 29, 2018 corresponding to 14 Ramadan 1439H. The Capital Market Authority in its resolution dated April 18, 2018 approved this increase in capital by issuing bonus shares.

Basic and diluted earnings per share from shareholders' income is calculated by dividing net income for the year by weighted average number of ordinary shares outstanding during the year. The Company has issued 4 million bonus shares during current year as a result of that, the basic and diluted EPS of the Company for the year ended December 31, 2017 have been restated.

25. RISK MANAGEMENT

(a) 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 Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. The majority of proportional reinsurance is quota–share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non–proportional reinsurance is primarily excess–of–loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess–of–loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 8% of total reinsurance assets at the reporting date.

25. RISK MANAGEMENT (Continued)

a) Insurance risk (continued)

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

Concentration of insurance risk

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

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

Since the Company operates majorly in Saudi Arabia, hence, all the insurance risks relate to policies written in Saudi Arabia.

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

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

25. RISK MANAGEMENT (Continued)

Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. For details please refer note 2(d)(i).

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

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

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

Sensitivity analysis

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

A hypothetical 10% change in the claim ratio, net of reinsurance, would impact net underwriting income/ (loss) as follows:

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

25. RISK MANAGEMENT (Continued)

Sensitivity analysis (continued)

	Income from insurance operations	
	2018	2017
Impact of change in claim ratio by + 10%		
Medical	(3,822)	(2,461)
Motor	(14,563)	(20,910)
Property	(519)	(639)
Engineering	(203)	(216)
Other	(2,202)	(2,155)
	(21,309)	(26,381)
Impact of change in average claim cost + 10%		
Medical	(584)	(548)
Motor	(3,422)	(2,573)
	(4,006)	(3,121)

A hypothetical 10% decrease in claim ratio, net of reinsurance, would have almost equal but opposite impact on net underwriting income.

(a) Reinsurance risk

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.

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

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

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance of the reinsurers, wherever applicable, are thoroughly reviewed by the Company and agreed to pre-set requirements of the Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business. As at December 31, 2018 and 2017, there is no significant concentration of reinsurance balances.

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.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

25. RISK MANAGEMENT (Continued)

(b) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders which are in line with their expectations.
- The Company stipulates diversification benchmarks by type of instrument and geographical area, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.
- There is strict control over hedging activities (e.g., equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

The Board of Directors of the Company ensure that the overall market risk exposure is maintained at prudent levels and is consistent with the available capital. While the Board gives a strategic direction and goals, risk management function related to market risk is mainly the responsibility of Investment Committee team. The team prepares forecasts showing the effects of various possible changes in market conditions related to risk exposures. This risk is being mitigated through the proper selection of securities. Company maintains diversified portfolio and performs regular monitoring of developments in related markets. In addition, the key factors that affect stock and sukuk market movements are monitored, including analysis of the operational and financial performance of investees.

Market risk comprises of three types of risk: currency risk, commission rate risk and other price risk.

Currency Risk

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

The Company's exposure to foreign currency risk is limited to United States Dollars which is pegged against Saudi Riyals. 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.

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

<u>Shareholders Operations</u>	2018	2017
Saudi Arabian Riyals and GCC currencies	162,876	96,767
	162,876	96,767

Commission Rate Risk

The Company invests in securities and has deposits that are subject to commission rate risk. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates and by investing in floating rate instruments.

An increase or decrease of 0.50 basis points in interest yields would result in an increase or decrease in the profit for the year of SAR 0.407 million (2017: SAR 0.616 million).

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

25. RISK MANAGEMENT (Continued)

(b) Market Risk (Continued)

Commission Rate Risk (continued)

The commission and non-commission bearing investments of the Company and their maturities as at December 31, 2018 and 2017 are as follows:

	Less than 1 year	More than 1 year	Non-commission bearing	Total
Insurance Operations				
2018	431,354	-	-	431,354
2017	400,000	-	-	400,000
Shareholders Operations				
2018	447,699	-	162,876	610,575
2017	424,833	-	96,767	521,600

Other Price Risk

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

The Company's investments amounting to SAR 139.753 million (2017: SAR 73.644 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

The impact of a hypothetical change of a 10% increase and 10% decrease in the market prices of investments on shareholders' comprehensive income would be as follows:

	Fair value change	Effect on Company's other comprehensive income
December 31, 2018	+ / -10%	+/- 13,975
December 31, 2017	+ / -10%	+ / - 7,364

The sensitivity analysis presented is based upon the portfolio position as at December 31, 2018 and 2017. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

(c) Credit Risk

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

The table below shows the maximum exposure to credit risk for the relevant components of the statement of financial position:

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

25. RISK MANAGEMENT (Continued)

(c) Credit Risk (continued)

	2018	2017
Insurance operations' assets		
Cash and cash equivalents	653,944	289,456
Short term deposits	-	400,000
Premiums and insurance balances receivable, net	202,416	127,341
Reinsurers' share of outstanding claims	166,176	152,712
Accrued commission income	1,752	3,344
Other assets	25,639	22,781
	1,049,927	995,634
Shareholders' assets		
Cash and cash equivalents	468,323	20,414
Short term deposits	-	424,833
Accrued commission income	6,948	5,320
Available-for-sale investments	162,876	96,767
Statutory deposit	44,000	40,000
	682,147	587,334
Total	1,732,074	1,582,968

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Approximately all of the Company's underwriting activities are carried out in Saudi Arabia.

The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Insurance Operations assets	2018	2017	2018	2017	2018	2017
	Investment grade		Non-investment grade		Unrated	
Cash and cash equivalents	653,944	289,456	-	-	-	-
Short term deposits	-	400,000	-	-	-	-
Premium and reinsurance balances receivable	-	-	-	-	-	-
Policyholders'	-	-	-	-	201,347	130,521
Due from related parties	-	-	-	-	535	278
Reinsurance receivables	-	-	-	-	534	362
Reinsurers share of outstanding claims	-	-	-	-	166,176	152,712
Accrued commission income	1,752	3,344	-	-		
Other assets	-	-	-	-	25,639	22,781
Total	655,696	692,800	-	-	394,231	306,654

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

25. RISK MANAGEMENT (Continued)

Shareholders' assets	2018	2017	2018	2017	2018	2017
	Investment grade		Non-investment grade		Unrated	
Cash and cash equivalents	468,323	20,414	-	-	-	-
Short term deposits	-	424,833	-	-	-	-
Accrued commission income	6,948	5,320	-	-	-	-
Available-for-sale investments	139,753	73,644	-	-	23,123	23,123
Statutory deposit	44,000	40,000	-	-	-	-
Total	659,024	564,211	-	-	23,123	23,123

(d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations and commitments associated with financial liabilities. The Company has a proper cash management system, where daily cash collections and payments are strictly monitored and reconciled on regular basis. The Company manages liquidity risk by maintaining maturities of financial assets and financial liabilities and investing in liquid financial assets.

- The Company's liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.
  Contingency funding plans are in place, which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.
- The Company's catastrophe excess–of–loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

The table below summarizes the maturities of the Company's undiscounted contractual obligations relating to financial assets and liabilities.

Maturity Profile	2018			2017		
ASSETS INSURANCE OPERATIONS	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Cash and cash equivalents	653,944	-	653,944	289,456	-	289,456
Short term deposits	-	-	-	400,000	-	400,000
Premiums and insurance balances receivable, net	202,416	-	202,416	127,341	-	127,341
Reinsurers' share of outstanding claims	166,176	-	166,176	152,712	-	152,712
Accrued commission income	1,752	-	1,752	3,344	-	3,344
Other assets	25,639	-	25,639	22,781	-	22,781
	1,049,927	-	1,049,927	995,634	-	995,634

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

25. RISK MANAGEMENT (Continued)

Maturity Profile LIABILITIES INSURANCE OPERATIONS	2018 Less than one year	More than one year	Total	2017 Less than one year	More than one year	Total
Outstanding claims	379,264	-	379,264	416,523		416,523
Policyholders claims payables	16,712	-	16,712	13,760		13,760
Accrued expenses and other liabilities	106,881	-	106,881	70,075		70,075
Reinsurance balances payables	140,897	-	140,897	61,791		61,791
End-of-service indemnities	-	14,622	14,622	-	12,779	12,779
Accumulated surplus	13,495	-	13,495	31,055	-	31,055
Total	657,249	14,622	671,871	593,204	12,779	605,983

Maturity profile

ASSETS SHAREHOLDERS' OPERATIONS	2018 Carrying amount	Up to 1 year	1-5 years	5 years and above	Total
Cash and cash equivalents	468,323	468,323	-	-	468,323
Short term deposits	-	-	-	-	-
Accrued commission income	6,948	6,948	-	-	6,948
Available-for-sale investments	162,876	162,876	-	-	162,876
Statutory deposit	44,000	-	-	44,000	44,000
Total	682,147	638,147	-	44,000	682,147
LIABILITIES SHAREHOLDERS' OPERATIONS					
Accrued and other liabilities	5,037	5,037	-	-	5,037
Accrued commission income payable to SAMA	4,263	4,263	-	-	4,263
	9,300	9,300	-	-	9,300
	672,847	628,847	-	44,000	672,847

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

25. RISK MANAGEMENT (Continued)

	2017				
ASSETS SHAREHOLDERS' OPERATIONS	**Carrying amount**	**Up to 1 year**	**1-5 years**	**5 years and above**	**Total**
Cash and cash equivalents	20,414	20,414	-	-	20,414
Short term deposits	424,833	424,833	-	-	424,833
Accrued commission income	5,320	5,320	-	-	5,320
Available-for-sale investments	96,767	96,767	-	-	96,767
Statutory deposit	40,000	-	-	40,000	40,000
Total	587,334	547,334	-	40,000	587,334
LIABILITIES SHAREHOLDERS' OPERATIONS					
Accrued and other liabilities	2,141	2,141	-	-	2,141
Accrued commission income payable to SAMA	3,178	3,178	-	-	3,178
	5,319	5,319	-	-	5,319
	582,015	542,015	-	40,000	582,015

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

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

- Accrued investment income is expected to be realized within 1 to 3 months from statement of financial position's date.
- Deposits classified as 'cash and cash equivalents' are deposits placed with high credit rating financial institutions with maturity of less than 3 months from the date of placement
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims majorly pertain to property and casualty segment and are generally realized within 3 to 6 months based on settlement of balances with reinsurers.

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

- Reinsurers' balances payable for treaty arrangements are settled on a quarterly basis as per the terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to settle in accordance with statutory timelines for payment subject to completion of the required information. Property and casualty policies due to the inherent nature are generally settled within one month from the date of receipt of loss adjustor's final report.
- The policyholders claims payable, accrued expenses and other liabilities are expected to settle within a period of 3 months from the period end date.
- Surplus distribution payable is to be settled within 6 months of annual general meeting in which financial statements are approved.

25. RISK MANAGEMENT (Continued)

(e) Operational Risk

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

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

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

Senior Management ensures that the Company's staff has adequate training and experience and fosters effective communication related to operational risk management.

26. EVENTS AFTER THE REPORTING DATE

Subsequent to the year ended December 31, 2018, the Company has received an assessment order for the year 2016 for an additional zakat and tax liability amounting to SR 20 million. The management of the Company is reviewing the assessment letter in order to respond in the specified time period and is confident that the additional liability would be adjusted significantly in favour of the Company.

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

27. SUPPLEMENTARY INFORMATION

	December 31, 2018			December 31, 2017		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
ASSETS						
Cash and cash equivalents	654,006	468,323	1,122,329	289,505	20,414	309,919
Short term deposits	-	-	-	400,000	424,833	824,833
Premiums and reinsurers' receivable - net	202,416	-	202,416	127,341	-	127,341
Reinsurers' share of unearned premiums	195,562	-	195,562	130,247	-	130,247
Reinsurers' share of outstanding claims	124,638	-	124,638	110,606	-	110,606
Reinsurers' share of claims incurred but not reported	41,538	-	41,538	42,106	-	42,106
Deferred policy acquisition costs	23,570	-	23,570	37,018	-	37,018
Investments	-	162,876	162,876	-	96,767	96,767
Due from insurance operations	-	26,507	26,507	-	15,064	15,064
Prepaid expenses and other assets	34,083	-	34,083	28,391	-	28,391
Property and equipment	9,415	-	9,415	8,691	-	8,691
Intangible assets	1,334	-	1,334	504	-	504
Statutory deposit	-	44,000	44,000	-	40,000	40,000
Accrued income on statutory deposit	-	4,263	4,263	-	3,178	3,178
Accrued commission income	1,752	2,685	4,437	3,344	2,142	5,486
TOTAL ASSETS	1,288,314	708,654	1,996,968	1,177,753	602,398	1,780,151

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

27. SUPPLEMENTARY INFORMATION (Continued)

	December 31, 2018			December 31, 2017		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
LIABILITIES						
Policyholders claims payables	16,712	-	16,712	12,760	-	12,760
Accrued and other liabilities	115,078	5,036	120,114	72,107	2,141	74,248
Reinsurers' balances payable	140,897	-	140,897	61,791	-	61,791
Unearned premiums	536,608	-	536,608	538,493	-	538,493
Unearned reinsurance commission	12,443	-	12,443	9,842	-	9,842
Outstanding claims	181,504	-	181,504	160,619	-	160,619
Claims incurred but not reported	197,760	-	197,760	255,904	-	255,904
Additional premium reserves	8,525	-	8,525	3,197	-	3,197
Other technical reserves	26,379	-	26,379	5,316	-	5,316
End-of-service indemnities	14,622	-	14,622	12,779	-	12,779
Zakat and income tax	-	28,532	28,532	-	25,715	25,715
Accrued commission income payable to SAMA	-	4,263	4,263	-	3,178	3,178
Due to shareholders' operations	26,507	-	26,507	15,064	-	15,064
Insurance operations' surplus	13,495	-	13,495	31,055	-	31,055
TOTAL LIABILITIES	1,290,530	37,831	1,328,361	1,179,927	31,034	1,210,961
EQUITY						
Share capital	-	440,000	440,000	-	400,000	400,000
Share premium	-	30,108	30,108	-	30,108	30,108
Statutory reserve	-	48,827	48,827	-	31,722	31,722
Retained earnings	-	155,306	155,306	-	126,888	126,828
Fair value reserve on investments	-	(3,418)	(3,418)	-	(17,354)	(17,354)
TOTAL SHAREHOLDERS' EQUITY	-	670,823	670,823	-	571,364	571,364
Remeasurement of defined benefit obligation	(2,216)	-	(2,216)	(2,174)	-	(2,174)
TOTAL EQUITY	(2,216)	670,823	668,607	(2,174)	571,364	569,190
TOTAL LIABILITIES AND EQUITY	1,288,314	708,654	1,996,968	1,177,753	602,398	1,780,151

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

27. SUPPLEMENTARY INFORMATION (Continued)

	2018			2017		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
REVENUES						
Gross premiums written						
- Direct	1,104,630	-	1,104,630	1,101,751	-	1,101,751
- Reinsurance	327	-	327	581	-	581
	1,104,957	-	1,104,957	1,102,332	-	1,102,332
Reinsurance premiums ceded						
- Local ceded	(8,439)	-	(8,439)	(6,032)	-	(6,032)
- Foreign ceded	(350,105)	-	(350,105)	(245,184)	-	(245,184)
	(358,544)	-	(358,544)	(251,216)	-	(251,216)
Excess of loss expenses	(15,284)	-	(15,284)	(9,528)	-	(9,528)
Net premiums written	731,129	-	731,129	841,588	-	841,588
Changes in unearned premiums, net	67,200	-	67,200	(49,493)	-	(49,493)
Net premiums earned	798,329	-	798,329	792,095	-	792,095
Reinsurance commissions	28,564	-	28,564	16,946	-	16,946
Other underwriting income	3,977	-	3,977	6,156	-	6,156
TOTAL REVENUES	830,870	-	830,870	815,197	-	815,197
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	517,351	-	517,351	501,004	-	501,004
Expenses incurred related to claims	40,061	-	40,061	31,210	-	31,210
Reinsurers' share of claims paid	(26,447)	-	(26,447)	(32,056)	-	(32,056)
Net claims and other benefits paid	530,965	-	530,965	500,158	-	500,158
Changes in outstanding claims, net	6,853	-	6,853	(22,062)	-	(22,062)
Changes in IBNR, net	(57,576)	-	(57,576)	6,361	-	6,361
Net claims and other benefits incurred	480,242	-	480,242	484,457	-	484,457
Additional premium reserves	5,328	-	5,328	2,444	-	2,444
Other technical reserves	21,063	-	21,063	(5,154)	-	(5,154)
Policy acquisition costs	71,595	-	71,595	73,400	-	73,400
Other underwriting expenses	9,677	-	9,677	3,325	-	3,325
TOTAL UNDERWRITING COSTS AND EXPENSES	587,905	-	587,905	558,472	-	558,472
NET UNDERWRITING INCOME	242,965	-	242,965	256,725	-	256,725

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

27. SUPPLEMENTARY INFORMATION (Continued)

	2018			2017		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
OTHER OPERATING (EXPENSES)/ INCOME						
Allowance for doubtful debts	(12,605)	-	(12,605)	(10,718)	-	(10,718)
General and administrative expenses	(126,384)	(6,252)	(132,636)	(89,867)	(6,414)	(96,281)
Commission income on deposits	9,493	10,937	20,430	8,944	4,333	13,277
Investment and dividend income	-	1,191	1,191	-	641	641
Realized loss on investments, net	-	-	-	-	(5,405)	(5,405)
Impairment of investments	-	(7,633)	(7,633)	-	-	-
TOTAL OTHER OPERATING EXPENSES	(129,496)	(1,757)	(131,253)	(91,641)	(6,845)	(98,486)
NET INCOME / (LOSS) FOR THE YEAR	113,469	(1,757)	111,712	165,084	(6,845)	158,239
Surplus transferred to Shareholders	(102,122)	102,122	-	(148,576)	148,576	-
NET RESULT FROM INSURANCE OPERATIONS AFTER TRANSFER OF SURPLUS TO SHAREHOLDERS	11,347	100,365	111,712	16,508	141,731	158,239
Earnings per share (Expressed in SAR per share):						
Basic and diluted EPS (2017 restated)		2.28			3.22	

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

17. SUPPLEMENTARY INFORMATION (Continued)

	2018			2017		
	Insurance operations	**Share-holders' operations**	**Total**	**Insurance operations**	**Share-holders' operations**	**Total**
Total income for the year	11,347	100,365	111,712	16,508	141,731	158,239
Other comprehensive income/ (loss)						
Items that will not be reclassified to consolidated statement of income in subsequent years						
-Actuarial losses on defined benefit pension plans	(42)	-	(42)	(2,174)	-	(2,174)
Items that are or may be reclassified to consolidated statement of income in subsequent years						
- Exchange difference on translating foreign operations						
- Available for sale investments:						
- Net change in fair value	-	6,303	6,303	-	1,740	1,740
- Net amounts transferred to statement of income	-	7,633	7,633	-	5,405	5,405
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	11,305	114,301	125,606	14,334	148,876	163,210

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

27. SUPPLEMENTARY INFORMATION (Continued)

	Note	Insurance operations 2018	Share-holders' operations 2018	Total 2018	Insurance operations 2017	Share-holders' operations 2017	Total 2017
CASH FLOWS FROM OPERATING ACTIVITIES							
Net profit for the year		11,347	100,365	111,712	16,508	141,731	158,239
Adjustments for non-cash items:							
Depreciation of property and equipment		3,453	-	3,453	3,035	-	3,035
Amortization of intangible assets		695	-	695	293	-	293
Allowance for doubtful debts		12,605	-	12,605	10,718	-	10,718
Dividend and loss on investments, net		-	6,442	6,442	-	4,764	4,764
Commission income		(9,493)	(10,937)	(20,430)	(8,944)	(4,333)	(13,277)
Provision for end-of-service indemnities		2,891	-	2,891	4,264		4,264
<u>Changes in operating assets and liabilities:</u>							
Premiums and reinsurers' receivable		(95,210)	-	(95,210)	(33,017)	-	(33,017)
Reinsurers' share of unearned premiums		(65,315)	-	(65,315)	6,321	-	6,321
Reinsurers' share of outstanding claims		(14,032)	-	(14,032)	24,833	-	24,833
Reinsurers' share of claims incurred but not reported		568	-	568	(26,777)	-	(26,777)
Deferred policy acquisition costs		13,448	-	13,448	(4,478)	-	(4,478)
Prepaid expenses and other assets		(5,692)	-	(5,692)	18,909	-	18,909
Policyholders claims payables		2,952	-	2,952	3,922	-	3,922
Accrued and other liabilities		21,594	2,895	24,489	6,985	1,919	8,904
Reinsurers' balances payable		79,106	-	79,106	46,123	-	46,123
Unearned premiums		(1,885)	-	(1,885)	43,172	-	43,172
Unearned reinsurance commission		2,601	-	2,601	2,633	-	2,633
Outstanding claims		20,885	-	20,885	(46,895)	-	(46,895)
Claims incurred but not reported		(58,144)	-	(58,144)	33,138	-	33,138
Additional premium reserves		5,328	-	5,328	2,444	-	2,444
Other technical reserves		21,063	-	21,063	(5,155)	-	(5,155)
		(51,235)	98,765	47,530	98,032	144,081	242,113

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Insurance operations 2018	Share-holders' operations 2018	Total 2018	Insurance operations 2017	Share-holders' operations 2017	Total 2017
End-of-service indemnities paid		(1,090)	-	(1,090)	(927)	-	(927)
Zakat and income tax paid		-	(12,025)	(12,025)	-	(10,993)	(10,993)
Net cash (used in)/ generated from operating activities		(52,325)	86,740	34,415	97,105	133,088	230,193
CASH FLOWS FROM INVESTING ACTIVITIES							
Additions in intangible assets		(1,525)	-	(1,525)	(390)	-	(390)
(Additions) / disposal in investments		-	(60,000)	(60,000)	-	14,595	14,595
Commission income received		11,085	10,394	21,479	5,600	2,191	7,791
Dividend received		-	1,385	1,385	-	641	641
Disposals / (addition) of short term deposits		400,000	424,833	824,833	(400,000)	(424,833)	(824,833)
Additions in property and equipment		(4,177)	-	(4,177)	(2,433)	-	(2,433)
Net cash generated from / (used in) investing activities		405,383	376,612	781,995	(397,223)	(407,406)	(804,629)
CASH FLOWS FROM FINANCING ACTIVITIES							
Due from/ to shareholders'/ insurance operations		11,443	(11,443)	-	(4,795)	4,795	-
Statutory deposit		-	(4,000)	(4,000)	-	-	-
Net cash (used in)/ generated from financing activities		11,443	(15,443)	(4,000)	(4,795)	4,795	-
Net change in cash and cash equivalents		364,501	447,909	812,410	(304,913)	(269,523)	(574,436)
Cash and cash equivalents, beginning of the year		289,505	20,414	309,919	594,418	289,937	884,355
Cash and cash equivalents, end of the year		654,006	468,323	1,122,329	289,505	20,414	309,919

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

27. SUPPLEMENTARY INFORMATION (Continued)

	Note	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
			2018			2017	
NON-CASH INFORMATION							
Unrealised changes in fair value of available for sale investments		-	6,303	6,303	-	1,740	1,740
Actuarial losses on defined benefit pension plans		42	-	42	2174	-	2,174

28. COMPARATIVE FIGURES

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

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the board of directors, on 17 Rajab 1440H, corresponding to 24 March 2019