SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

Financial Statements
And Independent Auditors' Report
For the year ended 31 December 2018

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2018

PKF Al-Bassam & Co. Allied Accountants

MOORE STEPHENS
EL SAYED EL AYOUTY & CO.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF
SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Opinion

We have audited the financial statements of Salama Cooperative Insurance Company (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the accompanying notes which form an integral part of these financial statements.

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 ("IFRSs") 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 International Standards on Auditing ("ISAs") as 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, as 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 judgment, 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 each matter below, a description of how our audit addressed the matter provided in that context:

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS – (continued)

TO THE SHAREHOLDERS OF
SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Key Audit Matters (continued)

Valuation of ultimate claim liabilities arising from insurance contracts	
As at 31 December 2018, outstanding claims including claims Incurred But Not Reported (IBNR) amounted to Saudi Riyals 151,890 thousands as disclosed in Note 12 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 methods e.g. Chain ladder method, Bornhuetter ferguson method, expected loss ratio method etc. are used by the actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. 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. *The Company's policies for claims and related judgments and estimates are disclosed in notes 2 and 3 to the financial statements respectively. Liabilities for outstanding claims including IBNR, claims incurred and claims development table have been disclosed in note 12 to the financial statements. Segment wise disclosure of claim related liabilities and expense have been given in note 27 to the financial statements. The Company's approach to claim related risk management has been disclosed in note 28 to the financial statements.*	We understood and evaluated key controls around the claims handling and provision 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 and assessing their relationship with the entity. 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 challenge management's methodologies and assumptions, we were assisted by our internal actuary to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert, our internal actuary performed the following: - Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought sufficient justification for any significant differences. - Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge. - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS – (continued)

TO THE SHAREHOLDERS OF
SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Other Information included in the Company's 2018 Annual Report

The Board of Directors of the Company (the Directors) are responsible for the other information in the Company's annual report. Other information consists of the information included in the Company's 2018 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not and 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 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 Those Charged with Governance for the Financial Statements

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

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

As part of an audit in accordance with 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.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS – (continued)

TO THE SHAREHOLDERS OF
SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

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

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Companies Law, the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

for Al-Bassam & Co.
Allied Accountants

Ibrahim A. Al Bassam
Certified Public Accountant
License No. 337

المحاسبون المتحالفون
محاسبون قانونيون
رقم الترخيص ٥٢٠
C.R 1010385804
License 520
Allied Accountants
Certified Public Accountants

for Moore Stephens
El Sayed El Ayouty & Co.

Mohamed El Ayouty
Chartered Accountants
License No. 211

CERTIFIED PUBLIC ACCOUNTANTS
License No 35
EL SAYED EL AYOUTY & CO

Jeddah, Kingdom of Saudi Arabia
30 March 2019
23 Rajab 1440H

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018	2017
		SR'000	
ASSETS			
Cash and cash equivalents	4(a)	**86,869**	14,403
Term deposits	4(b)	**241,515**	15,292
Premiums and reinsurers' receivable – net	5	**155,444**	128,299
Reinsurers' share of unearned premiums	12	**13,139**	8,889
Reinsurers' share of outstanding claims	12	**13,316**	9,951
Reinsurers' share of claims Incurred but not reported	12	**10,467**	1,493
Deferred policy acquisition costs	6	**14,135**	14,516
Investments	8	**278,812**	622,709
Prepaid expenses and other assets	9	**24,377**	14,704
Property and equipment	10	**14,459**	4,931
Intangible assets	11	**7,157**	-
Statutory deposit	13	**25,000**	25,000
Accrued income on statutory deposit		**2,686**	2,164
TOTAL ASSETS		**887,376**	862,351
LIABILITIES			
Policyholders claims payable		**7,583**	11,512
Accrued and other liabilities	15	**52,179**	36,947
Reinsurers' balances payable		**6,547**	9,902
Unearned premiums	12	**287,093**	322,609
Unearned reinsurance commission	16	**2,543**	2,244
Outstanding claims	12	**58,370**	45,489
Claims incurred but not reported	12	**151,890**	132,287
Premium deficiency reserve		**5,083**	2,304
Other technical reserves	17	**6,375**	3,977
End-of-service indemnities	18	**8,941**	9,262
Surplus distribution payable		**14,535**	13,097
Zakat	22	**19,761**	18,189
Accrued commission income payable to SAMA		**2,686**	2,164
TOTAL LIABILITIES		**623,586**	609,983
SHAREHOLDERS' EQUITY			
Share capital	23	**250,000**	250,000
Statutory reserve		**5,003**	1,734
Retained earnings		**7,708**	634
TOTAL SHAREHOLDERS' EQUITY		**262,711**	252,368
Re-measurement reserve of defined benefit obligation – related to insurance operations	18	**1,079**	-
TOTAL EQUITY		**263,790**	252,368
TOTAL LIABILITIES AND EQUITY		**887,376**	862,351
COMMITMENTS AND CONTINGENCIES	14	**10,200**	10,200

The accompanying notes from 1 – 31 form an integral part of these financial statements

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018**	2017
		SR'000	
REVENUES			
Gross premiums written	12	**734,982**	750,691
Reinsurance premiums ceded			
- Local		**(953)**	(909)
- Foreign		**(23,690)**	(18,732)
	12	**(24,643)**	(19,641)
Excess of loss expenses			
- Local		**(557)**	(431)
- Foreign		**(22,438)**	(17,793)
		(22,995)	(18,224)
Net premiums written		**687,344**	712,826
Changes in unearned premiums, net	12	**39,765**	(37,503)
Net premiums earned		**727,109**	675,323
Reinsurance commissions	16	**6,317**	4,313
Other underwriting income		**5,184**	4,267
TOTAL REVENUES		**738,610**	683,903
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	7	**576,790**	478,425
Reinsurers' share of claims paid	7	**(18,154)**	(6,069)
Net claims paid		**558,636**	472,356
Changes in outstanding claims, net	12	**9,516**	17,903
Changes in claims incurred but not reported, net	12	**10,629**	7,629
Net claims incurred		**578,781**	497,888
Changes in Premium deficiency reserve		**2,779**	2,304
Changes in other technical reserve		**2,398**	282
Policy acquisition costs	6	**33,931**	30,596
Other underwriting expenses		**24,785**	18,485
TOTAL UNDERWRITING COSTS AND EXPENSES		**642,674**	549,555
NET UNDERWRITING INCOME		**95,936**	134,348

The accompanying notes from 1 – 31 form an integral part of these financial statements

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

ISTATEMENT OF INCOME – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		SR'000	
OTHER OPERATING (EXPENSES) / INCOME			
Allowance for doubtful debts	5	**(7,496)**	(11,256)
General and administrative expenses	25	**(91,897)**	(63,887)
Investment income		**7,547**	7,475
Unrealized gain on investments	8	**4,956**	4,537
Other income		**8,736**	1,201
TOTAL OTHER OPERATING EXPENSES		**(78,154)**	(61,930)
Net income for the year		**17,782**	72,418
Net income attributed to the insurance operations		**(1,439)**	(6,926)
Net income for the year attributable to the shareholders		**16,343**	65,492
Earnings per share (Expressed in SAR per share)			
Weighted average number of shares (in thousands)		**25,000**	25,000
Basic and diluted earnings per share	26	**0.65**	2.62

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		SR'000	
Net income for the year		**17,782**	72,418
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to statements of income in subsequent years			
Actuarial gains on defined benefit obligation – related to Insurance operations	18	**1,079**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18,861**	72,418
Total comprehensive income attributed to the insurance operations		**(2,518)**	(6,926)
Total comprehensive income for the year attributable to the shareholders		**16,343**	65,492

The accompanying notes from 1 – 31 form an integral part of these financial statements

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

2018	Notes	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Re-measurement reserve of defined benefit obligation – related to insurance operations SR'000	Total Equity SR'000
Balance as at 31 December 2017		250,000	1,734	634	-	252,368
Total comprehensive income for the year						
Net income for the year – Attributable to shareholders		-	-	16,343	-	16,343
Transfers to statutory reserve		-	3,269	(3,269)	-	-
Other comprehensive income		-	-	-	1,079	1,079
		-	3,269	13,074	1,079	17,422
Zakat for the year	22	-	-	(6,000)	-	(6,000)
Balance as at 31 December 2018		250,000	5,003	7,708	1,079	263,790

2017	Notes	Share capital SR'000	Statutory reserve SR'000	Accumulated losses SR'000	Re-measurement reserve of defined benefit obligation – related to insurance operations SR'000	Total Equity SR'000
Balance as at 31 December 2016		250,000	-	(56,824)	-	193,176
Total comprehensive income for the year						
Net income for the year – Attributable to shareholders		-	-	65,492	-	65,492
Transfers to statutory reserve		-	1,734	(1,734)	-	-
		-	1,734	63,758	-	65,492
Zakat for the year	22	-	-	(6,300)	-	(6,300)
Balance as at 31 December 2017		250,000	1,734	634	-	252,368

The accompanying notes from 1 – 31 form an integral part of these financial statements

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		SR'000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		17,782	72,418
Adjustments for non-cash items:			
Depreciation of property and equipment		3,148	1,548
Amortization of intangible assets		858	-
Amortization Held to maturity investments		279	270
Allowance for doubtful debts		7,496	11,256
Unrealized gain on investments		(4,956)	(9,953)
Realized gain on investments		(2,764)	-
Provision for end-of-service indemnities		1,373	2,209
		23,216	77,748
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		(34,641)	(39,937)
Reinsurers' share of unearned premiums		(4,250)	(4,137)
Reinsurers' share of outstanding claims		(3,365)	(5,068)
Reinsurers' share of claims Incurred but not reported		(8,974)	-
Deferred policy acquisition costs		381	(3,926)
Prepaid expenses and other assets		(9,674)	6,835
Accrued income on statutory deposit		(522)	(519)
Policyholders and accounts payables		(3,929)	3,940
Accrued and other liabilities		15,232	11,232
Reinsurers' balances payable		(3,355)	3,453
Unearned premiums		(35,516)	41,640
Unearned reinsurance commission		299	957
Outstanding claims		12,881	30,600
Claims incurred but not reported		19,603	-
Premium deficiency reserve		2,779	2,304
Other technical reserve		2,398	282
Accrued commission income payable to SAMA		522	519
		(26,915)	125,923
Zakat and income tax paid		(4,428)	(2,165)
End of service indemnities paid		(615)	(1,329)
Net cash flows (used in) / from operating activities		(31,958)	122,429
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments		(200,000)	(197,167)
Proceeds from sale of investments		351,338	35,492
Placement of term deposits		(290,757)	(15,292)
Proceeds from maturity of term deposit		264,534	14,783
Purchase of property and equipment		(12,676)	(3,872)
Purchase of intangible assets		(8,015)	-
Net cash flows from / (used in) investing activities		104,424	(166,056)
Net change in cash and cash equivalents		72,466	(43,627)
Cash and cash equivalents, beginning of the year		14,403	58,030
Cash and cash equivalents, end of the year		86,869	14,403

The accompanying notes from 1 – 31 form an integral part of these financial statements

1. GENERAL

Salama Cooperative Insurance Company ("the Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry's Resolution number 1121K dated 29 Rabi Al-Thani 1428H (corresponding to 16 May 2007). The Company is registered in Jeddah under Commercial Registration No. 4030169661 dated 6 Jamad Al-Awwal I428H (corresponding to 23 May 2007).

The Registered Office address of the Company is:

Salama Tower;
Al Madinah Road
P.O. Box 4020;
Jeddah 21491;
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Stock Exchange on 23 May 2007. The Company started its operations on 1 January 2008. The Company is fully owned by the general public and Saudi shareholders.

The Company received the approval letters from the Saudi Arabian Monetary Authority (SAMA) and Ministry of Commerce and Investment regarding the amendment of the Company's by-laws to be in accordance with the new companies' regulations. The Company's general assembly was held on 6 June 2017 corresponding to 11 Ramadan 1438H and accordingly the new by-laws was approved.

2. BASIS OF PREPARATION

a. Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by Saudi Arabian Monetary Authority (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 equity under retained earnings.

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement of investments (excluding held-to-maturity) at their fair value. The Company's statement of financial position is presented in order of liquidity. Except for property and equipment, intangible assets, statutory deposit, End-of-service indemnities, outstanding claims, claims incurred but not reported, all other assets and liabilities are of short-term nature, unless, stated otherwise.

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 information accordingly. Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. Similarly, in the past, the Company's annual financial statements presented separately the statements of financial position, income, comprehensive income and cash flows for the insurance operations and shareholders operations. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

2. BASIS OF PREPARATION – (continued)

a. Basis of presentation – (continued)

The statement of financial position, statements of income and statement of comprehensive income and cash flows of the insurance operations and shareholders operations which are presented on pages 50 to 56 of the financial statements have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

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

The inclusion of separate information of the insurance operations with the financial information of the Company in the statements of financial position, statement of income, statement of comprehensive income, statement of cash flows as well as certain relevant notes to the financial statements represents additional supplementary information required as required by the implementing regulations.

b. Functional and presentation currency

These financial statements have been presented in Saudi Arabian Riyals (SAR), 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.

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:

2. BASIS OF PREPARATION – (continued)

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

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

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

The provision 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. A period of 12 months or longer is considered to be prolonged and a decline of 25% 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 based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

e. Seasonality of operations

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

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 except for (change in accounting policy, if any) 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 is expected to have an insignificant effect in future years:

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

The Company has adopted the following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

Standard/ Amendments	***Description***
IFRS 2	Amendments to IFRS 2 Classification and Measurement of share-based Payment transactions.
IAS 40	Amendments to IAS 40 Transfers of investment property
IFRIC 22	Foreign Currency Transactions and Advance consideration
IFRS 15	Revenue from Contracts with Customers (refer below)
IFRS 1 and IAS 28	Annual Improvements 2016 to IFRS 2014- 2016 cycle.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRSs. However, IFRS 15 does not apply to "revenue from insurance contracts". However, entities will need to apply IFRS 15 to non-insurance contracts (or components of insurance contracts).

The Company's management has assessed and concluded that there is no material impact on the amounts reported at transition to IFRS 15 on 1 January 2018.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Employees-end-of-service benefits

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

The impact of the above accounting policy on the previous years was not significant to the financial statements.

b. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they are effective.

Standard/ Interpretation	*Description*	*Effective from periods beginning on or after the following date*
IFRS 9	Financial Instruments	Refer below
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 17	Insurance Contracts (note below)	1 January 2022

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

In July 2014, the IASB published IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss (ECL) impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9:

- All financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the statement of income.
- IFRS 9 requires entities to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through statement of income as well we finance lease receivables, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. Under IFRS 9, credit losses are recognised earlier than under IAS 39.
- The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective – (continued)

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

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the forthcoming accounting standard for insurance contracts. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until the earlier of the effective date of a new insurance contract standard or 2021. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

Under the temporary exemption as introduced by amendments to IFRS 4, the reporting entities whose activities predominantly relate to “insurance” can defer the implementation of IFRS 9. The Company having assessed the implications and has concluded to defer the implementation of IFRS 9 until a later date which will not be later than 1 January 2022.

The impact of the adoption of IFRS 9 on the Company’s financial statements will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. As such, it is not possible to fully assess the effect of the adoption of IFRS 9.

IFRS 16 - “Leases”, applicable for the period 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 Company has decided not to early adopt this new standard.

IFRS 17 - “Insurance Contracts”, applicable for the period beginning on or after 1 January 2022, and will supersede IFRS 4 “Insurance Contracts”. Earlier adoption permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the income statement and the statement of financial position. The Company has decided not to early adopt this new standard, and the Company is currently in the phase of assessing the impact of the above standards.

c. The significant accounting policies used in preparing these financial statements are set out below:

a) Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contracts are principally divided into medical, marine, property, motor, engineering and accident and liability and are principally short-term insurance contracts.

Medical insurance is designed to compensate policy holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers with a large population to be covered under the policy.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

a) Insurance contracts – (continued)

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

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties. Customers could also receive compensation for the loss of earnings through loss of profit and business interruption. For property insurance contracts the main risks are fire, natural perils, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. The Company also issues comprehensive motor policies. Various extensions cover natural perils, personal accident benefits and agency repairs.

General accident insurance includes money, fidelity guarantee, personal accident, jeweler block, jewelry all risks and travel insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability, medical malpractice and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types:

(a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, bridges, sewage works and reservoirs.

(b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and Business Interruption following machinery breakdown and includes electronic equipment, boiler and deterioration of stocks insurance.

b) Revenue Recognition

Recognition of premium

Premiums and commission are recorded in the statement of income based on straight line method over the insurance policy coverage period 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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b) Revenue Recognition – (continued)

Reinsurance assumed

The Company also assumes reinsurance risk in the normal course of business for Medical insurance contracts where applicable. 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. Investment income on these contracts is accounted for using the EIR method when accrued.

Investment income

Investment income on debt instruments classified under held to maturity investments and murabaha deposits are accounted for on an effective interest basis.

Dividend income

Dividend income on equity instruments classified under fair value through statement of income (FVSI) investments is recognized when the right to receive payment is established.

c) 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.

d) 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(b) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) Reinsurance contracts held – (continued)

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(n). 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.

e) 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.

f) 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.

g) 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 general and administrative 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, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 7 fall under the scope of IFRS 4 "Insurance contracts".

h) Investments

a) Available-for-sale investments

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

h) Investments – (continued)

a) Available for sale investments – (continued)

" 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 - shareholders operations, 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 related statement of comprehensive income, as impairment charges. Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics. For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Reclassification:

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to 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.

i) Held as FVSI

Investments in this category are classified if they are held for trading or designated by management as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term and are recorded in the statement of financial position at fair value. Changes in fair value are recognized in net trading income/loss.

An investment may be designated at FVSI by the management, at initial recognition, if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVSI are recorded in the statement of financial position at fair value. Changes in the fair value are recognised in the statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments. Special commission income and dividend income on financial assets held as FVSI are reflected as either trading income or income from FVSI financial instruments in the statement of income.

Reclassification:

Investments at FVSI are not reclassified subsequent to their initial recognition, except that non-derivative FVSI instrument, other than those designated as FVSI upon initial recognition, may be reclassified out of the FVSI fair value through the statement of income (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

i) Held as FVSI – (continued)

- If the financial asset would have met the definition of loans and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

- If the financial asset would not have met the definition of loans and receivables, and then it may be reclassified out of the trading category only in 'rare circumstances'.

j) Held to maturity

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

Reclassification:
Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Company's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

However, sales and reclassifications in any of the following circumstances would not impact the Company's ability to use this classification

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value
- Sales or reclassifications after the Company has collected substantially all the assets' original principal
- Sales or reclassifications attributable to non-recurring isolated events beyond the Comapny's control that could not have been reasonably anticipated.

k) 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.

l) 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.

m) 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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

n) Impairment of financial assets

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

Evidence of impairment may include:

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

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

- ➢ For assets carried at fair value, impairment is the significant or 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.

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is an objective evidence of impairment. Objective evidence may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission income or principal payments, the probability that it will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income and statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the statement of income and statement of comprehensive income, the impairment loss is reversed through the statement of income and statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

n) Impairment of financial assets – (continued)

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is an objective evidence of impairment. Objective evidence may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission income or principal payments, the probability that it will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income and statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the statement of income and statement of comprehensive income, the impairment loss is reversed through the statement of income and statement of comprehensive income.

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

The determination of what is 'significant' or 'prolonged' requires judgement. A period of 18 months or longer is considered to be prolonged and a decline of 25% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

o) Intangible assets

Separately acquired intangible assets (mention category) 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 following periods:

Software	4 years
Licenses	4 years

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

p) Furniture, fittings and office equipment

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

Motor vehicle	5 years
Furniture and fixture	5 years
Computers and office equipment	3 years

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.

Capital work-in-progress includes property that is being developed for future use. When commissioned, capital work-in-progress will be transferred to the respective category within property and equipment, and depreciated in accordance with the Company's policy.

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) 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 within operating expenses on a straight-line basis over the period of the lease.

r) 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).

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

s) 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 periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The benefit payments obligation is discharged as and when it falls due. Remeasurements (actuarial gains/ losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income.

t) Zakat and income tax

The Company is subject to zakat 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. Zakat is accrued on a quarterly basis. Effective 1 January 2017, based on the Circular issued by SAMA, the Company amended its accounting policy to charge zakat directly into retained earnings in the statement of changes in equity instead of statement of income.

u) Dividend distribution

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

v) Cash and cash equivalents

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

w) 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.

x) 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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

y) 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 provides compensation to policy holders for expenses incurred in treatment of a disease, illness or injury.
- Motor provides coverage against losses and liability related to motor vehicles.
- Other includes property, marine, engineering, accident and liability and miscellaneous categories.

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. No inter-segment transactions occurred during the year.

z) Statutory reserves

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

aa) Fair values

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

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

bb) Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

cc) Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

dd) Provision for outstanding claims

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

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

ee) Premium deficiency reserve

Estimation of the premium deficiency is highly sensitive to a number of assumptions as to the future events and conditions. It is based on expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and premiums relationship which is expected to apply on month to month basis. Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that past claims pattern are stable and will continue in future.

ff) Going concern

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

4. CASH AND CASH EQUIVALENTS

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

	Insurance operations	
	2018	2017
	SR'000	
Bank balances and cash	**81,792**	14,392

	Shareholders' operations	
	2018	2017
	SR'000	
Bank balances	**5,077**	11

b) Term deposits

	Insurance operations	
	2018	2017
	SR'000	
Term deposits	**141,136**	15,292

	Shareholders' operations	
	2018	2017
	SR'000	
Term deposits	**100,379**	-

The term deposits are held with the commercial banks and earn commission at market rates. These term deposits are denominated in Saudi Arabian Riyals and have an original maturity of more than three-months and less than twelve-months. The carrying amounts of these term deposits reasonably approximate their fair values at the reporting date.

5. PREMIUMS AND REINSURERS' RECEIVABLE – NET

Receivables comprise amounts due from the following:

	2018	2017
	SR'000	
Policyholders	**171,520**	129,760
Related parties (note 21)	**21,551**	30,448
Receivables from reinsurers	**4,107**	2,329
	197,178	162,537
Provision for doubtful receivables	**(41,734)**	(34,238)
Premiums and reinsurers' receivable – net	**155,444**	128,299

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

	2018	2017
	SR'000	
Balance at the beginning of the year	**34,238**	25,321
Provision for the year	**7,496**	11,256
Written off	**-**	(2,339)
Balance at the end of the year	**41,734**	34,238

The age analysis of unimpaired premiums receivable arising from insurance contracts is as follows:

	Up to three months	Above three and up to six months	Above six and less than twelve months	Twelve months and above	Total
			SR'000		
2018	**80,067**	**36,875**	**33,161**	**5,341**	**155,444**
2017	65,494	36,657	22,285	3,863	128,299

Past due but not impaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customer balances accounted for approximately 31% of this balance as at 31 December 2018 (2017: 41%). Premiums receivable comprise a large number of customers and insurance companies all within the Kingdom of Saudi Arabia.

6. DEFFERED POLICY ACQUISATION COST

	2018	2017
	SR'000	
Balance at the beginning of the year	**14,516**	10,590
Incurred for the year	**33,550**	34,522
Charge for the year	**(33,931)**	(30,596)
Balance at the end of the year	**14,135**	14,516

7. CLAIMS INCURRED

	2018 SR'000	2017 SR'000
Gross claims paid	**576,790**	478,425
Gross outstanding claims at the end of the year (see note (i) below)	**210,260**	177,776
	787,050	656,201
Gross outstanding claims at the beginning of the year	**(177,776)**	(147,176)
Gross claims incurred	**609,274**	509,025
Reinsurance recoveries	**(18,154)**	(6,069)
Reinsurers' share of outstanding claims at the end of the year (see note (ii) below)	**(23,783)**	(11,444)
	(41,937)	(17,513)
Reinsurers' share of outstanding claims at the beginning of the year	**11,444**	6,376
Reinsurers' share of claims	**(30,493)**	(11,137)
Net claims incurred	**578,781**	497,888

(i) Gross outstanding claims as at 31 December 2018 include provision for IBNR amounting to SR 151,890 thousand (2017: SR132,287 thousand).

(ii) Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern

CLAIM 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 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. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

7. CLAIM INCURRED – (continued)

CLAIM DEVELOPMENT TABLE – (continued)

31 DECEMBER 2018

Accident year	2014 & earlier	2015	2016	2017	2018	Total
			SR '000			
Estimate of ultimate claims cost:						
At the end of accident year	228,220	293,230	342,562	512,589	609,709	
One year later	270,018	278,395	306,082	517,900	-	
Two years later	262,252	264,510	280,911	-	-	
Three years later	235,804	242,611	-	-	-	
Four years later	211,040	-	-	-	-	
Current estimate of cumulative claims	211,040	242,611	280,911	517,900	609,709	1,862,171
Cumulative payments to date	(209,496)	(240,055)	(270,559)	(490,788)	(441,013)	(1,651,911)
Liability recognised in statement of financial position	1,544	2,556	10,352	27,112	168,696	210,260

31 DECEMBER 2017

Accident year	2013 & earlier	2014	2015	2016	2017	Total
			SR'000			
Estimate of ultimate claims cost:						
At the end of accident year	163,326	228,220	293,230	342,562	512,589	
One year later	171,923	270,018	278,395	306,082	-	
Two years later	190,416	262,252	264,510	-	-	
Three years later	187,293	235,804	-	-	-	
Four years later	160,286	-	-	-	-	
Current estimate of cumulative claims	160,286	235,804	264,510	306,082	512,589	1,479,271
Cumulative payments to date	(159,734)	(229,784)	(253,995)	(276,243)	(382,277)	(1,302,033)
Liability recognised in statement of financial position	552	6,020	10,515	29,839	130,312	177,238

8. INVESTMENTS

Investment are classified as follows:

	Insurance operations	
	2018	2017
	SR'000	
- Held as FVSI	**143,984**	354,374
- Held to maturity	**28,627**	35,790
Total	**172,611**	390,164

	Shareholders' operations	
	2018	2017
	SR'000	
- Held as FVSI	**90,752**	216,980
- Available for sale	**1,923**	1,923
- Held to maturity	**13,526**	13,642
Total	**106,201**	232,545

Movement in held as FVSI investment balance is as follows:

	Insurance operations	
	2018	2017
	SR'000	
Opening balance year	**354,374**	254,516
Purchases during the year	**-**	114,667
Disposals during the year	**(211,655)**	(20,500)
	142,719	348,683
Changes in fair value of investments	**1,265**	5,691
Closing balance year	**143,984**	354,374

	Source of Fair Value	***2018***	*2017*
		SR'000	
Units in local money market funds	NAV**	**-**	211,656
Units in local equity funds	NAV**	**3,157**	3,664
Local DPM money market securities	NAV**	**140,827**	139,054
		143,984	354,374

8. INVESTMENTS – (continued)

Movement in held as FVSI investment balance is as follows:

	Shareholders' operations	
	2018	2017
	SR'000	
Opening balance year	**216,980**	145,210
Purchases during the year	**-**	82,500
Disposals during the year	**(129,919)**	(14,992)
	87,061	212,718
Changes in fair value of investments	**3,691**	4,262
Closing balance year	**90,752**	216,980

	Source of Fair Value	*2018*	*2017*
		SR'000	
Units in local money market funds	NAV**	**-**	84,756
Units in local equity funds	NAV**	**1,988**	6,588
Units in local real estate funds	NAV**	**9,010**	10,149
Local "DPM* money market securities	NAV**	**22,746**	59,401
Local "DPM* equity securities	Quoted	**19,561**	17,125
Foreign "DPM* equity securities	Quoted	**15,486**	16,623
Foreign bonds and sukuk	Quoted	**21,961**	22,338
		90,752	216,980

Movement in available-for-sale investment balance is as follows:

	Shareholders' operations	
	2018	2017
	SR'000	
Opening balance	**1,923**	1,923
Closing balance	**1,923**	1,923

(i) Unquoted available for sale investment, having a carrying value of SR 1,923 thousand (2017: SR 1,923 thousand) are measured at cost as its fair value cannot be reliably measured due to the absence of active market and unavailability of observable market prices for similar instruments.

8. INVESTMENTS – (continued)

Movement in held to maturity investment balance is as follows:

	Insurance operations	
	2018	2017
	SR'000	
Opening balance	**35,790**	35,947
Matured during the year	**(7,000)**	-
Amortization of held to maturity investments	**(163)**	(157)
Closing balance	**28,627**	35,790

Movement in held to maturity investment balance is as follows:

	Shareholders' operations	
	2018	2017
	SR'000	
Opening balance	**13,642**	13,755
Amortization of held to maturity investments	**(116)**	(113)
Closing balance	**13,526**	13,642

** Managed at the discretion of a local regulated financial institution ("DPM").*

*** NAV: Net Asset Value as announced by asset manager.*

9. PREPAYMENT EXPENSES AND OTHER ASSETS

	Insurance operations	
	2018	2017
	SR'000	
Prepayments	**5,221**	2,436
Advances to staff	**2,155**	1,919
Accrued commission	**224**	541
Other receivables	**16,684**	9,685
	24,284	14,581

	Shareholders' operations	
	2018	2017
	SR'000	
Other receivables	**93**	123
	93	123

10. PROPERTY AND EQUIPMENT

	Motor Vehicle	Furniture and fixtures	Computer equipment	**Total 2018**	Total 2017
Cost:				**SR'000**	SR'000
1 January	59	10,281	8,906	**19,246**	15,374
Additions	91	7,208	5,377	**12,676**	3,872
31 December	150	17,489	14,283	**31,922**	19,246
Accumulated Depreciation:					
1 January	59	6,843	7,413	**14,315**	12,767
Charge for the year	15	1,541	1,592	**3,148**	1,548
31 December	74	8,384	9,005	**17,463**	14,315
Net book value					
31 December 2018	**76**	**9,105**	**5,278**	**14,459**	**-**
31 December 2017	-	3,438	1,493	-	4,931

11. INTANGIBLE ASSETS - NET

Software	**2018**	
Cost:	**SR'000**	
1 January	-	-
Additions	8,015	8,015
31 December	8,015	8,015
Accumulated Depreciation:		
1 January	-	-
Charge for the year	(858)	(858)
31 December	(858)	(858)
Net book value		
31 December 2018	**7,157**	**7,157**
31 December 2017	-	-

12. TECHNICAL RESERVE

12.1.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	2018	2017
	SR'000	
Outstanding claims	**58,370**	45,489
Claims incurred but not reported	**151,890**	132,287
Premium deficiency reserve	**5,083**	2,304
Other technical reserves	**6,375**	3,977
	221,718	184,057
Less:		
- Reinsurers' share of outstanding claims	**(13,316)**	(9,951)
- Reinsurers' share of claims incurred but not reported	**(10,467)**	(1,493)
	(23,783)	(11,444)
Net outstanding claims and reserves	**197,935**	172,613

12.1.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	Year ended 31 December 2018		
	Gross	**Reinsurance**	**Net**
		SR'000	
Balance as at the beginning of the year	**322,609**	**(8,889)**	**313,720**
Premium written during the year	**734,982**	**(24,643)**	**710,339**
Premium earned during the year	**(770,498)**	**20,393**	**(750,105)**
Balance as at the end of the year	**287,093**	**(13,139)**	**273,954**

	Year ended 31 December 2017		
	Gross	Reinsurance	Net
		SR'000	
Balance as at the beginning of the year	280,969	(4,752)	276,217
Premium written during the year	750,691	(19,641)	731,050
Premium earned during the year	(709,051)	15,504	(693,547)
Balance as at the end of the year	322,609	(8,889)	313,720

13. STATUTORY DEPOSIT

	2018	2017
	SR'000	
Statutory deposit	**25,000**	25,000
	25,000	25,000

As required by Saudi Arabian Insurance Regulations, the Company has deposited 10% of its paid up capital, amounting to SR 25 million (2017: SR 25 million) in a bank designated by the Saudi Arabian Monetary Authority ("SAMA"). This statutory deposit cannot be withdrawn without the consent of SAMA.

14. COMMITMENTS AND CONTINGENCIES

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

	2018	2017
	SR'000	
Letters of guarantee in favour of non-government customers	**700**	700
Letters of guarantee in favour of GAZT	**9,500**	9,500
	10,200	10,200

b. The Company is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed at 31 December 2018.

c. The Company's bankers have given guarantees to non-government customers amounting to SR 0.7 million (2017: SR 0.3 million) in respect of motor insurance and to General Authority of Zakat and Tax amounting to SR 9.5 million (2017: SR 9.5 million) in respect of zakat assessments for years 2008 to 2012.

15. ACCRUALS AND OTHER LIABILITIES

	2018	2017
	SR'000	
Accrued expenses	**4,838**	4,180
Payables to brokers and agents	**18,445**	14,984
Other payables	**28,896**	17,783
	52,179	36,947

16. UNEARNED REINSURANCE COMMISSION

	2018	2017
	SR'000	
Balance at the beginning of the year	**2,244**	1,287
Commission received during the year	**6,616**	5,270
Commission earned during the year	**(6,317)**	(4,313)
Balance at the end of the year	**2,543**	2,244

17. OTHER TECHNICAL RESERVES

	2018	2017
	SR'000	
Catastrophe reserve	**274**	-
Data deficiency reserve	**3,708**	2,248
Reinsurance Accrual reserve	**2,393**	1,729
	6,375	3,977

18. END OF SERVICE IMDEMNITIES

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

18.1 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
	SAR'000
Present value of defined benefit obligation	**8,941**

18.2 Movement of defined benefit obligation

	2018
	SAR'000
Opening balance	**9,262**
Charge to statement of income	**1,373**
Charge to statement of other comprehensive income	**(1,079)**
Payment of benefits during the year	**(615)**
Closing balance	**8,941**

18.3 Reconciliation of present value of defined benefit obligation

	2018
	SAR'000
Opening balance	**9,262**
Current service costs	**1,111**
Financial costs	**262**
Actuarial loss from experience adjustments	**(1,079)**
Benefits paid during the year	**(615)**
	8,941

18. EMPLOYEE END OF SERVICE BENEFITS – (continued)

18.4 Principal actuarial assumptions

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

	2018
Valuation discount rate	**3.50%**
Expected rate of increase in salary level across different age bands	**1.00%**

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

	2018
Valuation discount rate	**SAR'000**
- Increase by 1%	**(419)**
- Decrease by 1%	**464**
Expected rate of increase in salary level across different age bands	
- Increase by 1%	**457**
- Decrease by 1%	**(420)**

The average duration of the defined benefit plan obligation at the end of the reporting period is 5 years.

19. FAIR VALUES 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 fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the financial statement.

Determination of fair value and fair value hierarchy

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

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

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

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

a. Carrying amounts and fair value

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

19. FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

a. Carrying amounts and fair value

Insurance Operations	**Fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
		SR'000		
31 December 2018				
Financial assets measured at fair value				
- Investments held as FVSI	**-**	**143,984**	**-**	**143,984**
	-	**143,984**	**-**	**143,984**
Financial assets not measured at fair value				
- Held to maturity investments	**-**	**28,627**	**-**	**28,627**
	-	**28,627**	**-**	**28,627**

Insurance Operations	Fair value			
	Level 1	Level 2	Level 3	Total
		SR'000		
31 December 2017				
Financial assets measured at fair value				
- Investments held as FVSI	-	354,373	-	354,373
	-	354,373	-	354,373
Financial assets not measured at fair value				
- Held to maturity investments	-	35,790	-	35,790
	-	35,790	-	35,790

19. FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

a. Carrying amounts and fair value

Shareholders' Operations	**Fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
		SR'000		
30 December 2018				
Financial assets measured at fair value				
- Investments held as FVSI	**-**	**90,752**	**-**	**90,752**
	-	**90,752**	**-**	**90,752**
Financial assets not measured at fair value				
- Held to maturity investments	**-**	**13,526**	**-**	**13,526**
	-	**13,526**	**-**	**13,526**

Shareholders' Operations	Fair value			
	Level 1	Level 2	Level 3	Total
		SR'000		
31 December 2017				
Financial assets measured at fair value				
- Investments held as FVSI	-	216,980	-	216,980
	-	216,980	-	216,980
Financial assets not measured at fair value				
- Held to maturity investments	-	13,642	-	13,642
	-	13,642	-	13,642

20. 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.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2017.

Segment assets do not include cash and cash equivalents, short term deposits, net premiums and reinsurers' receivable, net, prepayments and other receivables, amount due from a related party, investments, furniture, fittings and office equipment. Accordingly, they are included in unallocated assets. Segment liabilities do not include policyholders' claims, reinsurance payables, accruals and other payables and employees' end of service indemnities. 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.

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

20. OPERATING SEGMENTS – (continued)

	As at 31 December 2018					
	Insurance operations					
	Medical	Motor	Property & casualty	Total – Insurance operations	Shareholders' operations	Total
	SR'000					
Assets						
Reinsurers' share of unearned premiums	-	-	13,139	13,139	-	13,139
Reinsurers' share of outstanding claims	-	-	13,316	13,316	-	13,316
Reinsurers' share of claims Incurred but not reported	-	8,469	1,998	10,467	-	10,467
Deferred policy acquisition costs	3,201	9,867	1,067	14,135	-	14,135
Unallocated assets				596,883	239,436	836,319
Total assets				647,940	239,436	887,376
Unearned premiums	59,379	218,379	9,335	287,093	-	287,093
Unearned reinsurance commission	-	-	2,543	2,543	-	2,543
Outstanding claims	16,706	24,878	16,786	58,370	-	58,370
Claims incurred but not reported	10,398	138,874	2,618	151,890	-	151,890
Additional premium reserves	5,083	-	-	5,083	-	5,083
Other technical reserves	2,393	3,708	274	6,375	-	6,375
Unallocated liabilities and surplus				89,785	22,447	112,232
				601,139	22,447	623,586
Shareholders' Equity						
Share capital				-	250,000	250,000
Statutory reserve				-	5,003	5,003
Retained earnings				-	7,708	7,708
Total Shareholders' Equity				-	262,711	262,711
Re-measurement reserve of defined benefit obligation – related to insurance operations				-	1,079	1,079
TOTAL EQUITY				-	263,790	263,790
Total liabilities and Shareholders' Equity				601,139	286,237	887,376

20. OPERATING SEGMENTS – (continued)

	As at 31 December 2017					
	Insurance operations					
	Medical	Motor	Property & casualty	Total – Insurance operations	Shareholders ' operations	Total
				SR'000		
Assets						
Reinsurers' share of unearned premiums	-	-	8,889	8,889	-	8,889
Reinsurers' share of outstanding claims	-	-	9,951	9,951	-	9,951
Reinsurers' share of claims Incurred but not reported	-	-	1,493	1,493	-	1,493
Deferred policy acquisition costs	1,926	11,281	1,309	14,516	-	14,516
Unallocated assets				567,659	259,843	827,502
Total assets				602,508	259,843	862,351
Liabilities						
Unearned premiums	29,529	281,214	11,866	322,609	-	322,609
Unearned reinsurance commission	-	-	2,244	2,244	-	2,244
Outstanding claims	6,985	24,738	13,766	45,489	-	45,489
Claims incurred but not reported	6,162	123,954	2,171	132,287	-	132,287
Premium deficiency reserve	-	2,304	-	2,304	-	2,304
Other technical reserves	1,729	2,248	-	3,977	-	3,977
Unallocated liabilities and surplus				80,720	20,353	101,073
				589,630	20,353	609,983
Shareholders' Equity						
Share capital				-	250,000	250,000
Statutory reserve				-	1,734	1,734
Retained earnings				-	634	634
Total Equity				-	252,368	252,368
Total liabilities and Shareholders' Equity				589,630	272,721	862,351

20. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2018			
	Medical SR'000	*Motor SR'000*	*Property & casualty SR'000*	*Total SR'000*
REVENUES				
Gross premiums written	**119,076**	**592,479**	**23,427**	**734,982**
Reinsurance premiums ceded				
- Local	**-**	**-**	**(953)**	**(953)**
- Foreign	**-**	**(7,895)**	**(15,795)**	**(23,690)**
	-	**(7,895)**	**(16,748)**	**(24,643)**
Excess of loss expenses				
- Local	**-**	**(327)**	**(230)**	**(557)**
- Foreign	**(4,429)**	**(16,687)**	**(1,322)**	**(22,438)**
	(4,429)	**(17,014)**	**(1,552)**	**(22,995)**
Net premiums written	**114,647**	**567,570**	**5,127**	**687,344**
Changes in unearned premiums, net	**(29,851)**	**69,613**	**3**	**39,765**
Net premiums earned	**84,796**	**637,183**	**5,130**	**727,109**
Reinsurance commissions	**-**	**1,165**	**5,152**	**6,317**
Other underwriting income	**-**	**5,184**	**-**	**5,184**
TOTAL REVENUES	**84,796**	**643,532**	**10,282**	**738,610**
UNDERWRITING COSTS AND EXPENSES				
Gross claims paid	**56,152**	**513,616**	**7,022**	**576,790**
Reinsurers' share of claims paid	**(3,386)**	**(9,549)**	**(5,219)**	**(18,154)**
Net claims paid	**52,766**	**504,067**	**1,803**	**558,636**
Changes in outstanding claims, net	**9,721**	**138**	**(343)**	**9,516**
Changes in claims incurred but not reported, net	**4,236**	**6,450**	**(57)**	**10,629**
Net claims incurred	**66,723**	**510,655**	**1,403**	**578,781**
Changes in premium deficiency reserves	**5,083**	**(2,304)**	**-**	**2,779**
Changes in other technical reserves	**664**	**1,460**	**274**	**2,398**
Policy acquisition costs	**5,316**	**25,777**	**2,838**	**33,931**
Other underwriting expenses	**6,081**	**18,408**	**296**	**24,785**
TOTAL UNDERWRITING COSTS AND EXPENSES	**83,867**	**553,996**	**4,811**	**642,674**
NET UNDERWRITING INCOME	**929**	**89,536**	**5,471**	**95,936**
OTHER OPERATING (EXPENSES) / INCOME				
General and administrative expenses				**(91,897)**
Allowance for doubtful debts				**(7,496)**
Investment income				**7,547**
Unrealized gain on investments				**4,956**
Other income				**8,736**
TOTAL OTHER OPERATING EXPENSES				**(78,154)**
NET INCOME FOR THE YEAR				**17,782**
Net income for the year attributable to insurance operations				**(1,439)**
Net income for the year attributable to the shareholders'				**16,343**

20. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2017			
	Medical *SR'000*	*Motor* *SR'000*	*Property & casualty* *SR'000*	*Total* *SR'000*
REVENUES				
Gross premiums written	78,770	645,307	26,614	750,691
Reinsurance premiums ceded				
- Local	-	-	(909)	(909)
- Foreign	-	-	(18,732)	(18,732)
	-	-	(19,641)	(19,641)
Excess of loss expenses				
- Local	-	(431)	-	(431)
- Foreign	(1,762)	(15,098)	(933)	(17,793)
	(1,762)	(15,529)	(933)	(18,224)
Net premiums written	77,008	629,778	6,040	712,826
Changes in unearned premiums, net	(17,864)	(18,031)	(1,608)	(37,503)
Net premiums earned	59,144	611,747	4,432	675,323
Reinsurance commissions	-	-	4,313	4,313
Other underwriting income	-	4,267	-	4,267
TOTAL REVENUES	59,144	616,014	8,745	683,903
UNDERWRITING COSTS AND EXPENSES				
Gross claims paid	21,089	454,879	2,457	478,425
Reinsurers' share of claims paid	(1,787)	(2,663)	(1,619)	(6,069)
Net claims paid	19,302	452,216	838	472,356
Changes in outstanding claims, net	4,258	13,194	451	17,903
Changes in claims incurred but not reported, net	1,253	6,268	108	7,629
Net claims incurred	24,813	471,678	1,397	497,888
Changes in premium deficiency reserves	-	2,304	-	2,304
Changes in other technical reserves	-	-	282	282
Policy acquisition costs	3,498	25,083	2,015	30,596
Other underwriting expenses	7,045	11,230	210	18,485
TOTAL UNDERWRITING COSTS AND EXPENSES	35,356	510,295	3,904	549,555
NET UNDERWRITING INCOME	23,788	105,719	4,841	134,348
OTHER OPERATING (EXPENSES) / INCOME				
General and administrative expenses				(63,887)
Allowance for doubtful debts				(11,256)
Investment income				7,475
Unrealized gain on investments				4,537
Other income				1,201
TOTAL OTHER OPERATING EXPENSES				(61,930)
NET INCOME FOR THE YEAR				72,418
Net income for the year attributable to insurance operations				(6,926)
Net income for the year attributable to the shareholders'				65,492

21. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel [Key Management Personnel includes all directors, executive and non-executive, and senior management] 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:

	Nature of transactions	Amount of transactions For the year ended 31 December		Balance receivable/(payable) as at	
		2018	2017	**2018**	2017
		SR'000			
Entities controlled, jointly controlled or significantly influenced by related parties					
Tajeer Co. (affiliate)	Premium written	**56,778**	73,069		
	Payments and claims paid	**(66,634)**	(79,081)	**20,494**	30,350
Chairman of the Board	Premium written	**315**	341		
	Payments and claims paid	**(171)**	(414)	**215**	71
	Rent paid	**3,025**	-		
Rusd Global Company	Premium written	**142**	150		
	Payments and claims paid	**(68)**	(341)	**74**	-
Al Firdous Group Co.	Premium written	**1,662**	1,742-		
	Payments and claims paid	**(921)**	(1,741)	**768**	27
Jabal Edsas Est.	Commission paid	**111**	-	**-**	-
Tajeer International Co.	Services received	**4,300**	-	**-**	-
Concord Insurance and Reinsurance Brokerage	Insurance commission	**2,008**	-	**-**	-
Kwader Pro	Services received	**498**	-	**-**	-
Alawwal Capital Co.	Investments in DPM and mutual funds	**-**	-	**159,790**	344,528
Rusd Capital	Investments in mutual funds	**-**	-	**7,716**	7,465

The compensation of key management personnel during the year is as follows:

	SR'000	
	2018	2017
Salaries and other allowances	**4,227**	3,729
End of service indemnities	**367**	174
	4,594	3,903
Remuneration to those charged with governance – Board of Directors	**3,031**	726
Remuneration to those charged with governance – Board Committees	**-**	254
	3,031	980

22. ZAKAT

a. Charge for the year

The current year provision is based on the following:

	2018	2017
	SR'000	
Equity	**252,366**	193,176
Opening provision and adjustments	**56,596**	32,374
Net book value of long term assets	**(93,378)**	(54,363)
	215,584	171,187
Adjusted income for the year	**30,309**	78,958
Zakat base	**245,893**	250,145

The differences between the financial and the Zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

Movements in provision during the year

	2018	2017
	SR'000	
Balance at the beginning of the year	**18,189**	14,054
Charge for the year	**6,000**	6,300
Paid during the year	**(4,428)**	(2,165)
Balance at the end of the year	**19,761**	18,189

b. Status of zakat assessments

The Company has filed its zakat declarations for the period from 16 May 2007 to 31 December 2008 and for the years ended 31 December 2009 through 2017 which are still under review by the GAZT and no assessments has been finalized.

During 2016, the Company received zakat assessments for the years ended 31 December 2008 through 2012 where GAZT demanded an additional zakat and withholding tax liability of SR 13.7 million in respect of those years. The Company has filed an objection against those assessments and the management is confident of a favorable outcome. In this regard, the Company have issued a letter of guarantee amounting to SR 9.5 million in favour of GAZT. Further, the Company has booked an additional liability of SR 4.4 million for withholding tax in the statement of income and SR 4 million for zakat for prior years in 2016.

23. SHARE CAPITAL

The authorized and issued share capital of the Company is SR 250 million divided into 25 million ordinary shares of SR 10 each.

24. 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.

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

25. GENERAL AND ADMINISTRATIVE EXPENSE

	Insurance operations	
	2018	2017
	SR'000	
Employees' costs	**58,754**	45,952
Office rent	**7,489**	4,443
Information technology	**2,465**	2,869
Training and development	**367**	289
Depreciation (see note 11)	**4,006**	1,548
Travelling	**862**	737
Communication	**1,551**	1,550
Printing and stationary	**1,755**	1,401
Fee and subscriptions	**243**	313
Utilities	**259**	176
Repair and maintenance	**640**	385
Audit and professional fees	**1,293**	1,264
Marketing and advertisement	**2,220**	488
Others	**6,589**	1,014
	88,493	62,429

	Shareholders' Operations	
	2018	2017
	SR'000	
Board attendance fees (see note a below)	**2,430**	775
Committee expenses (see note b below)	**601**	328
Others	**373**	355
	3,404	1,458

a) Board attendance fees represent allowances for attending board meetings and sub-committee meetings.

b) Committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses

26. EARNINGS PER SHARE

Earnings per share for the year has been calculated by dividing the net income for the year by the weighted average number of issued and outstanding shares for the year.

27. SUPPLEMENTARY INFORMATION

a) Statement of financial position

	31 December 2018			31 December 2017		
	Insurance operations SR '000	**Share-holders' operations SR '000**	**Total SR '000**	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
ASSETS						
Cash and cash equivalents	**81,792**	**5,077**	**86,869**	14,392	11	14,403
Short term deposits	**141,136**	**100,379**	**241,515**	15,292	-	15,292
Premiums and reinsurers' receivable – net	**155,444**	**-**	**155,444**	128,299	-	128,299
Reinsurers' share of unearned premiums	**13,139**	**-**	**13,139**	8,889	-	8,889
Reinsurers' share of outstanding claims	**13,316**	**-**	**13,316**	9,951	-	9,951
Reinsurers' share of claims Incurred but not reported	**10,467**	**-**	**10,467**	1,493	-	1,493
Deferred policy acquisition costs	**14,135**	**-**	**14,135**	14,516	-	14,516
Investments	**172,611**	**106,201**	**278,812**	390,164	232,545	622,709
Due from insurance operations	**-**	**45,722**	**45,722**	-	12,878	12,878
Prepaid expenses and other assets	**24,284**	**93**	**24,377**	14,581	123	14,704
Property and equipment	**14,459**	**-**	**14,459**	4,931	-	4,931
Intangible assets	**7,157**	**-**	**7,157**	-	-	-
Statutory deposit	**-**	**25,000**	**25,000**	-	25,000	25,000
Accrued income on statutory deposit	**-**	**2,686**	**2,686**	-	2,164	2,164
	647,940	**285,158**	**933,098**	602,508	272,721	875,229
Less: Inter-operations eliminations	**-**	**(45,722)**	**(45,722)**	-	(12,878)	(12,878)
TOTAL ASSETS	**647,940**	**239,436**	**887,376**	602,508	259,843	862,351

27. SUPPLEMENTARY INFORMATION – (continued)

a) Statement of financial position – (continued)

	31 December 2018			31 December 2017		
	Insurance operations SR '000	**Share-holders' operations SR '000**	**Total SR '000**	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
LIABILITIES						
Policyholders claims payable	**7,583**	**-**	**7,583**	11,512	-	11,512
Accrued and other liabilities	**52,179**	**-**	**52,179**	36,947	-	36,947
Reinsurers' balances payable	**6,547**	**-**	**6,547**	9,902	-	9,902
Unearned premiums	**287,093**	**-**	**287,093**	322,609	-	322,609
Unearned reinsurance commission	**2,543**	**-**	**2,543**	2,244	-	2,244
Outstanding claims	**58,370**	**-**	**58,370**	45,489	-	45,489
Claims incurred but not reported	**151,890**	**-**	**151,890**	132,287	-	132,287
Premium deficiency reserves	**5,083**	**-**	**5,083**	2,304	-	2,304
Other technical reserves	**6,375**	**-**	**6,375**	3,977	-	3,977
Due to shareholders' operations	**45,722**	**-**	**45,722**	12,878	-	12,878
End-of-service indemnities	**8,941**	**-**	**8,941**	9,262	-	9,262
Insurance operations' surplus	**14,535**	**-**	**14,535**	13,097	-	13,097
Zakat	**-**	**19,761**	**19,761**	-	18,189	18,189
Accrued commission income payable to SAMA	**-**	**2,686**	**2,686**	-	2,164	2,164
	646,861	**22,447**	**669,308**	602,508	20,353	622,861
Less: Inter-operations eliminations	**(45,722)**	**-**	**(45,722)**	(12,878)	-	(12,878)
TOTAL LIABILITIES	**601,139**	**22,447**	**623,586**	589,630	20,353	609,983
SHAREHOLDERS' EQUITY						
Share capital	**-**	**250,000**	**250,000**	-	250,000	250,000
Statutory reserve	**-**	**5,003**	**5,003**	-	1,734	1,734
Retained earnings	**-**	**7,708**	**7,708**	-	634	634
TOTAL EQUITY	**-**	**262,711**	**262,711**	-	252,368	252,368
Re-measurement reserve of defined benefit obligation – related to insurance operations	**1,079**	**-**	**1,079**	-	-	-
	1,079	**262,711**	**263,790**	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**602,218**	**285,158**	**887,376**	589,630	272,721	862,351
COMMITMENTS AND CONTINGENCIES	**10,200**	**-**	**10,200**	10,200	-	10,200

27. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income

	For the year ended 31 December					
	2018			2017		
	Insurance operations SR '000	**Share-holders' operations SR '000**	**Total SR '000**	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
REVENUES						
Gross premiums written	**734,982**	**-**	**734,982**	750,691	-	750,691
	734,982	**-**	**734,982**	750,691	-	750,691
Reinsurance premiums ceded						
- Local	**(953)**	**-**	**(953)**	(909)	-	(909)
- Foreign	**(23,690)**	**-**	**(23,690)**	(18,732)	-	(18,732)
	(24,643)	**-**	**(24,643)**	(19,641)	-	(19,641)
Excess of loss expenses						
- Local	**(557)**	**-**	**(557)**	(431)	-	(431)
- Foreign	**(22,438)**	**-**	**(22,438)**	(17,793)	-	(17,793)
	(22,995)	**-**	**(22,995)**	(18,224)	-	(18,224)
Net premiums written	**687,344**	**-**	**687,344**	712,826	-	712,826
Changes in unearned premiums, net	**39,765**	**-**	**39,765**	(37,503)	-	(37,503)
Net premiums earned	**727,109**	**-**	**727,109**	675,323	-	675,323
Reinsurance commissions	**6,317**	**-**	**6,317**	4,313	-	4,313
Other underwriting income	**5,184**	**-**	**5,184**	4,267	-	4,267
TOTAL REVENUES	**738,610**	**-**	**738,610**	683,903	-	683,903
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	**576,790**	**-**	**576,790**	478,425	-	478,425
Reinsurers' share of claims paid	**(18,154)**	**-**	**(18,154)**	(6,069)	-	(6,069)
Net claims and other benefits paid	**558,636**	**-**	**558,636**	472,356	-	472,356
Changes in outstanding claims, net	**9,516**	**-**	**9,516**	17,903	-	17,903
Changes in claims incurred but not reported, net	**10,629**	**-**	**10,629**	7,629	-	7,629
Net claims and other benefits incurred	**578,781**	**-**	**578,781**	497,888	-	497,888
Change premium deficiency reserves	**2,779**	**-**	**2,779**	2,304	-	2,304
Change other technical reserves	**2,398**	**-**	**2,398**	282	-	282
Policy acquisition costs	**33,931**	**-**	**33,931**	30,596	-	30,596
Other underwriting expenses	**24,785**	**-**	**24,785**	18,485	-	18,485
TOTAL UNDERWRITING COSTS AND EXPENSES	**642,674**	**-**	**642,674**	549,555	-	549,555
NET UNDERWRITING INCOME	**95,936**	**-**	**95,936**	134,348	-	134,348

27. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of income – (continued)

	For the year ended 31 December					
	2018			2017		
	Insurance operations SR '000	**Share-holders' operations SR '000**	**Total SR '000**	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
OTHER OPERATING (EXPENSES)/INCOME						
Allowance for doubtful debts	**(7,496)**	**-**	**(7,496)**	(11,256)	-	(11,256)
General and administrative expenses	**(88,493)**	**(3,404)**	**(91,897)**	(62,429)	(1,458)	(63,887)
Investment income	**4,444**	**3,103**	**7,547**	7,394	81	7,475
Unrealized gain on investments	**1,265**	**3,691**	**4,956**	-	4,537	4,537
Other income	**8,736**	**-**	**8,736**	1,201	-	1,201
TOTAL OTHER OPERATING (EXPENSES)/ INCOME	**(81,544)**	**3,390**	**(78,154)**	(65,090)	3,160	(61,930)
NET SURPLUS FROM INSURANCE OPERATIONS	**14,392**	**3,390**	**17,782**	69,258	3,160	72,418
Surplus transferred to Shareholders	**(12,953)**	**(3,390)**	**(16,343)**	(62,332)	(3,160)	(65,492)
NET RESULT FROM INSURANCE OPERATIONS AFTER TRANSFER OF SURPLUS TO SHAREHOLDERS	**1,439**	**-**	**1,439**	6,926	-	6,926
Earnings per share (Expressed in SAR per share)						
Weighted average number of shares (in thousands)	**-**	**25,000**	**25,000**	-	25,000	25,000
Basic and diluted earnings per share	**-**	**(0.65)**	**(0.65)**	-	2.62	2.62

27. SUPPLEMENTARY INFORMATION – (continued)

c) Statement of comprehensive income

	For the year ended 31 December					
	2018			2017		
	Insurance operations SR '000	**Share-holders' operations SR '000**	**Total SR '000**	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
Net income for the year	**1,439**	**16,343**	**17,782**	6,926	65,492	72,418
Other comprehensive income						
Items that will not be reclassified to statement of income in subsequent periods						
Actuarial gains on defined benefit obligation – related to Insurance operations	**1,079**	**-**	**1,079**	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,518**	**16,343**	**18,861**	6,926	65,492	72,418

27. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows

	For the year ended 31 December					
	2018			2017		
	Insurance operations SR ’000	Share-holders’ operations SR ’000	Total SR ’000	Insurance operations SR ’000	Share-holders’ operations SR ’000	Total SR ’000
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income for the year	1,439	16,343	17,782	6,926	65,492	72,418
Adjustments for non-cash items:						
Depreciation of property and equipment	3,148	-	3,148	1,548	-	1,548
Amortization of intangible assets	858	-	858	-	-	-
Amortization related to HTM investments	163	116	279	157	113	270
Allowance for doubtful debts	7,496	-	7,496	11,256	-	11,256
Unrealized gain on investments	(1,265)	(3,691)	(4,956)	(5,691)	(4,262)	(9,953)
Realized gain on investments	(1,645)	(1,119)	(2,764)	-	-	-
Provision for end-of-service indemnities	1,373	-	1,373	2,209	-	2,209
	11,567	11,649	23,216	16,405	61,343	77,748
Changes in operating assets and liabilities:						
Premiums and reinsurers’ receivable	(34,641)	-	(34,641)	(39,937)	-	(39,937)
Reinsurers’ share of unearned premiums	(4,250)	-	(4,250)	(4,137)	-	(4,137)
Reinsurers’ share of outstanding claims	(3,365)	-	(3,365)	(5,068)	-	(5,068)
Reinsurers’ share of claims Incurred but not reported	(8,974)	-	(8,974)		-	
Deferred policy acquisition costs	381	-	381	(3,926)	-	(3,926)
Prepaid expenses and other assets	(9,704)	30	(9,674)	6,826	9	6,835
Accrued income on statutory deposit	-	(522)	(522)	-	(519)	(519)
Policyholders and accounts payables	(3,929)	-	(3,929)	3,940	-	3,940
Accrued and other liabilities	15,232	-	15,232	11,232	-	11,232
Reinsurers' balances payable	(3,355)	-	(3,355)	3,453	-	3,453
Unearned premiums	(35,516)	-	(35,516)	41,640	-	41,640
Unearned reinsurance commission	299	-	299	957	-	957
Outstanding claims	12,881	-	12,881	30,600	-	30,600
Claims incurred but not reported	19,603	-	19,603	-	-	-
Additional premium reserves	2,779	-	2,779	2,304	-	2,304
Other technical reserve	2,398	-	2,398	282	-	282
Accrued commission income payable to SAMA	-	522	522	-	519	519
	(38,594)	11,679	(26,915)	64,571	61,352	125,923
Zakat and income tax paid	-	(4,428)	(4,428)	-	(2,165)	(2,165)
End-of-service indemnities paid	(615)	-	(615)	(1,329)	-	(1,329)
Net cash flows (used in) / from operating activities	(39,209)	7,251	(31,958)	63,242	59,187	122,429

27. SUPPLEMENTARY INFORMATION – (continued)

e) Statement of cash flows – (continued)

	For the year ended 31 December					
	2018			2017		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
	SR '000	**SR '000**	**SR '000**	SR '000	SR '000	SR '000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investments	**-**	**(200,000)**	**(200,000)**	(114,667)	(82,500)	(197,167)
Proceeds from sale of investments	**220,300**	**131,038**	**351,338**	20,500	14,992	35,492
Placement of term deposits	**(290,757)**	**-**	**(290,757)**	(15,292)	-	(15,292)
Proceeds from maturity of term deposit	**164,913**	**99,621**	**264,534**	14,783	-	14,783
Purchase of property and equipment	**(12,676)**	**-**	**(12,676)**	(3,872)	-	(3,872)
Purchase of intangible assets	**(8,015)**	**-**	**(8,015)**	-	-	-
Net cash flows from / (used in) investing activities	**73,765**	**30,659**	**104,424**	(98,548)	(67,508)	(166,056)
CASH FLOWS FROM FINANCING ACTIVITIES						
Due to shareholders' operations	**32,844**	**(32,844)**	**-**	(8,321)	8,321	-
Net cash flows from / (used in) from financing activities	**32,844**	**(32,844)**	**-**	(8,321)	8,321	-
Net change in cash and cash equivalents	**67,400**	**5,066**	**72,466**	(43,627)	-	(43,627)
Cash and cash equivalents, beginning of the year	**14,392**	**11**	**14,403**	58,019	11	58,030
Cash and cash equivalents, end of the year	**81,792**	**5,077**	**86,869**	14,392	11	14,403

28. RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through strategic planning process.

Risk management structure

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

28. RISK MANAGEMENT – (continued)

Risk management structure – (continued)

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

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

Insurance risk
The risk under an insurance policy is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such policies is that the actual claims and benefit payments exceed the carrying amount of insurance reserves. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient resources are available to cover claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance policies as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.

Certain portion of reinsurance business ceded is placed on a quota share basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

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 insurance claim liabilities are sensitive to various assumptions mentioned in note 2(f).

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors such as flood, environmental and economical, atmospheric disturbance and concentration of risk etc. The Company underwrites mainly motor and medical risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

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

The company monitors concentration of risk primarily by class of business. The major concentration lies in motor and medical line of business.

Independent actuarial review of claims and claims reserves
In further mitigation of the insurance risk, the Company utilises an independent actuary who performs periodical reviews of the Company's claims modelling and claims projections as well as verifying the closing position claims reserves are adequate.

28. RISK MANAGEMENT – (continued)

Key assumption
The principal assumption underlying the estimates is the Company's estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods as far as applicable.

Sensitivities
The company believes that claim liabilities under insurance contract (Gross outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions. Sensitivity of loss for the year before Zakat to change in claim liabilities and IBNR based on an increase / decrease of 10% in outstanding claim reserve and increase / decrease of 15 % in IBNR is given below for each business segment.

	2018 SR'000		*2017 SR'000*	
Outstanding claim net of reinsurance	**Effect of 10% increase**	**Effect of 10% decrease**	Effect of 10% increase	Effect of 10% decrease
Motor	**(2,488)**	**2,488**	(2,474)	2,474
Medical	**(1,671)**	**1,671**	(699)	699
Others	**(347)**	**347**	(381)	381
	(4,506)	**4,506**	(3,554)	3,554

	2018 SR'000		*2017 SR'000*	
IBNR	**Effect of 15% increase**	**Effect of 15% decrease**	Effect of 15% increase	Effect of 15% decrease
Motor	**(19,561)**	**19,561**	(18,593)	18,593
Medical	**(1,560)**	**1,560**	(924)	924
Others	**(93)**	**93**	(102)	102
	(21,214)	**21,214**	(19,619)	19,619

Reinsurance risk

Similar to other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes.

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 management. The criteria may be summarized as follows:

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

28. RISK MANAGEMENT – (continued)

Reinsurance risk – (continued)

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

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

Regulatory framework risk

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

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

Capital management risk

Capital requirements are set and regulated by the Saudi Arabian Monetary Authority. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares, if required in future. In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

Financial risk

The Company's principal financial instruments are receivables arising from insurance contracts, due from related parties, cash and cash equivalents, term deposits, investments, other receivables, outstanding claims and policy holder claims, reinsurance payable and certain other assets and liabilities. The main risks arising from the Company's financial instruments are market risk, commission rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

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

28. RISK MANAGEMENT – (continued)

Financial risk – (continued)

Market risk – (continued)

The Company is exposed to market risk with respect to its FVIS investments. Market risk is managed by investing in reputed funds which maintain investments in diversified portfolios and equity shares and by continuous monitoring of developments in equity markets. In addition, the key factors that affect stock market movements are monitored, including analysis of the operational and financial performance of investees. A 100 basis point increase / (decrease) in net asset value of these funds can impact statement of insurance operations and accumulated surplus by SR 1,440 thousand (2017: SR 3,544 thousand) and statement of shareholder operations by SR 908 thousand (2017: SR 2,170 thousand).

Commission rate risk
Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its held to maturity investments and term deposits.

The Company is subject to commission rate fair value risk on its fixed rate murabaha deposits classified as term deposits in the statement of financial position. The company does not account for fixed commission rate instrument as held for trading or as FVIS investment. Accordingly there is no impact on the income or equity of reasonably possible change in commission rate.

The Company is required to maintain a restricted deposit in accordance with insurance regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk of other financial instruments by monitoring changes in commission rates in the currencies in which its financial instruments are denominated.

Insurance Operations

Details of maturities of the major classes of commission bearing securities for insurance operations as at 31 December 2018 and 2017 are as follows:

	2018 SR '000			
	Less than 1 year	***1 to 5 years***	***over 5 years***	***Total***
Investments held to maturity (note 8(b))	**10,000**	**8,627**	**10,000**	**28,627**
	10,000	**8,627**	**10,000**	**28,627**

	2017 SR '000			
	Less than 1 year	*1 to 5 Years*	*over 5 years*	*Total*
Investments held to maturity (note 8(b))	7,000	18,790	10,000	35,790
	7,000	18,790	10,000	35,790

The maturities of deposits have been determined on the basis of the remaining period, at the reporting date, to the contractual maturity date.

28. RISK MANAGEMENT – (continued)

Financial risk – (continued)

Commission rate risk – (continued)

The effective interest rates for the commission bearing financial instruments were as follows:

	2018	*2017*
Saudi Riyal denominated financial assets	**2.15%**	2.15%

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

	2018	*2017*
	SR'000	*SR'000*
	Effect on profit	*Effect on profit*
Saudi Riyals:		
Increase in interest rates by 100 basis points	**1,698**	511
Decrease in interest rates by 100 basis points	**(1,698)**	(511)

Details of maturities of the major classes of commission bearing securities for shareholders' operations as at 31 December 2018 and 2017 are as follows:

Shareholder Operations

	2018 SR '000			
	Less than 1 year	***1 to 5 years***	***over 5 years***	***Total***
Investments held to maturity	**-**	**13,526**	**-**	**13,526**
	-	**13,526**	**-**	**13,526**

	2017 SR '000			
	Less than 1 year	*1 to 5 Years*	*over 5 years*	*Total*
Investments held to maturity	-	13,642	-	13,642
	-	13,642	-	13,642

The maturities of deposits have been determined on the basis of the remaining period, at the reporting date, to the contractual maturity date. The effective interest rates for the commission bearing financial instruments were as follows:

	2018	*2017*
Foreign currency denominated financial assets	**1.52%**	1.52%

28. RISK MANAGEMENT – (continued)

Financial risk – (continued)

Commission rate risk – (continued)

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

	2018	*2017*
	SR'000	*SR'000*
	Effect on profit	*Effect on profit*
Saudi Riyals:		
Increase in commission rates by 100 basis points	**1,139**	136
Decrease in commission rates by 100 basis points	**(1,139)**	(136)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of losses due to exchange rate fluctuations as the insurance operations and shareholders' operations primarily deal in Saudi Riyals and in US Dollar which is pegged to Saudi Riyals.

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. All of the Company's underwriting activities are carried out in Saudi Arabia. For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the reporting date.

The Company seeks to limit its credit risk with respect to customers by following the credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the overdue premiums receivable. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

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

	2018	*2017*
	SR' 000	*SR' 000*
Insurance' Operations		
Cash and cash equivalents	**86,869**	14,392
Term deposits	**241,515**	15,292
Premiums receivable, net	**153,039**	127,669
Held to maturity investments	**28,627**	35,790
Reinsurance receivables, net	**2,404**	630
Other receivables	**51,558**	37,986
Reinsurers' share of outstanding claims	**23,783**	11,444
	587,795	243,203

28. RISK MANAGEMENT – (continued)

Credit risk – (continued)

Shareholders' Operations	***2018*** ***SR' 000***	*2017* *SR' 000*
Cash and cash equivalents	**5,077**	11
Other receivables	**93**	123
Held to maturity investments	**13,526**	13,642
	18,696	13,776

Liquidity risk

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

Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

All of the Company's financial assets and financial liabilities are expected to be realised and settled, respectively within 12 months from the reporting date, except for statutory deposit, which has no term (see note 13), and held to maturity assets, which are expected to be held until their maturities as mentioned in commission rate risk disclosure above. All financial liabilities are non-interest bearing.

29. AMALGAMATION OF SHAREHOLDERS AND INSURANCE OPERATIONS

Certain of the comparative figures have been reclassified and regrouped to conform to the in the current year presentation. These changes as summarized below, were mainly to conform with the SAMA requirements:

- As discussed in note 2 to these financial statements, previously statement of financial position, statement of income, and statement of cash flows were presented separately for insurance operations and shareholders operations which are combined together to present one Company level statement of financial position, statement of income and statement of cash flows.
- The amounts "due to / from" shareholders and insurance operations which previously reported separately in the respective statement of financial position, are now eliminated (refer note 27 (a)).
- Share of insurance operations surplus split in the ratio of 90/10 between shareholders and insurance operations and presented separately is now presented as an expense in statement of income (refer note 27 (b)).

30. COMPARATIVE FIGURES

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

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 23 Rajab 1440H, corresponding to 30 March 2019.