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**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

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**Independent Auditors' Report  
To the Shareholders of Al Alamiya for Cooperative Insurance Company  
(A Saudi Joint Stock Company)**

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the financial statements of Al Alamiya for Cooperative Insurance Company (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at December 31, 2018, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory notes from 1 to 27.

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

**Basis for Opinion**

We conducted our audit in accordance with the International Standards on Auditing ("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 that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

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

**Independent Auditors' Report**  
**To the Shareholders of Al Alamiya for Cooperative Insurance Company**  
**(A Saudi Joint Stock Company)**

The key audit matter	How the matter was addressed in our audit
<p><b><u>Valuation of technical reserves</u></b></p> <p>The Company as at December 31, 2018, has gross technical reserves amounting to SR 132,770,000 as reported in Note 9.1 of the financial statements, which includes claims incurred but not reported (IBNR) and other technical reserves.</p> <p>The Company uses a range of actuarial methodologies to estimate these claims. This requires significant judgments relating to factors and assumptions such as inflation, claims development pattern and regulatory requirements.</p> <p>The valuation of technical reserves is a key judgmental area for management given the level of subjectivity inherent in estimating the impact of claim events that have occurred for which the ultimate outcome remains uncertain.</p> <p>Due to the significance of the amounts involved and the exercise of significant judgment by management in the process for determination of gross outstanding claims, we have determined it to be a key audit matter.</p> <p>Refer to notes 2(e)(i) which discloses the estimated liability arising from claims under insurance contracts and note 3(i) which discloses accounting policies for claims.</p>	<p>We evaluated the design and tested the implementation and operating effectiveness of key controls over management's processes for claims processing and payment, including controls over the completeness and accuracy of the claim estimates recorded.</p> <p>We performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claims and technical reserves.</p> <p>Using our actuarial specialists we performed re-projections on IBNR relating to selected operating segments, where we compared our re-projected IBNR to those booked by management, and sought to understand any significant differences.</p> <p>For the remaining operating segments, we assessed the reasonableness of methodologies and assumptions used by the management against recognized actuarial practices and industry standards to identify and evaluate any anomalies.</p> <p>We assessed the completeness and accuracy of data used by management in their calculation of technical reserves.</p> <p>We also assessed the appropriateness of the financial statements disclosures with respect to technical reserves.</p>

### **Independent Auditors' Report**

**To the Shareholders of Al Alamiya for Cooperative Insurance Company  
(A Saudi Joint Stock Company)**

#### **Other Information**

The management of the Company are responsible for the other information. The other information comprises 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 will not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

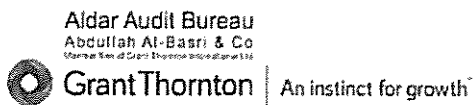
**Independent Auditors' Report**  
**To the Shareholders of Al Alamiya for Cooperative Insurance Company**  
**(A Saudi Joint Stock Company)**

As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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



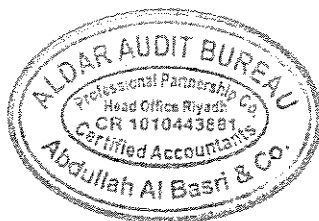
**Deloitte.**  
Deloitte and Touche & Co.  
Chartered Accountants

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

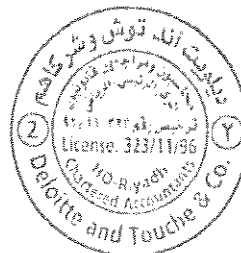
**Aldar Audit Bureau  
Abdullah Al Basri & Co**  
P.O. Box 2195  
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Kingdom of Saudi Arabia

**Abdullah M. Al Basri**  
Certified Public Accountant  
Registration No. 171



**Deloitte & Touche & Co.**  
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Kingdom of Saudi Arabia

**Ehsan A. Makhdom**  
Certified Public Accountant  
Registration No. 358

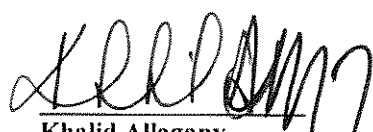



Rajab 18, 1440H  
March 25, 2019

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018

		SAR '000	
		December 31,2018	December31,2017
	<i>Notes</i>	(Audited)	(Audited)
<b><u>ASSETS</u></b>			
Cash and cash equivalents	4	55,676	16,651
Term deposits	5	411,230	434,105
Premiums and reinsurer' receivable, net	8	70,868	81,184
Reinsurers' share of unearned premiums	9.2	56,537	49,140
Reinsurers' share of outstanding claims	9.1	44,355	41,545
Reinsurers' share of claims incurred but not reported	9.1	8,230	25,338
Deferred policy acquisition costs	9.3	4,631	3,792
Investments	6	92,982	77,278
Due from related parties	20	630	31
Prepaid expenses and other assets		7,117	5,380
Property and equipment	12	1,541	686
Statutory deposit	11	40,000	40,000
Accrued income on statutory deposit		3,059	2,204
<b>TOTAL ASSETS</b>		<b>796,856</b>	<b>777,334</b>

  
Khalid Allagany  
CEO and Managing Director

  
Fadi Aboul Hosn  
Chief Financial Officer

The accompanying notes 1 to 27 form an integral part of these financial statements.

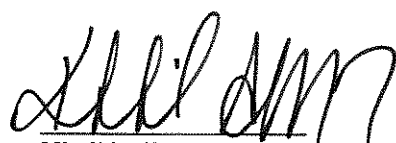


AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 31 DECEMBER 2018

		SAR '000	
		December 31, 2018	December 31, 2017
	Notes	(Audited)	(Audited)
<b>LIABILITIES</b>			
Outstanding claims reserve	9.1	85,720	86,216
Claims incurred but not reported	9.1	46,357	77,759
Other technical reserves	9.1	693	1,733
Accrued expenses and other liabilities	13	35,784	33,269
Reinsurers' balances payable		52,784	40,720
Unearned premiums	9.2	112,473	100,103
Accounts payables		8,471	13,019
Unearned reinsurance commission	9.4	3,366	4,465
Due to related parties		1,045	1,064
End-of-service benefits	22	11,650	10,921
Zakat and income tax	15	38,153	31,055
Accrued commission income payable to SAMA		3,059	2,204
<b>TOTAL LIABILITIES EXCLUDING INSURANCE OPERATIONS' SURPLUS</b>		<b>399,555</b>	<b>402,528</b>
<b>INSURANCE OPERATIONS' SURPLUS</b>			
Accumulated surplus	10	10,263	9,616
Actuarial reserve for employee benefits		(457)	(1,675)
<b>TOTAL INSURANCE OPERATIONS' SURPLUS</b>		<b>9,806</b>	<b>7,941</b>
<b>TOTAL LIABILITIES</b>		<b>409,361</b>	<b>410,469</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	400,000	400,000
Accumulated losses		(10,836)	(32,275)
Fair value reserve for available for sale investments		(1,669)	(860)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>387,495</b>	<b>366,865</b>
<b>TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>		<b>796,856</b>	<b>777,334</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	19	<b>886</b>	<b>1,299</b>



Khalid Allagany  
CEO and Managing Director



Fadi Aboul Hosn  
Chief Financial Officer

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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER

	SAR '000	
	2018	2017
<b>REVENUES</b>		
Gross premiums written		
- Direct	292,882	262,345
- Reinsurance	651	1,024
	293,533	263,369
Reinsurance premiums ceded		
- Local	(3,220)	(52)
- Foreign	(125,250)	(108,094)
	(128,470)	(108,146)
Excess of loss premium		
- Local	--	--
- Foreign	(7,641)	(8,854)
Total reinsurance premium ceded	(136,111)	(117,000)
<b>NET PREMIUMS WRITTEN</b>	157,422	146,369
Changes in unearned premiums	(12,370)	19,982
Changes in reinsurance share of unearned premiums	7,397	(16,038)
<b>NET PREMIUMS EARNED</b>	152,449	150,313
Reinsurance commissions	11,518	22,290
<b>TOTAL REVENUES</b>	163,967	172,603
<b>UNDERWRITING COSTS AND EXPENSES</b>		
Gross claims paid	(112,829)	(90,479)
Reinsurers' share of claims paid	34,204	31,909
<b>NET CLAIMS PAID</b>	(78,625)	(58,570)
Changes in outstanding claims	496	(13,350)
Changes in reinsurance share of outstanding claims	2,810	14,955
Changes in IBNR, net	14,294	8,883
Changes in other technical reserves	1,040	1,458
<b>NET CLAIMS INCURRED</b>	(59,985)	(46,624)
Policy acquisition costs	(17,993)	(25,421)
Other underwriting expenses	(1,615)	(1,383)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	(79,593)	(73,428)
<b>NET UNDERWRITING INCOME</b>	84,374	99,175
<b>OTHER OPERATING (EXPENSES) / INCOME</b>		
Allowance for doubtful debts	(2,164)	(1,722)
General and administrative expenses	(59,588)	(57,186)
Investment income on term deposits	9,248	6,997
Other investment income	2,255	1,708
Other income	--	16
<b>TOTAL OTHER OPERATING EXPENSES</b>	(50,249)	(50,187)
<b>TOTAL INCOME FOR THE YEAR</b>	34,125	48,988
<b>TOTAL INCOME FOR THE YEAR ATTRIBUTED TO THE INSURANCE OPERATIONS</b>	(2,862)	(4,503)
<b>NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS</b>	31,263	44,485
<b>BASIC AND DILUTED EARNINGS PER SHARE (SAR)</b>	0.78	1.11



Khalid Allagany  
CEO and Managing Director



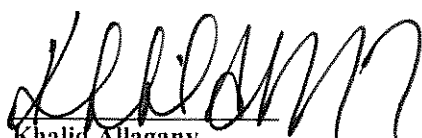
Fadi Aboul Hosn  
Chief Financial Officer

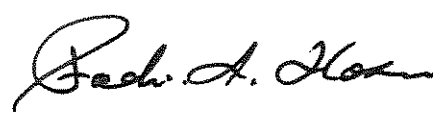
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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER

		SAR '000	
	<u>Notes</u>	2018	2017
Total income for the year		34,125	48,988
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>-Items that may be reclassified to statement of income in subsequent periods</i>			
Change in fair value of available for sale investments	6	(809)	(172)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>33,316</b>	<b>48,816</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTED TO THE INSURANCE OPERATIONS</b>	25B	<b>(2,862)</b>	<b>(4,503)</b>
<b>NET COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS</b>		<b>30,454</b>	<b>44,313</b>
<b>TOTAL INCOME FOR THE YEAR ATTRIBUTED TO THE INSURANCE OPERATIONS</b>		<b>2,862</b>	<b>4,503</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Item that will not be reclassified to the statement of income</i>			
Re-measurement of defined benefit liability-employee benefits		1,218	(1,675)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTED TO THE INSURANCE OPERATIONS</b>		<b>4,080</b>	<b>2,828</b>

  
Khalid Allagany  
CEO and Managing Director


  
Fadi Aboul Hosn  
Chief Financial Officer

The accompanying notes 1 to 27 form an integral part of these financial statements.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER  
SAR in '000'

<u>2018</u>	<u>Notes</u>	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Fair value reserve for available for sale investments</u>	<u>Total Equity</u>
Balance at January 1, 2018		400,000	(32,275)	(860)	366,865
Total comprehensive income /(loss) for the year					
Changes in fair values of available for sale investments	6	--	--	(809)	(809)
Net income for the year attributable to shareholders		--	31,263	--	31,263
Total comprehensive income (loss) for the year attributable to shareholders		400,000	(1,012)	(1,669)	397,319
Zakat and income tax charge	15	--	(9,824)	--	(9,824)
Balance at December 31, 2018		400,000	(10,836)	(1,669)	387,495
<u>2017</u>					
Balance at January 1, 2017		400,000	(68,356)	(688)	330,956
Total comprehensive income for the year					
Changes in fair values of available for sale investments		--	--	(172)	(172)
Net income for the year Attributable to shareholders		--	44,485	--	44,485
Total comprehensive income (loss) for the year attributable to shareholders		400,000	(23,871)	(860)	375,269
Zakat and income tax charge		--	(8,404)	--	(8,404)
Balance at December 31, 2017		400,000	(32,275)	(860)	366,865

  
Khalid Allagany  
CEO and Managing Director

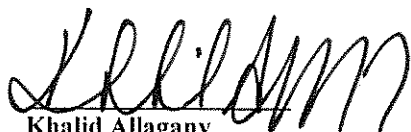
  
Fadi Aboul Hosn  
Chief Financial Officer

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**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER**

	<i>Note</i>	2018	2017
		SAR '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the year		34,125	48,988
Adjustments for non-cash items:			
Depreciation of property and equipment		414	128
Amortizations of investments		301	545
Allowance for provisions for doubtful debts		2,164	1,722
Provision for end-of-service benefits		2,492	2,051
		39,496	53,434
<u>Changes in operating assets and liabilities:</u>			
Deposits against letters of guarantee		200	--
Premiums and reinsurers' receivable		8,152	(18,689)
Reinsurers' share of unearned premiums		(7,397)	16,038
Reinsurers' share of outstanding claims		(2,810)	(14,955)
Reinsurers' share of claims Incurred but not reported		17,108	8,004
Deferred policy acquisition costs		(839)	354
Due from related parties		(599)	3,707
Prepaid expenses and other assets		(1,737)	(1,414)
Statutory deposits		(855)	(962)
Accounts payables		(4,548)	3,470
Accrued expenses and other liabilities		2,515	(2,850)
Reinsurers' balances payable		12,064	(13,298)
Unearned premiums		12,370	(19,982)
Unearned reinsurance commission		(1,099)	(2,442)
Outstanding claims		(496)	13,349
Zakat and Tax paid		(2,726)	(1,734)
Claims incurred but not reported		(31,402)	(16,887)
Other technical reserves		(1,040)	(1,458)
Accrued commission income payable to SAMA		855	962
Due to related parties		(19)	(852)
		37,193	3,795
End-of-service benefits paid	22	(546)	(2,608)
Surplus paid to policy holders		(2,215)	(2,833)
<b>Net cash generated from / (used in) operating activities</b>		<b>34,432</b>	<b>(1,646)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(Additions)/disposals in investments, net		(16,813)	(195)
Disposals / (additions) in term deposits, net		22,875	(6,455)
Additions in property and equipment	12	(1,269)	(654)
<b>Net cash (used in) / generated from investing activities</b>		<b>4,793</b>	<b>(7,304)</b>
Net change in cash and cash equivalents		39,225	(8,950)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR		15,751	24,701
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	4	<b>54,976</b>	<b>15,751</b>
<b>NON-CASH INFORMATION</b>			
Change in fair value of available for sale investments	6	(809)	(172)

  
Khalid Allagany  
CEO and Managing Director

  
Fadi Aboul Hosn  
Chief Financial Officer

The accompanying notes 1 to 27 form an integral part of these financial statements.

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 1. ORGANISATION AND PRINCIPAL ACTIVITIES

Al Alamiya for Cooperative Insurance Company (The Company) is a Saudi joint stock Company registered on 29 Dhu-al Qu'dah, 1430H (17 November 2009) under commercial registration (CR) number 4030194978. The registered head office of the Company is in Riyadh under CR number of 1010287831 with branches in Jeddah (CR 4030194978) and Khobar (CR 2051042939). The registered address of the Company's head office is as follows:

Al Alamiya for Cooperative Insurance Company  
Prince Mohammed bin Abdul Aziz Road,  
Home Centre Building, P.O. Box: 6393,  
Riyadh 11442, Kingdom of Saudi Arabia

The activities of the Company are to transact cooperative insurance and reinsurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 26 Dhu Al Hijjah, 1430H (13 December 2009), the Company received the license from Saudi Arabian Monetary Authority (SAMA) to transact insurance business in the Kingdom of Saudi Arabia.

### 2 BASIS OF PREPARATION

#### a) *Statement of compliance*

The financial statements for the year ended 31 December 2018 have been prepared in accordance with:

- International Financial Reporting Standard (IFRS) as modified by the Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax', which requires, adoption of all IFRS 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 SAMA Circular No.381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and Income tax (SAMA Circular), the Zakat and Income tax will continue to be accrued on a quarterly basis through the statement of changes in shareholders' equity under retained earnings with a corresponding liability recognized in the statement of financial position.
- The requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As required by Saudi Arabian Insurance Regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. The physical custody of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of other revenue and expenses from joint operations is determined by the management and Board of Directors.

The Company is required to distribute 10% of the net surplus from insurance operations to policyholders and the remaining 90% is to be allocated to the shareholders of the Company in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Agency Authority (SAMA). Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

#### b) *Basis of measurement*

The financial statements have been prepared under the historical cost basis, except for the measurement at fair value of available for sale investments and End Of Service Benefits (EOSB) at present value.

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 2 BASIS OF PREPARATION (continued)

#### c) *Functional and presentational currency*

The financial statements have been presented in Saudi Riyals, which is the functional and presentational currency of the Company.

#### d) *Fiscal year*

The Company follows a fiscal year ending December 31.

#### e) *Critical accounting judgments, estimates and assumptions*

The preparation of financial statements requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the reporting date and the reported amounts of revenue 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.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the foreseeable future are discussed below.

#### (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 estimating the liability that the Company will ultimately pay for such claims. The provision for claims Incurred But Not Reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the end of reporting date, for which the insured event has occurred prior to the end of reporting date. The Company uses the services of a qualified actuary in the valuation of IBNR as well as premium deficiency reserves.

#### (ii) Impairment on premiums and insurance balances receivable

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that considers past-due status being indicative of the ability to pay all amounts due as per contractual terms.

#### (iii) Impairment of available for sale financial assets

The Company determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations. In the current year, the Company has applied a number of amendments to IFRS and new interpretations issued by International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 January 2018. The adoption of new standards, amendments and revisions to existing standards, as mentioned below, had no significant financial impact on the financial statements of the Company.

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *New and amendments to existing standards*

##### *Disclosure initiative (Amendments to IAS 7)*

Amendments to IAS 7 – “Statement of Cash Flows”, applicable for the annual periods beginning on or after 1 January 2018. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

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

In addition to the above mentioned standards, the following standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company’s financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Further, the Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect date in future.

##### *IFRS 16 Leases*

The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company will elect to use the exemptions proposed for those lease contracts where the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

During 2018, the Company has completed an impact assessment of IFRS 16. The impact of IFRS 16 adoption is expected to be as follows:

Due to the adoption of IFRS 16, the Company’s net income is not expected to be significantly affected with a change in commission expense and depreciation, and a change in rent expense. This is due to the change in the accounting for the expenses of leases that were previously classified as operating leases under IAS 17.

##### *IFRS 9 Financial Instruments*

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 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 income statement.

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as FVPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.



# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During 2018, the Company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance. The Company intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018 and through the year ended 31 December 2018.

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 balance sheet. The Company has decided not to early adopt this new standard.

The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for certain designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

The following is a summary of significant accounting policies followed in preparation of these financial statements:

#### a) *Cash and Bank Balances*

Cash and bank balances comprise cash on hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the date of acquisition.

#### b) *Prepayments*

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statement of comprehensive income as they are consumed or expire with the passage of time.

#### c) *Accrued Expenses and Other Liabilities*

Accrued expenses and other liabilities are recognised for amounts to be paid in the future for goods and services, whether billed by the supplier or not.

#### d) *Insurance Contracts*

Insurance contracts are those contracts where the Company (The Insurer) has accepted significant insurance risk from another party (The Policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (The Insured Event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. 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. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant

#### e) *Available For Sale Investments (AFS)*

Available for sale investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through income statement. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS investments are subsequently measured at fair value.

Return on debt securities is recognised on an effective yield method. Profit or loss on sale of investments is recognised at the time of sale. Dividend income is recognised when right to receive such dividend is established.

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under 'fair value reserve for available for sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

Any significant or prolonged decline in value of investments is adjusted for and reported in the statement of comprehensive income as impairment charges. Fair values of investments are based on quoted prices for marketable securities or estimated fair values.

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### f) *Provisions*

A provision for incurred liabilities is recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

#### g) *Liability Adequacy Test*

As at each year end, an assessment is made of whether provision of unearned premium is adequate. Provision for premiums deficiency reserve is made where the expected claims and related expenses are expected to exceed unearned premiums. At the end of each reporting date, the Company reviews its premiums deficiency reserve and carries out a liability adequacy test to ensure the adequacy of the insurance contracts liabilities using the current best estimates of future contractual cash flows, claims handling and administration expenses. If these estimates show that the carrying amount of insurance liabilities is insufficient, the deficiency is recognized in the statement of income by establishing a provision in the statement of financial position. The Company estimates premium deficiency reserve based on actuarial valuation for each line of business separately.

#### h) *Revenue Recognition*

Premiums and commissions are taken into income over the terms of the policies to which they relate, on a pro-rata basis. Unearned premiums and commissions represent the portion of premiums and commissions relating to the unexpired period of coverage. The change in the provision for unearned premium and unearned commission is taken to the statement of income in the same order that revenue is recognised over the period of risk.

Retained premiums and commissions which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:

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

#### i) *Claims*

These include the cost of claims and claims handling expenses paid during the period, together with the movements in provisions for outstanding claims, claims incurred but not reported (IBNR) and claims handling provisions.

Total outstanding claims comprise estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date, net of salvage and other recoveries including claims handling expenses.

The Company estimates its claims provisions based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Company's prior experience, is maintained for Incurred But Not Reported (IBNR) claims as well as for the cost of settling pending claims at the statement of financial position date. The IBNR amount is based on estimates calculated using widely accepted actuarial techniques such as Chain Ladder, Bornhuetter Ferguson Method and loss ratio which are reviewed at regular intervals by the Company's appointed actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. Regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating provisions are that past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a fair reflection of the likely level of ultimate claims to be incurred for the more recent years.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant reinsurance contract. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### j) *Receivables*

Premiums receivable are non-derivative financial assets with fixed or determinable payments. These are recognized when due and are measured initially at fair value of the consideration received or receivable. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less provision for impairment. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income. An allowance for impairment of receivables is established when there is objective evidence that the carrying amount will not be recoverable. Premiums receivable are derecognized when the de recognition criteria for financial assets have been met.

#### k) *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value is depreciated on a straight line basis over the estimated useful life as follows:

	Years
Furniture, fixtures and office equipment	3
Motor vehicles	3

The assets' residual values and useful lives are reviewed at each financial position date and adjusted prospectively if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from disposal of property and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the related property and equipment and are recognised in the statement of income when the related property and equipment is disposed.

#### l) *Reinsurance*

The Company cedes insurance risk in the normal course of business for a portion of risk it is insuring. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the financial position representing premiums due to or payments due from reinsurers and the share of losses recoverable from 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.

#### m) *Deferred Policy Acquisition Costs (DPAC)*

DPAC are those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts that are deferred to the extent that those costs are recoverable out of future premiums. All other policy acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, these costs are amortised based on the term of expected future premiums. Amortisation is recorded 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 amortisation period and are treated as a change in accounting estimate.

#### n) *Salvage and Subrogation Reimbursement*

Some insurance contracts permit the Company to sell a (usually damaged) asset acquired in settling a claim (i.e. salvage). The Company may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of property. Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from action against the liable third party.

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *o) Zakat and Income Tax*

In accordance with the regulations of the General Authority for Zakat and Tax (GAZT), the Company is subject to zakat attributable to the Saudi shareholders and income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged in full to the retained earnings as required by SAMA Circular no. 381000074519 issued in April 2017. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. Zakat is computed on the Saudi shareholders' share of equity and/ or net income using the basis defined under the regulations of GAZT. Income tax is computed on the foreign shareholders' share of net income for the year. Zakat and income tax are charged to retained earnings as these are liabilities of the shareholders.

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

#### *p) Foreign Currencies*

Transactions in foreign currencies are initially recorded at the spot exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate at the reporting date. All differences arising on non-trading activities are taken to the statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

As the Company's foreign currency transactions are primarily in US dollars, which is pegged against Saudi Riyals, therefore foreign exchange gains and losses are not significant and have not been disclosed separately.

#### *q) 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 levels for which there are separately identifiable cash flows (cash-generating units).

#### *r) Offsetting*

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

#### *s) Impairment of Financial assets*

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the statement of comprehensive income. Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- 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 reorganisation;
- 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.

#### *t) Derecognition of Financial Instruments*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### *u) Trade Date Accounting*

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

#### *v) Expense Recognition*

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

#### *w) Unearned Commission Income*

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

#### *x) Reinsurance Claims*

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant reinsurance contract.

#### *y) Segmental Reporting*

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

- Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting there from.
- Motor insurance products which provide coverage against losses and liability related to motor vehicles, excluding transport insurance.

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Engineering includes long term Erection All Risks (EAR) and Contractor All Risk (CAR) policies and annual policies for Machinery Break Down (MBD), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD.
- Medical products which provide health care cover to policyholders.
- Marine insurance for loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.
- Group Life insurance which provides life insurance to groups of policyholders.
- Others include mainly general accident.

Shareholders' operations is a non-operating segment. Income earned from investments is its only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations is allocated to this segment on an appropriate basis.

No inter-segment transactions occurred during the year. If any transactions were to occur, transfer prices between operating segments are set mutually agreed terms. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

#### z) *Statutory Reserve*

In accordance with its by-laws, the Company shall allocate 20% of its net income and after setting off the accumulated losses, each year to a statutory reserve until it has built up a reserve equal to the share capital.

#### aa) *Reinsurance Premiums*

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the year and are recognised from the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date.

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

SAR'000	December 31, 2018	December 31, 2017
Bank balances and cash – Insurance operations	12,175	14,110
Bank balances and cash – Shareholders' operations	1,374	1,641
Short term deposits – Shareholders' operations	41,427	--
Cash and cash equivalents in statement of cashflows	54,976	15,751
Deposits against letters of guarantee – Insurance operations	700	900
<b>Total</b>	<b>55,676</b>	<b>16,651</b>

The Company holds an amount of SAR 700 thousand (31 December 2017: SAR 900 thousand) in the statement of financial position, in respect of cash and cash equivalents against letters of guarantee in favor of the Company's service providers.

### 5. TERM DEPOSITS

Term deposits are placed with counterparties which have credit ratings of A- to A+ ratings under Standard and Poor's and Fitch ratings methodology. Term deposits are placed with local banks with a maturity of more than three months from the date of original placement and earn investment income at weighted average rate of 2.7 per annum (2017: 1.8% per annum) The carrying amounts of the term deposits approximate the fair value at the statement of financial position date.

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 6. INVESTMENTS

Investments are classified as follows:

SAR'000	December 31, 2018		December 31, 2017	
	Domestic	International	Domestic	International
Available for sale investments – Insurance operations *	1,923	--	1,923	--
Available for sale investments – Shareholders' operations	62,424	28,635	38,896	36,459
<b>Total available for sale investments</b>	<b>64,347</b>	<b>28,635</b>	<b>40,819</b>	<b>36,459</b>

#### a) Insurance operations – Investments

\* This represents investments in respect of the Company's shareholding in Najm for Insurance Services which is a claim's service provider. This investment has been carried at cost in the absence of active markets or other means of reliably measuring its fair value.

#### b) Shareholders' operations – Available for sale investments (AFS)

SAR '000	2018		2017	
	<i>Amortised cost SR</i>	<i>Market value SR</i>	<i>Amortised cost SR</i>	<i>Market value SR</i>
<b>Bonds – Fixed rate (Quoted)</b>				
Abu Dhabi National Energy Company (TAQA)	--	--	3,845	3,855
SABIC Capital II BV	--	--	20,389	20,260
QNB (Qatar National Bank) Finance	13,595	13,301	13,665	13,367
Abu Dhabi Commercial Bank	15,625	15,334	15,645	15,485
<b>Sukuks – Fixed rate (Quoted)</b>				
EIB Sukuk Ltd (Emirates Islamic Bank)	--	--	3,752	3,752
KSA Sukuk Ltd	63,507	62,424	18,919	18,636
	<b>92,727</b>	<b>91,059</b>	<b>76,215</b>	<b>75,355</b>

Movement in the investment balance for shareholders' operations is as follows:

SAR'000	Shareholders' operations	
	December 31, 2018	December 31, 2017
Opening balance	75,355	75,877
Purchases	44,564	18,945
Maturities	(27,750)	(18,750)
Amortization of investments	(301)	(545)
Changes in fair value of investments	(809)	(172)
<b>Closing balance</b>	<b>91,059</b>	<b>75,355</b>

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 6. INVESTMENTS(Continued)

The geographical split of investments held as available for sale comprise of sukuku/ bonds issued by Government of Kingdom of Saudi Arabia and GCC (Gulf Cooperation Council) based companies through international stock exchanges.

These investments include Bonds and Sukuku amounting to nil which are maturing in the next twelve months.

The cumulative unrealized loss in fair value of available for sale investments amounts to SR 1.67 million (31 December 2017: loss of SR 0.86 million) is presented with in the shareholders' equity in the statement of financial position.

### 7. 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 advantageous 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 information.

#### 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 (1)

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.

SAR'000s December 31, 2018 <u>Shareholders' operations</u> Available for sale investments measured at fair value Bonds and Sukuku	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	91,059	91,059	--	--	91,059
<u>Insurance Operations</u> Najm	1,923	--	--	1,923	1,923
	92,982	91,059	--	1,923	92,982

SAR'000s December 31, 2017 <u>Shareholders' operations</u> Available for sale investments measured at fair value Bonds and Sukuku	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	75,355	56,118	19,237	--	75,355
<u>Insurance Operations</u> Najm	1,923	--	--	1,923	1,923
	77,278	56,118	19,237	1,923	77,278



# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 7. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The unlisted security of SR 1.92 million (2017: SR 1.92 million) held as part of Company's insurance operations, was stated at cost in the absence of active markets or other means of reliably measuring their fair value.

During the year ended 31 December 2018, there were no transfers into or out of level 3 fair value measurements. As at 31 March 2018, available-for-sale investments with a carrying amount of SR 19.2 million were transferred from Level 2 to Level 1 because these investments are now being actively traded in the market. To determine the fair value of such investments, management used a valuation technique in which all significant inputs were based on observable market data. There were no transfers from Level 1 to Level 2 during the year ended 31 December 2018.

### 8. PREMIUMS AND REINSURERS' RECEIVABLE (GROSS)

Receivables comprise amounts due from the following:

SAR'000	Insurance operations	
	December 31, 2018	December 31, 2017
Policyholders	46,443	41,236
Brokers and agents	28,424	28,713
Related parties (note 20)	8,496	5,960
Receivables from reinsurers	4,362	19,968
	87,725	95,877
Provision for doubtful receivables	(16,857)	(14,693)
<b>Premiums and reinsurers' receivable – net</b>	<b>70,868</b>	<b>81,184</b>

Allowance for impairment of receivables include SR 1.6 million (2017: SR 1.2 million) against receivables from related parties. Movement in the allowance for impairment of receivables is as follows:

SAR '000	2018 SR	2017 SR
Balance at 1 January	14,693	12,971
Debts written off against the provision	391	--
Charge of provision for the year	1,773	1,722
<b>Balance at 31 December</b>	<b>16,857</b>	<b>14,693</b>

SAR '000	Neither past due nor impaired			Past due but not impaired		Past due and impaired	
	Total	Less than 30 days	31 - 60 days	61 - 90 days	90 - 180 days	181 - 360 days	More than 360 days
<b>Premium and reinsurance receivables</b>							
- Policyholders	46,443	22,103	(53)	8,495	5,230	6,398	4,270
- Brokers and agents	28,424	1,604	2,886	5,425	4,409	7,265	6,835
- Due from related parties	8,496	2,259	3,192	108	379	751	1,807
- Receivable from reinsurers	4,362	224	--	12	1,469	87	2,570
<b>2018</b>	<b>87,725</b>	<b>26,190</b>	<b>6,025</b>	<b>14,040</b>	<b>11,487</b>	<b>14,501</b>	<b>15,482</b>
<b>Premium and reinsurance receivables</b>							
- Policyholders	41,236	1,847	733	24,446	5,635	5,658	2,917
- Brokers and agents	28,713	7,638	5,972	973	3,559	4,343	6,228
- Due from related parties	5,960	1,774	563	259	1,991	246	1,127
- Receivable from reinsurers	19,968	21,397	--	--	(5,961)	1,002	3,530
<b>2017</b>	<b>95,877</b>	<b>32,656</b>	<b>7,268</b>	<b>25,678</b>	<b>5,224</b>	<b>11,249</b>	<b>13,802</b>

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 8. PREMIUMS AND REINSURERS' RECEIVABLE (GROSS) (Continued)

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

The Company does not have a formal internal credit ratings assessment process. Amounts which are neither past due nor impaired, in respect of premium receivable balances, are from individuals and unrated corporates.

Premiums and insurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies outside Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. As at 31 December 2018 no individual or Company accounts for more than 23% of the premiums receivable (31 December 2017: 27%). In addition, the five largest customers accounts for 57% of the premiums receivable as at 31 December 2018 (31 December 2017: 43%).

### 9. TECHNICAL RESERVES

#### 9.1 NET OUTSTANDING CLAIMS AND RESERVES

Net outstanding claims and reserves comprise of the following:

SAR'000	Insurance operations	
	December 31, 2018	December 31, 2017
Outstanding claims	107,034	103,920
Less: Realizable value of salvage and subrogation	(21,314)	(17,704)
Outstanding claims reserve	85,720	86,216
Claims incurred but not reported	46,357	77,759
Other technical reserves	693	1,733
	132,770	165,708
Less:		
- Reinsurers' share of outstanding claims	(44,355)	(41,545)
- Reinsurers' share of claims Incurred but not reported	(8,230)	(25,338)
	(52,585)	(66,883)
Net outstanding claims and reserves	80,185	98,825

#### 9.2 MOVEMENT IN UNEARNED PREMIUMS

Movement in unearned premiums comprise of the following

SAR'000	Year ended December 31, 2018		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	100,103	(49,140)	50,963
Premium written during the year	293,533	(136,111)*	157,422
Premium earned during the year	(281,163)	128,714	(152,449)
Balance as at the end of the year	112,473	(56,537)	55,936

\* This amount includes SR 125.3 million for reinsurance premium ceded abroad, SR 3.2 million for reinsurance premium ceded locally and SR 7.7 million for excess of loss expenses.

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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**9. TECHNICAL RESERVES (Continued)**

**9.2 MOVEMENT IN UNEARNED PREMIUMS (Continued)**

SAR'000	Year ended December 31, 2017		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	120,085	(65,178)	54,907
Premium written during the year	263,369	(117,000)*	146,369
Premium earned during the year	(283,351)	133,038	(150,313)
Balance as at the end of the year	100,103	(49,140)	50,963

\* This amount includes SR 108.1 million for reinsurance premium ceded abroad, SR 0.5 million for reinsurance premium ceded locally and SR 8.8 million for excess of loss expenses.

**9.3 DEFERRED POLICY ACQUISITION COSTS**

SAR'000	2018	2017
	SR	SR
Balance at 1 January	3,792	4,145
Cost incurred during the year	18,832	25,068
Amortised during the year	(17,993)	(25,421)
<b>Balance at 31 December</b>	<b>4,631</b>	<b>3,792</b>

**9.4 UNEARNED REINSURANCE COMMISSION**

SAR'000	2018	2017
	SR	SR
Balance at 1 January	4,465	6,907
Commission received during the year	10,419	19,848
Commission earned during the year	(11,518)	(22,290)
<b>Balance at 31 December</b>	<b>3,366</b>	<b>4,465</b>

**10. SURPLUS DISTRIBUTION PAYABLE**

SAR'000	2018	2017
	SR	SR
Balance at January 1,	9,616	7,947
Total income attributed to the insurance operations during the year	2,862	4,503
Surplus paid to policy holders	(2,215)	(2,834)
<b>Balance at 31 December</b>	<b>10,263</b>	<b>9,616</b>

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 11. STATUTORY DEPOSIT

In compliance with Insurance Implementing Regulations of SAMA, the Company deposited 10% of its paid up capital, amounting to SR 40 million (31 December 2017: SR 40 million) in a bank designated by SAMA. The received return on investment of statutory deposit as at 31 December 2018 amounts to SR 3.1m (31 December 2017: SR 2.2m) and has been disclosed in assets as "Accrued income on statutory deposit" and the corresponding amount is shown in the liabilities as "Accrued commission income payable to SAMA" as this deposit cannot be withdrawn without SAMA's consent.

### 12. PROPERTY AND EQUIPMENT

SAR'000	<i>Furniture and fixtures SR</i>	<i>Office equipment SR</i>	<i>Motor vehicles SR</i>	<i>Total 2018 SR</i>	<i>Total 2017 SR</i>
<i>Cost:</i>					
Balance at 1 January	3,404	6,834	315	10,553	9,969
Additions during the year	29	1,240	--	1,269	654
Disposals during the year	--	--	--	--	(70)
Balance at 31 December	3,433	8,074	315	11,822	10,553
<i>Accumulated depreciation:</i>					
Balance at 1 January	(3,300)	(6,252)	(315)	(9,867)	(9,809)
Charge for the year (note 19)	(55)	(359)	--	(414)	(128)
Disposals during the year	--	--	--	--	70
Balance at 31 December	(3,355)	(6,611)	(315)	(10,281)	(9,867)
<i>Net book value:</i>					
At 31 December 2018	78	1,463	--	1,541	
At 31 December 2017	104	582	--		686

### 13. ACCRUED EXPENSES AND OTHER LIABILITIES

SAR'000	<i>Insurance operations 2018 SR</i>	<i>Shareholders' operations 2018 SR</i>	<i>Insurance operations 2017 SR</i>	<i>Shareholders' operations 2017 SR</i>
Accrued salaries and benefits	4,851	--	5,555	--
Accrued supervision fees	591	--	409	--
Board of Directors' remuneration	--	569	--	569
Accrued withholding tax	8,095	--	7,169	--
Provision for levy on insurance policies	2,955	--	3,150	--
Accrued IT related services	2,335	--	1,784	--
Accrued legal and professional fees	1,956	--	2,785	--
Outsourced service charges payable	8,674	--	7,699	--
Office relocation	--	--	--	--
Training and recruitments	--	--	--	--
Hotels and travelling	100	--	100	--
Value Added Tax payable	1,096	--	--	--
Others	830	3,732	1,022	3,027
	31,483	4,301	29,673	3,596

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 14. CLAIMS DEVELOPMENT

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. During each year, the estimate of ultimate claim cost for respective year presented net of payments. Claims triangulation analysis (gross and net) by accident year spanning a number of financial years is set out as below.

#### 2018 – Gross Basis

<i>Accident Year</i>	<i>2013&amp; earlier</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:							
At the end of accident year	659,615	116,010	189,703	102,701	87,591	61,228	1,216,848
One year later	577,528	87,714	130,995	81,803	71,985	--	950,025
Two years later	565,410	83,561	110,278	50,616	--	--	809,865
Three years later	570,481	81,946	118,856	--	--	--	771,283
Four years later	568,928	81,808	--	--	--	--	650,736
Five years later and after	570,908	--	--	--	--	--	570,908
Current estimate of cumulative claims	570,908	81,808	118,856	50,616	71,985	61,228	955,401
Cumulative paid claims	562,128	75,963	106,003	34,934	43,603	--	822,631
Liability recognised in statement of financial position	8,780	5,845	12,853	15,682	28,382	61,228	132,770

#### 2018 – Net Basis

<i>Accident Year</i>	<i>2013&amp; earlier</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:							
At the end of accident year	57,472	60,252	86,578	64,501	42,587	36,782	348,172
One year later	64,516	42,715	67,487	57,430	38,008	--	270,156
Two years later	58,048	42,576	55,129	37,835	--	--	193,588
Three years later	62,665	39,169	53,551	--	--	--	155,385
Four years later	60,830	39,670	--	--	--	--	100,500
Five years later and after	64,528	--	--	--	--	--	64,528
Current estimate of cumulative claims	64,528	39,670	53,551	37,835	38,008	36,782	270,374
Cumulative paid claims	59,387	35,022	41,775	23,116	30,889	--	190,189
Liability recognised in statement of financial position	5,141	4,648	11,776	14,719	7,119	36,782	80,185

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**14. CLAIMS DEVELOPMENT (Continued)**

*2017– Gross basis*

<i>Accident Year</i>	<i>2012&amp; earlier</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:							
At the end of accident year	140,657	628,710	116,010	189,703	102,701	87,591	1,265,372
One year later	97,802	563,528	87,714	130,995	81,803	--	961,842
Two years later	80,895	554,690	83,561	110,278	--	--	829,424
Three years later	77,616	555,914	81,946	--	--	--	715,476
Four years later	81,449	555,243	--	--	--	--	636,692
Five years later and after	80,555	--	--	--	--	--	80,555
Current estimate of cumulative claims	80,555	555,243	81,946	110,278	81,803	87,591	997,416
Cumulative paid claims	78,815	550,228	75,205	95,450	32,010	--	831,708
Liability recognised in statement of financial position	1,740	5,015	6,741	14,828	49,793	87,591	165,708

*2017– Net basis*

<i>Accident Year</i>	<i>2012&amp; earlier</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:							
At the end of accident year	44,197	48,920	60,252	86,578	64,501	42,587	347,035
One year later	45,226	55,779	42,715	67,487	57,430	--	268,637
Two years later	45,412	52,146	42,576	55,129	--	--	195,263
Three years later	42,576	52,846	39,169	--	--	--	134,591
Four years later	46,507	52,289	--	--	--	--	98,796
Five years later and after	45,356	--	--	--	--	--	45,356
Current estimate of cumulative claims	45,356	52,289	39,169	55,129	57,430	42,587	291,960
Cumulative paid claims	44,156	51,934	34,502	42,148	20,395	--	193,135
Liability recognised in statement of financial position	1,200	355	4,667	12,981	37,035	42,587	98,825

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 15. ZAKAT AND INCOME TAX

#### Status of assessments

The Company's zakat and tax calculations and corresponding accruals and payment of zakat and tax are based on the ownership percentages which are 74.97% for zakat and 25.03% for the tax.

The Company has submitted its zakat and tax returns up to the years ended 31 December 2017 and obtained the required certificates and acknowledgements. General Authority of Zakat and Tax (GAZT) has raised final assessments for the period / years ended 2009 to 2013 with additional Zakat and withholding tax (WHT) liabilities amounting to SR 11.2 million and SR 8.9 million respectively. The Company has submitted an appeal against the GAZT's assessments and GAZT's review is awaited.

The zakat and tax charge for the year ended are as follows:

SAR'000	31 December 2018 SR	30 December 2017 SR
Charge for zakat for the year	8,334	6,697
Charge for tax for the year	1,490	1,707
	<u>9,824</u>	<u>8,404</u>
Zakat and tax provision at the end of year	<u>38,153</u>	<u>31,055</u>

#### a) Zakat charge for the year

The Company's zakat and tax calculations and corresponding accruals and payments of zakat and tax are based on the ownership percentages which are 74.97% for zakat and 25.03% for the tax. The Company has submitted its zakat and tax returns up to the year ended 31 December 2017 and obtained the required certificates and acknowledgements.

The zakat provision is based on the following:

SAR'000	2018 SR	2017 SR
Share capital	400,000	400,000
Reserves and provisions	8,216	(45,562)
Book value of long term assets	(3,187)	(42,514)
Adjusted net profit for the year	<u>39,672</u>	<u>45,443</u>
<b>Zakat base</b>	<u>444,701</u>	<u>357,367</u>
<b>Saudi shareholders' share of zakat base</b>	<u>333,370</u>	<u>267,900</u>
<b>Zakat @ 2.5%</b>	<u>8,334</u>	<u>6,698</u>

The differences between the financial and the zakatable results are mainly due to provisions which are not included in the calculation of zakatable income.

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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**15. ZAKAT AND INCOME TAX(continued)**

**b) Income tax charge for the year**

The movement in the provision for income tax for the year is as follows:

<b>SAR'000</b>	<b>2018 SR</b>	<b>2017 SR</b>
Balance at 1 January	2,571	2,534
Provided during the year	1,490	1,706
Payments during the year	(1,819)	(1,669)
<b>Balance at 31 December</b>	<b>2,242</b>	<b>2,571</b>

**c) Movement in the provision for zakat during the year**

The movement in the provision for zakat for the year is as follows:

<b>SAR'000</b>	<b>2018 SR</b>	<b>2017 SR</b>
Balance at 1 January	28,484	21,851
Provided during the year	8,334	6,698
Payments made during the year	(907)	(65)
<b>Balance at 31 December</b>	<b>35,911</b>	<b>28,484</b>

**d) Movement in the provision for zakat and income tax during the year**

The movement in the provision for zakat and income tax for the year is as follows:

<b>SAR'000</b>	<b>2018 SR</b>	<b>2017 SR</b>
Balance at 1 January	31,055	24,385
Provided during the year	9,824	8,404
Paid during the year	(2,726)	(1,734)
<b>Balance at 31 December</b>	<b>38,153</b>	<b>31,055</b>



# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 16. SHARE CAPITAL

The authorized and paid up share capital of the Company is SAR 400 million divided into 40 million shares of SAR 10 each (31 December 2017: SAR 400 million divided into 40 million shares of SAR 10 each).

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

	December 31, 2018	
	No. of Shares	Authorized, issued and paid up capital
	'000	SAR'000
Royal & Sun Alliance	20,028	200,280
Riyadh Bank	7,968	79,680
Others	12,004	120,040
	<b>40,000</b>	<b>400,000</b>
	December 31, 2017	
	No. of Shares	Authorized, issued and paid up capital
	'000	SAR'000
Royal & Sun Alliance	20,028	200,280
Riyadh Bank	7,968	79,680
Others	12,004	120,040
	<b>40,000</b>	<b>400,000</b>

### 17. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company is required to establish a statutory reserve by appropriating 20% of net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution. No appropriation has been made because the Company has accumulated losses at the end of the year.

### 18. GENERAL AND ADMINISTRATIVE EXPENSES

	2018		2017	
	Insurance operations SR	Shareholders' operations SR	Insurance Operations SR	Shareholders' operations SR
<b>SAR'000</b>				
Salaries and benefits	38,601	325	36,018	325
End of service benefits	2,492	--	2,051	--
Remuneration of the Board of Directors (note 21)	--	630	--	630
Technical service charges (note 21)	6,479	--	5,139	--
Rent	1,160	--	1,691	--
Depreciation	414	--	128	--
Legal and professional fees	2,195	--	2,155	--
Business travel and transport	604	--	868	--
IT related services	4,206	--	3,350	--
Provision for levy in insurance policies	--	--	3,150	--
Utilities	488	--	510	--
Stationery	297	--	319	--
Others	846	851	1	851
	<b>57,782</b>	<b>1,806</b>	<b>55,380</b>	<b>1,806</b>

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 19. COMMITMENTS AND CONTINGENCIES

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

SAR'000	December 31, 2018	December 31, 2017
Letters of guarantee	700	900
Commitments for the rents	186	399
<b>Total</b>	<b>886</b>	<b>1,299</b>

The Company is subject to legal proceedings in the ordinary course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management believes that such proceedings (including litigations) will not have a material effect on its results and financial position. The Company did not have any significant outstanding legal proceedings as at the reporting date.

### 20. RELATED PARTY TRANSACTIONS AND BALANCES

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

<u>Entities controlled, jointly controlled or significantly influenced by related parties</u>	Transactions for the year ended	
	2018 SAR' 000	2017
Gross premiums written	91,807	60,536
Gross claims paid	43,825	27,310
Reinsurance premium ceded	20,646	24,741
Reinsurance share of gross claim paid	7,476	11,843
Reinsurance commission income	6,230	13,389
Profit commission incurred-Group Life	--	6,135
Technical service charges	6,479	5,139
Brand fees	30	30
Operational expenses paid on behalf of affiliates and reinsurance placements	754	324
Operational expenses paid by affiliates on behalf of Company	(1,444)	(859)
<b>Key management personnel and Board members</b>		
Gross written premiums	30	188
Remuneration and meeting fee	630	630
<u>Entities controlled, jointly controlled or significantly influenced by related parties</u>	Balance receivable / (payable) as at	
	2018	2017
	SAR'000	
Premium receivable	8,496	5,960
Reinsurance balance payable	(9,338)	(4,983)
Accrued expenses and other liabilities	(9,559)	(7,729)
Reinsurance share of gross outstanding claims	8,487	11,264
Gross outstanding claim	(40,357)	(25,586)
Due from related parties	630	31
Due to related parties	(1,045)	(1,064)

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**20. RELATED PARTY TRANSACTIONS AND BALANCES(CONTINUED)**

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

	<b>December 30, 2018</b>	<b>December 31, 2017</b>
	<b>SAR'000</b>	
Salaries and other allowances	<b>7,256</b>	7,305
End of service indemnities	<b>424</b>	321
	<b>7,680</b>	<b>7,626</b>

**21. 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 their 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 statement of income.

Segment assets and liabilities comprise operating assets and liabilities.

Segment assets do not include (in respect of insurance operations) property and equipment, Term deposits, Investments, cash and cash equivalents, prepaid expenses, other assets, premiums and reinsurance balances receivable, net. Accordingly, these are included in unallocated assets and are managed and reported to the chief operating decision maker on a centralized basis.

Segment liabilities do not include (in respect of insurance operations) employees' end of service benefits, reinsurance balances payable, accrued and other liabilities, account payables, due to related parties, zakat and income tax, accrued commission, income payable to SAMA and due from insurance operations. Accordingly these are included in unallocated liabilities and are managed and reported to the chief operating decision maker on a centralized basis.

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

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**21. OPERATING SEGMENTS (CONTINUED)**

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

As at December 31, 2018

Operating segments	Insurance operations							Total - Insurance operations	Shareholders' operations	Total
	Property	Motor	Engineering	Medical	Marine	Group life	Others			
	SAR'000									
<b>Assets</b>										
Reinsurers' share of unearned premiums	28,138	--	7,674	15,994	1,636	48	3,047	56,537	--	56,537
Reinsurers' share of outstanding claims	14,859	2,083	4,918	2	4,752	15,517	2,224	44,355	--	44,355
Reinsurers' share of claims Incurred but not reported	1,562	--	1,098	625	193	3,904	848	8,230	--	8,230
Deferred policy acquisition costs	762	3,037	497	4	110	58	163	4,631	--	4,631
Unallocated assets	--	--	--	--	--	--	--	302,359	433,421	735,780
<b>Total assets</b>	<b>45,321</b>	<b>5,120</b>	<b>14,187</b>	<b>16,625</b>	<b>6,691</b>	<b>19,527</b>	<b>6,282</b>	<b>416,112</b>	<b>433,421</b>	<b>849,533</b>
<b>Liabilities and shareholders' equity</b>										
Outstanding claim reserve	17,149	30,258	6,372	52	7,408	21,223	3,258	85,720	--	85,720
Claims incurred but not reported	1,805	35,938	1,132	905	188	5,204	1,185	46,357	--	46,357
Other technical reserves	--	--	--	693	--	--	--	693	--	693
Unearned premiums	37,368	37,970	8,431	19,164	3,135	444	5,961	112,473	--	112,473
Unearned reinsurance commission	1,239	--	1,590	--	360	1	176	3,366	--	3,366
Unallocated liabilities	--	--	--	--	--	--	--	167,503	433,421	600,924
<b>Total Liabilities, Insurance operations' surplus and shareholders' equity</b>	<b>57,561</b>	<b>104,166</b>	<b>17,525</b>	<b>20,814</b>	<b>11,091</b>	<b>26,872</b>	<b>10,580</b>	<b>416,112</b>	<b>433,421</b>	<b>849,533</b>

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NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

21. OPERATING SEGMENTS (CONTINUED)

As at December 31, 2017

Operating segments	Insurance operations							Shareholders' operations	Total	
	Property	Motor	Engineering	Medical	Marine	Group life	Others			Total - Insurance operations
	SAR'000									
<b>Assets</b>										
Reinsurers' share of unearned premiums	32,908	--	7,589	1,189	4,250	92	3,112	49,140	--	49,140
Reinsurers' share of outstanding claims	17,579	--	6,525	--	6,291	7,618	3,532	41,545	--	41,545
Reinsurers' share of claims Incurred but not reported	8,682	--	4,703	679	2,689	7,269	1,316	25,338	--	25,338
Deferred policy acquisition costs	697	1,765	781	196	208	31	114	3,792	--	3,792
Unallocated assets	--	--	--	--	--	--	--	283,322	404,133	687,455
<b>Total assets</b>	<b>59,866</b>	<b>1,765</b>	<b>19,598</b>	<b>2,064</b>	<b>13,438</b>	<b>15,010</b>	<b>8,074</b>	<b>403,137</b>	<b>404,133</b>	<b>807,270</b>
<b>Liabilities and shareholders' equity</b>										
Outstanding claims	23,117	31,950	8,049	52	8,206	10,691	4,151	86,216	--	86,216
Claims incurred but not reported	14,681	35,722	5,724	1,128	5,759	10,458	4,287	77,759	--	77,759
Other technical reserves	--	814	256	396	125	19	123	1,733	--	1,733
Unearned premiums	52,061	23,806	8,590	2,429	6,912	178	6,127	100,103	--	100,103
Unearned reinsurance commission	1,861	--	1,747	--	585	--	272	4,465	--	4,465
Unallocated liabilities	--	--	--	--	--	--	--	132,861	404,133	536,994
<b>Total Liabilities, Insurance operations' surplus and shareholders' equity</b>	<b>91,720</b>	<b>92,292</b>	<b>24,366</b>	<b>4,005</b>	<b>21,587</b>	<b>21,346</b>	<b>14,960</b>	<b>403,137</b>	<b>404,133</b>	<b>807,270</b>

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For year ended 31 December 2018

**21. OPERATING SEGMENTS (CONTINUED)**

Operating segments	For the year ended December 31, 2018							
	Property	Motor	Engineering	Medical	Marine	Group Life	Others	Total
<b><u>REVENUES</u></b>								
Gross premiums written	81,880	110,373	20,473	20,615	19,073	27,195	13,924	293,533
Reinsurance premiums ceded	(63,367)	--	(16,574)	(16,860)	(9,896)	(15,822)	(5,951)	(128,470)
Excess of loss premium	(2,128)	(1,793)	(603)	(133)	(1,900)	(800)	(284)	(7,641)
<b>Net premiums written</b>	<b>16,385</b>	<b>108,580</b>	<b>3,296</b>	<b>3,622</b>	<b>7,277</b>	<b>10,573</b>	<b>7,689</b>	<b>157,422</b>
Changes in unearned premiums, net	9,923	(14,164)	244	(1,930)	1,163	(310)	101	(4,973)
<b>Net premiums earned</b>	<b>26,308</b>	<b>94,416</b>	<b>3,540</b>	<b>1,692</b>	<b>8,440</b>	<b>10,263</b>	<b>7,790</b>	<b>152,449</b>
Reinsurance commissions	6,250	--	3,477	--	2,046	(684)	429	11,518
<b>TOTAL REVENUES</b>	<b>32,558</b>	<b>94,416</b>	<b>7,017</b>	<b>1,692</b>	<b>10,486</b>	<b>9,579</b>	<b>8,219</b>	<b>163,967</b>
<b><u>UNDERWRITING COSTS AND EXPENSES</u></b>								
Gross claims paid	(9,773)	(68,542)	(5,047)	(3,324)	(2,636)	(12,431)	(11,076)	(112,829)
Reinsurers' share of claims paid	6,415	--	4,632	2,192	1,205	9,259	10,501	34,204
<b>Net claims paid</b>	<b>(3,358)</b>	<b>(68,542)</b>	<b>(415)</b>	<b>(1,132)</b>	<b>(1,431)</b>	<b>(3,172)</b>	<b>(575)</b>	<b>(78,625)</b>
Changes in outstanding claims, IBNR & technical reserves	9,004	4,373	1,313	(126)	2,459	(725)	2,342	18,640
<b>Net claims incurred</b>	<b>5,646</b>	<b>(64,169)</b>	<b>898</b>	<b>(1,258)</b>	<b>1,028</b>	<b>(3,897)</b>	<b>1,767</b>	<b>(59,985)</b>
Policy acquisition costs	(3,442)	(6,832)	(1,972)	(208)	(1,409)	(3,132)	(998)	(17,993)
Other underwriting expenses								(1,615)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>								<b>(79,593)</b>
<b>NET UNDERWRITING INCOME</b>								<b>84,374</b>
<b><u>OTHER OPERATING (EXPENSES)/ INCOME</u></b>								
Allowance for doubtful debts								(2,164)
General and administrative expenses								(59,588)
Investment income on term deposits								9,248
Other investment income								2,255
<b>TOTAL OTHER OPERATING EXPENSES</b>								<b>(50,249)</b>
<b>TOTAL INCOME FOR THE YEAR</b>								<b>34,125</b>
<b>NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE INSURANCE OPERATIONS</b>								<b>(2,862)</b>
<b>TOTAL INCOME FOR THE YEAR ATTRIBUTED TO THE SHAREHOLDERS'</b>								<b>31,263</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2018

**21. OPERATING SEGMENTS (CONTINUED)**

Operating segments	For the year ended December 30, 2017							Total
	Property	Motor	Engineering	Medical	Marine	Group Life	Others	
<b><u>REVENUES</u></b>								
Gross premiums written	91,652	91,653	17,018	4,993	26,005	16,872	15,176	263,369
Reinsurance premiums ceded	(61,266)	--	(14,925)	(2,412)	(13,597)	(10,360)	(5,586)	(108,146)
Excess of loss expenses	(2,500)	(1,708)	(1,391)	(223)	(1,936)	(750)	(346)	(8,854)
<b>NET PREMIUMS WRITTEN</b>	<b>27,886</b>	<b>89,945</b>	<b>702</b>	<b>2,358</b>	<b>10,472</b>	<b>5,762</b>	<b>9,244</b>	<b>146,369</b>
Changes in unearned premiums, net	4,467	(3,948)	214	(649)	937	521	2,402	3,944
<b>NET PREMIUMS EARNED</b>	<b>32,353</b>	<b>85,997</b>	<b>916</b>	<b>1,709</b>	<b>11,409</b>	<b>6,283</b>	<b>11,646</b>	<b>150,313</b>
Reinsurance commissions	7,950	--	8,743	(88)	5,802	(323)	206	22,290
<b><u>TOTAL REVENUES</u></b>	<b>40,303</b>	<b>85,997</b>	<b>9,659</b>	<b>1,621</b>	<b>17,211</b>	<b>5,960</b>	<b>11,852</b>	<b>172,603</b>
<b><u>UNDERWRITING COSTS AND EXPENSES</u></b>								
Gross claims paid	(8,786)	(47,459)	(9,432)	(3,395)	(10,279)	(7,364)	(3,764)	(90,479)
Reinsurers' share of claims paid	7,019	--	8,392	2,141	5,601	5,517	3,239	31,909
<b>Net claims paid</b>	<b>(1,767)</b>	<b>(47,459)</b>	<b>(1,040)</b>	<b>(1,254)</b>	<b>(4,678)</b>	<b>(1,847)</b>	<b>(525)</b>	<b>(58,570)</b>
Changes in outstanding claims, IBNR & technical reserves	2,794	1,572	1,851	186	6,186	(936)	293	11,946
<b>Net claims incurred</b>	<b>1,027</b>	<b>(45,887)</b>	<b>811</b>	<b>(1,068)</b>	<b>1,508</b>	<b>(2,783)</b>	<b>(232)</b>	<b>(46,624)</b>
Policy acquisition costs	(3,677)	(8,430)	(2,132)	(137)	(1,588)	(8,597)	(860)	(25,421)
Other underwriting expenses								(1,383)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>								<b>(73,428)</b>
<b>NET UNDERWRITING INCOME</b>								<b>99,175</b>
<b><u>OTHER OPERATING (EXPENSES)/ INCOME</u></b>								
Reversal for doubtful debts								(1,719)
General and administrative expenses								(57,189)
Investment income on term deposits								6,997
Other investment income								1,708
Other income								16
<b>TOTAL OTHER OPERATING EXPENSES</b>								<b>(50,187)</b>
<b>TOTAL INCOME FOR THE YEAR</b>								<b>48,988</b>
<b>NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE INSURANCE OPERATIONS</b>								<b>(4,503)</b>
<b>TOTAL INCOME FOR THE YEAR ATTRIBUTED TO THE SHAREHOLDERS'</b>								<b>44,485</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

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**22. END OF SERVICE BENEFITS**

The movement in provision for end-of-service benefits for the year ended 31 December 2018 as follows:

<b>SAR'000</b>	<b>2018 SR</b>	<b>2017 SR</b>
Balance as 1 January	10,921	9,803
Current service cost	2,279	1,881
Interest cost	214	170
	<b>2,493</b>	<b>2,051</b>
Amount recognized in profit or loss		
Re-measurement (gain)/loss recognized in other comprehensive income	(1,218)	1,675
Benefits paid during the year	(546)	(2,608)
<b>Balance as 31 December</b>	<b>11,650</b>	<b>10,921</b>

a) Re-measurement loss recognized in other comprehensive income for the year ended 31 December 2018 as follows:

<b>SAR'000</b>	<b>2018 SR</b>	<b>2017 SR</b>
Effect of experience adjustments	(1,218)	1,675
<b>Re-measurement loss recognized in other comprehensive income</b>	<b>(1,218)</b>	<b>1,675</b>

b) Net defined benefit as at year-end as follows:

<b>SAR'000</b>	<b>2018 SR</b>	<b>2017 SR</b>
<b>Present value of defined benefit obligation</b>	<b>11,650</b>	<b>10,921</b>

c) Principal actuarial assumptions

The following were the principal actuarial assumptions:

<b>Key actuarial assumptions</b>	<b>2018 SR</b>	<b>2017 SR</b>
Discount rate used	3%	2%
Future growth in salary	3.5%	3%
Retirement Age	60 year	60 year

**Discount rate used**

This is the rate used to obtain the actuarial present value of the projected benefits. As per International Accounting Standard 19 "Employee Benefits", the rate used to discount post-employment benefit obligations shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The discount rate is derived with reference to the rates available in the market for the duration allowed as per the Company's investment policy. The Company currently considers bonds with a minimum credit rating of A as per Standard & Poor's or the equivalent from Moody's.



# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

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### 22. EMPLOYEE END OF SERVICE BENEFITS (continued)

#### c) Principal actuarial assumptions (continued)

##### *Salary increases*

With regards to the past trend, it is assumed that the salaries would increase at a rate of 3% per annum compound in the long range. The valuation is sensitive to the gap between the interest and salary increase assumptions. Salary increments are assumed to be given on 1st of April every year.

##### *Turnover*

We assumed age-dependent withdrawal rates, with high rates for younger employees. It was assumed that there would be zero withdrawals after age 55 years.

##### *Sensitivity analysis*

Reasonably possible changes as to one of the relevant actuarial assumptions, holding other assumptions constant, the amount of defined benefit obligations would have been:

SAR'000	2018 SR	
	Increase	Decrease
Discount rate (0.5% movement)	11,050	12,308
Future salary growth (0. 5% movement)	12,073	11,256
SAR'000	2017 SR	
	Increase	Decrease
Discount rate (0.5% movement)	9,924	11,722
Future salary growth (0. 5% movement)	11,499	10,725

#### d) Risks associated with defined benefit plans

##### *Longevity risks*

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

##### *Salary increase risk*

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual salary increases are higher than expectation and impacts the liability accordingly

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 23. RISK MANAGEMENT

#### *Risk Governance*

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board. The Company is exposed to insurance, claims management, reserving and ultimate reserves, reinsurance, regulatory framework, credit, liquidity, foreign currency, investment income rate and market rate risks.

#### *Risk management structure*

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

#### *Board of Directors*

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

#### *Senior management*

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

#### *Audit Committee and Internal Audit Department*

Risk management processes throughout the Company are audited annually by the Internal Audit Department which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Audit Department discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

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

#### *a) Insurance risk*

Insurance risk is the risk that actual claims payable to policy holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands. The Company underwrites mainly property, motor, casualty, engineering, medical and marine risks.

#### *Frequency and severity of claims*

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly property, engineering, motor, casualty, medical and marine classes. These classes of insurance except for long tail engineering policies are generally regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

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

The key source of estimation uncertainty at the balance sheet date relates to the valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at balance sheet date the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of outstanding claims (including IBNR) are given under notes 9(a).

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 23. RISK MANAGEMENT (Continued)

#### a) Insurance risk (Continued)

##### *Process used to decide on assumptions*

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

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

##### *Property*

Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting therefrom are underwritten either on a replacement value or on a market value basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties and the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional as well as non-proportional treaties.

##### *Engineering*

The engineering business includes long term Erection All Risks (EAR) and Contractor All Risk (CAR) policies and annual policies for Machinery Break Down (MBD), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD. The long tail EAR/CAR policies cover various projects for the whole project period. Selection of the risks and proper underwriting are the criteria for this line of business. These are adequately covered under the Engineering proportional and non-proportional treaties.

##### *Motor*

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive policies for owner/drivers over 18 years of age. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 2million (2017: SR 2 million).

##### *Medical*

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risks and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has reinsurance cover to limit the losses for any individual claim to SR 1.5 million (2017: SR 1.5 million).

##### *Marine*

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim to SR 1.75 million (2017: SR 1.75 million).

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 23. RISK MANAGEMENT (continued)

#### a) Insurance risk (continued)

##### Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in property and motor. The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location or by the same party. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluate the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company. Since the Company does not have any foreign operations, hence, all the insurance risks relate to policies written in Saudi Arabia.

##### Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. A hypothetical 10% change in the claims ratio would impact income annually in aggregate by:

	Income from insurance operations	
	2018	2017
	SAR'000	
<b>Impact of change in claim ratio by +10%</b>		
Property	(565)	(103)
Motor	6,417	4,589
Engineering	(90)	(81)
Medical	126	107
Marine	(103)	(151)
Group Life	390	278
Others	(177)	23
	<b>5,998</b>	<b>4,662</b>
<b>Impact of change in claim ratio by -10%</b>		
Property	565	103
Motor	(6,417)	(4,589)
Engineering	90	81
Medical	(126)	(107)
Marine	103	151
Group Life	(390)	(278)
Others	177	(23)
	<b>(5,998)</b>	<b>(4,662)</b>

#### b) Claims management risk

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

#### c) Reserving and ultimate reserves risk

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

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 23. RISK MANAGEMENT (continued)

#### d) Reinsurance risk

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

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

Reinsurance ceded contracts do not relieve the Company from its obligations to the policyholders and as a result the Company remains liable for a portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The credit exposure in this connection is SR 52.6 million (2017: SR 66.9 million).

#### d) Regulatory framework risk

The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise.

#### e) Credit risk

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

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

- The Company only enters into insurance and reinsurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's investment portfolio is managed by the management in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.

#### *Maximum exposure to credit risk*

The Company's maximum exposure to credit risk on its financial assets as at 31 December 2018 is SR 353.4 million for Insurance Operations (31 December 2017: SR 346.6 million) and SR 380.7 million for Shareholders' Operations (31 December 2017: SR 374.2 million).

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 23. RISK MANAGEMENT (continued)

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

SAR'000	2018 SR		2017 SR	
	<i>Insurance Operations</i>	<i>Shareholders' Operations</i>	<i>Insurance Operations</i>	<i>Shareholders' Operations</i>
<b>Assets</b>				
Cash and cash equivalents	12,875	42,801	15,010	1,641
Time deposits	211,522	199,708	181,538	252,567
Investments	1,923	91,059	1,923	75,355
Premiums and reinsurer' receivable, net	70,868	--	81,184	--
Reinsurers' share of outstanding claims	44,355	--	41,545	--
Reinsurers' share of claims incurred but not reported	8,230	--	25,338	--
Due from related parties	630	--	31	--
Prepaid expenses and other assets	3,000	4,117	--	2,430
Statutory deposit	--	40,000	--	40,000
Accrued income on statutory deposit	--	3,059	--	2,204
	<b>353,403</b>	<b>380,744</b>	<b>346,569</b>	<b>374,197</b>

#### *Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

#### *f) Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligation and commitments associated with financial liabilities when they fall due. The Company has a proper cash management system, where daily cash collection and payments are monitored and reconciled at the end of the day. At the time of investment, particular emphasis is focused on the selection of those companies which are actively traded. The Company manages this risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Company's assets in highly liquid financial assets.

#### *Maturity table*

The table below summarizes the maturity profile of the financial assets and liabilities of the Company based on remaining expected undiscounted contractual obligations:

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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**23. RISK MANAGEMENT (continued)**

SAR'000	2018			2017		
	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<b>INSURANCE OPERATIONS' ASSETS</b>						
Cash and cash equivalents	12,875	--	12,875	15,010	--	15,010
Term deposits	211,522	--	211,522	181,538	--	181,538
Investments	--	1,923	1,923	--	1,923	1,923
Premiums and insurance balances receivable, net	70,868	--	70,868	81,184	--	81,184
Due from related parties	630	--	630	31	--	31
Due from shareholders' operations	--	--	--	--	--	--
Reinsurers' share of unearned premiums	56,537	--	56,537	49,140	--	49,140
Reinsurers' share of outstanding claims	44,355	--	44,355	41,545	--	41,545
Reinsurers' share of claims Incurred but not reported	8,230	--	8,230	25,338	--	25,338
Deferred policy acquisition costs	4,631	--	4,631	3,792	--	3,792
Prepayments and other assets	3,000	--	3,000	2,950	--	2,950
Property and equipment, net	--	1,541	1,541	--	686	686
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>	<b>412,648</b>	<b>3,464</b>	<b>416,112</b>	<b>400,528</b>	<b>2,609</b>	<b>403,137</b>
SAR'000	2018			2017		
	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<b>SHAREHOLDERS' ASSETS</b>						
Cash and cash equivalents	42,801	--	42,801	1,641	--	1,641
Term deposits	199,708	--	199,708	252,567	--	252,567
Investments	--	91,059	91,059	27,866	47,489	75,355
Due from insurance operations	52,677	--	52,677	29,936	--	29,936
Prepaid expenses and other assets	4,117	--	4,117	2,430	--	2,430
Accrued income on statutory deposit	--	3,059	3,059	--	2,204	2,204
Statutory deposit	--	40,000	40,000	--	40,000	40,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>	<b>299,303</b>	<b>134,118</b>	<b>433,421</b>	<b>314,440</b>	<b>89,693</b>	<b>404,133</b>
<b>TOTAL ASSETS</b>	<b>711,951</b>	<b>137,582</b>	<b>849,533</b>	<b>714,968</b>	<b>92,302</b>	<b>807,270</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**23. RISK MANAGEMENT (continued)**

SAR'000	2018			2017		
	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<b>INSURANCE OPERATIONS' LIABILITIES</b>						
Outstanding claims reserve	85,720	--	85,720	86,216	--	86,216
Claims incurred but not reported	46,357	--	46,357	77,759	--	77,759
Other technical reserves	693	--	693	1,733	--	1,733
Unearned premiums	112,473	--	112,473	100,103	--	100,103
Due to shareholders' operations	52,677	--	52,677	29,936	--	29,936
Accounts payable	8,471	--	8,471	13,019	--	13,019
Reinsurance balances payable	52,784	--	52,784	40,720	--	40,720
Due to related parties	632	--	632	651	--	651
Accrued expenses and other liabilities	31,483	--	31,483	29,673	--	29,673
Accumulated surplus	10,263	--	10,263	9,616	--	9,616
Unearned reinsurance commission	3,366	--	3,366	4,465	--	4,465
End-of-service benefits	--	11,650	11,650	--	10,921	10,921
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>	<b>404,919</b>	<b>11,650</b>	<b>416,569</b>	<b>393,891</b>	<b>10,921</b>	<b>404,812</b>
<b>SHAREHOLDERS' LIABILITIES</b>						
Due to insurance operations	--	--	--	--	--	--
Due to related parties	413	--	413	413	--	413
Accrued commission income payable to SAMA	--	3,059	3,059	--	2,204	2,204
Accrued and other liabilities	4,301	--	4,301	3,596	--	3,596
Zakat & income tax	38,153	--	38,153	31,055	--	31,055
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>	<b>42,867</b>	<b>3,059</b>	<b>45,926</b>	<b>35,064</b>	<b>2,204</b>	<b>37,268</b>

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



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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**23. RISK MANAGEMENT (continued)**

SAR'000	2018				Total
	On Demand	Up to 1 year	2-5 years	More than 5 years	
<b>INSURANCE OPERATIONS' ASSETS</b>					
Cash and cash equivalents	12,875	--	--	--	12,875
Term deposits	--	211,522	--	--	211,522
Investments	--	--	--	1,923	1,923
Premiums and insurance balances receivable, net	--	70,868	--	--	70,868
Due from related parties	--	630	--	--	630
Due from shareholders' operations	--	--	--	--	--
Reinsurers' share of unearned premiums	--	56,537	--	--	56,537
Reinsurers' share of outstanding claims	--	44,355	--	--	44,355
Reinsurers' share of claims incurred but not reported	--	8,230	--	--	8,230
Deferred policy acquisition costs	--	4,631	--	--	4,631
Prepayments and other assets	--	3,000	--	--	3,000
Property and equipment, net	--	--	1,541	--	1,541
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>	<b>12,875</b>	<b>399,773</b>	<b>1,541</b>	<b>1,923</b>	<b>416,112</b>
<b>SHAREHOLDERS' ASSETS</b>					
Cash and cash equivalents	42,801	--	--	--	42,801
Term deposits	--	199,708	--	--	199,708
Investments	--	--	91,059	--	91,059
Due from insurance operations	--	52,677	--	--	52,677
Prepaid expenses and other assets	--	4,117	--	--	4,117
Accrued income on statutory deposit	--	--	--	3,059	3,059
Statutory deposit	--	--	--	40,000	40,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>	<b>42,801</b>	<b>256,502</b>	<b>91,059</b>	<b>43,059</b>	<b>433,421</b>

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**23. RISK MANAGEMENT (continued)**

**g) Liquidity risk (continued)**

SAR'000	2018				
	<i>On Demand</i>	<i>Up to 1 year</i>	<i>2-5 years</i>	<i>More than 5 years</i>	<i>Total</i>
<b>INSURANCE OPERATIONS' LIABILITIES</b>					
Outstanding claims reserve	--	85,720	--	--	85,720
Claims incurred but not reported	--	46,357	--	--	46,357
Other technical reserve	--	693	--	--	693
Unearned premiums	--	112,473	--	--	112,473
Due to shareholders' operations	--	52,677	--	--	52,677
Accounts payables	--	8,471	--	--	8,471
Reinsurers' balances payable	--	52,784	--	--	52,784
Due to related parties	--	632	--	--	632
Accrued expenses and other liabilities	--	31,483	--	--	31,483
Accumulated surplus	--	10,263	--	--	10,263
Unearned reinsurance commission	--	3,366	--	--	3,366
End-of-service benefits	11,650	--	--	--	11,650
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>	<b>11,650</b>	<b>404,919</b>	<b>--</b>	<b>--</b>	<b>416,569</b>
<b>SHAREHOLDERS' LIABILITIES</b>					
Due to insurance operations	--	--	--	--	--
Due to a related parties	--	413	--	--	413
Accrued commission income payable to SAMA	3,059	--	--	--	3,059
Accrued expenses and other liabilities	--	4,301	--	--	4,301
Zakat and income tax	--	38,153	--	--	38,153
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>	<b>3,059</b>	<b>42,867</b>	<b>--</b>	<b>--</b>	<b>45,926</b>
2017					
SAR'000	<i>On Demand</i>	<i>Up to 1 year</i>	<i>2-5 years</i>	<i>More than 5 years</i>	<i>Total</i>
<b>INSURANCE OPERATIONS' ASSETS</b>					
Cash and cash equivalents	15,010	--	--	--	15,010
Term deposits	--	181,538	--	--	181,538
Investments	--	--	--	1,923	1,923
Premiums and insurance balances receivable, net	--	81,184	--	--	81,184
Due from related parties	--	31	--	--	31
Due from shareholders' operations	--	--	--	--	--
Reinsurers' share of unearned premiums	--	49,140	--	--	49,140
Reinsurers' share of outstanding claims	--	41,545	--	--	41,545
Reinsurers' share of claims incurred but not reported	--	25,338	--	--	25,338
Deferred policy acquisition costs	--	3,792	--	--	3,792
Prepaid expenses and other assets	--	2,950	--	--	2,950
Property and equipment, net	--	--	686	--	686
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>	<b>15,010</b>	<b>385,518</b>	<b>686</b>	<b>1,923</b>	<b>403,137</b>

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**23. RISK MANAGEMENT (continued)**

SAR'000	2017				
	<i>On Demand</i>	<i>Up to 1 year</i>	<i>2-5 years</i>	<i>More than 5 years</i>	<i>Total</i>
<b>SHAREHOLDERS' ASSETS</b>					
Cash and bank balances	1,641	--	--	--	1,641
Term deposits	--	252,567	--	--	252,567
Investments	--	27,866	47,489	--	75,355
Due from insurance operations	--	29,936	--	--	29,936
Other assets	--	2,430	--	--	2,430
Return on investment of statutory deposit	--	--	--	2,204	2,204
Statutory deposit	--	--	--	40,000	40,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>	<b>1,641</b>	<b>312,799</b>	<b>47,489</b>	<b>42,204</b>	<b>404,133</b>
<b>INSURANCE OPERATIONS' LIABILITIES</b>					
Outstanding claims reserve	--	86,216	--	--	86,216
Claims incurred but not reported	--	77,759	--	--	77,759
Other technical reserve	--	1,733	--	--	1,733
Unearned premiums	--	100,103	--	--	100,103
Due to shareholders' operations	--	29,936	--	--	29,936
Accounts payable	--	13,019	--	--	13,019
Reinsurers' balances payable	--	40,720	--	--	40,720
Due to related parties	--	651	--	--	651
Accrued expenses and other liabilities	--	29,673	--	--	29,673
Accumulated surplus	--	9,616	--	--	9,616
Unearned reinsurance commission	--	4,465	--	--	4,465
End-of-service benefits	10,921	--	--	--	10,921
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>	<b>10,921</b>	<b>393,891</b>	<b>--</b>	<b>--</b>	<b>404,812</b>
<b>SHAREHOLDERS' LIABILITIES</b>					
Due to insurance operations	--	--	--	--	--
Due to a related parties	--	413	--	--	413
Accrued commission income payable to SAMA	2,204	--	--	--	2,204
Accrued expenses and other liabilities	--	3,596	--	--	3,596
Zakat and income tax	--	31,055	--	--	31,055
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>	<b>2,204</b>	<b>35,064</b>	<b>--</b>	<b>--</b>	<b>37,268</b>

To manage the liquidity risk arising from financial liabilities mentioned above, the Company holds liquid assets comprising cash and bank balances and investment securities for which there is an active market. These assets can be readily sold to meet liquidity requirements.

**g) Foreign currency risk**

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

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

### 23. RISK MANAGEMENT (continued)

#### h) Investment income rate risk

Investment income rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market investment income rates. Floating rate instruments expose the Company to cash flow investment income risk, whereas fixed investment income rate instruments expose the Company to fair value interest risk. The Company is not exposed to investment income rate risk as rates are fixed.

#### i) Market rate risk

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

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' operations will be impacted.

The sensitivity of the income on the assumed changes in the market prices of quoted available for sale investments on the statement of shareholders' comprehensive income is set out below:

	<i>Change in market price</i>	<i>Effect on statement of shareholders' comprehensive operations SR</i>
<b>2018</b>	<b>+5%</b>	<b>4,553</b>
	<b>-5%</b>	<b>(4,553)</b>
<b>2017</b>	<b>+5%</b>	<b>3,767</b>
	<b>-5%</b>	<b>(3,767)</b>

### 24. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulator's capital requirements of the market in which the Company operates while maximizing the return to stakeholders through the optimization of the equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital and reserves. The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In order to maintain or adjust the capital structure, the Company may issue right shares. As per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained, the Company maintains solvency margin equivalent to the highest of the three methods as per SAMA Implementing Regulations.

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

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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**25. SUPPLEMENTARY INFORMATION**

**A) STATEMENT OF FINANCIAL POSITION**

	SAR '000					
	December 31, 2018 -			December 31, 2017 -		
	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
<b>ASSETS</b>						
Cash and cash equivalents	12,875	42,801	55,676	15,010	1,641	16,651
Term deposits	211,522	199,708	411,230	181,538	252,567	434,105
Premiums and reinsurers' receivable, net	70,868	--	70,868	81,184	--	81,184
Reinsurers' share of unearned premiums	56,537	--	56,537	49,140	--	49,140
Reinsurers' share of outstanding claims	44,355	--	44,355	41,545	--	41,545
Reinsurers' share of claims Incurred but not reported	8,230	--	8,230	25,338	--	25,338
Deferred policy acquisition costs	4,631	--	4,631	3,792	--	3,792
Investments	1,923	91,059	92,982	1,923	75,355	77,278
Due from related parties	630	--	630	31	--	31
Prepaid expenses and other assets	3,000	4,117	7,117	2,950	2,430	5,380
Property and equipment	1,541	--	1,541	686	--	686
Statutory deposit	--	40,000	40,000	--	40,000	40,000
Accrued income on statutory deposit	--	3,059	3,059	--	2,204	2,204
<b>TOTAL ASSETS IN THE STATEMENT OF FINANCIAL POSITION</b>	<b>416,112</b>	<b>380,744</b>	<b>796,856</b>	<b>403,137</b>	<b>374,197</b>	<b>777,334</b>
<b>ASSETS NOT INCLUDED IN THE STATEMENT OF FINANCIAL POSITION</b>						
Due from insurance operations	--	52,677	52,677	--	29,936	29,936
<b>TOTAL ASSETS</b>	<b>416,112</b>	<b>433,421</b>	<b>849,533</b>	<b>403,137</b>	<b>404,133</b>	<b>807,270</b>

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**25. SUPPLEMENTARY INFORMATION (CONTINUED)**

**A) STATEMENT OF FINANCIAL POSITION (CONTINUED)**

	SAR '000					
	2018			2017		
	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
<b>LIABILITIES</b>						
Outstanding claims reserve	85,720	--	85,720	86,216	--	86,216
Claims incurred but not reported	46,357	--	46,357	77,759	--	77,759
Other technical reserves	693	--	693	1,733	--	1,733
Accrued expenses and other liabilities	31,483	4,301	35,784	29,673	3,596	33,269
Reinsurers' balances payable	52,784	--	52,784	40,720	--	40,720
Unearned premiums	112,473	--	112,473	100,103	--	100,103
Accounts payables	8,471	--	8,471	13,019	--	13,019
Unearned reinsurance commission	3,366	--	3,366	4,465	--	4,465
Due to related parties	632	413	1,045	651	413	1,064
End-of-service benefits	11,650	--	11,650	10,921	--	10,921
Zakat and income tax	--	38,153	38,153	--	31,055	31,055
Accrued commission income payable to SAMA	--	3,059	3,059	--	2,204	2,204
<b>TOTAL LIABILITIES EXCLUDING INSURANCE OPERATIONS' SURPLUS</b>	<b>353,629</b>	<b>45,926</b>	<b>399,555</b>	<b>365,260</b>	<b>37,268</b>	<b>402,528</b>
<b>INSURANCE OPERATIONS' SURPLUS</b>						
Accumulated surplus	10,263	--	10,263	9,616	--	9,616
Actuarial reserve for employee benefits	(457)	--	(457)	(1,675)	--	(1,675)
<b>TOTAL INSURANCE OPERATIONS' SURPLUS</b>	<b>9,806</b>	<b>--</b>	<b>9,806</b>	<b>7,941</b>	<b>--</b>	<b>7,941</b>
<b>SHAREHOLDERS' EQUITY</b>						
Share capital	--	400,000	400,000	--	400,000	400,000
Accumulated losses	--	(10,836)	(10,836)	--	(32,275)	(32,275)
Fair value reserve for available for sale investments	--	(1,669)	(1,669)	--	(860)	(860)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>--</b>	<b>387,495</b>	<b>387,495</b>	<b>--</b>	<b>366,865</b>	<b>366,865</b>
<b>TOTAL LIABILITIES INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY IN THE STATEMENT OF FINANCIAL POSITION</b>	<b>363,435</b>	<b>433,421</b>	<b>796,856</b>	<b>373,201</b>	<b>404,133</b>	<b>777,334</b>
<b>LIABILITIES NOT INCLUDED IN THE STATEMENT OF FINANCIAL POSITION</b>						
Due to insurance operations	52,677	--	52,677	29,936	--	29,936
<b>TOTAL LIABILITIES INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>	<b>416,112</b>	<b>433,421</b>	<b>849,533</b>	<b>403,137</b>	<b>404,133</b>	<b>807,270</b>

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**25. SUPPLEMENTARY INFORMATION (CONTINUED)**

**B) STATEMENT OF COMPREHENSIVE INCOME**

	SAR '000					
	For the year ended					
	----- 2018 -----			----- 2017 -----		
	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
<b>REVENUES</b>						
Gross premiums written						
- Direct	292,882	--	292,882	262,345	--	262,345
- Reinsurance	651	--	651	1,024	--	1,024
	293,533	--	293,533	263,369	--	263,369
Reinsurance premiums ceded	(128,470)	--	(128,470)	(108,146)	--	(108,146)
Excess of loss expenses	(7,641)	--	(7,641)	(8,854)	--	(8,854)
<b>Net premiums written</b>	<b>157,422</b>	<b>--</b>	<b>157,422</b>	<b>146,369</b>	<b>--</b>	<b>146,369</b>
Changes in unearned premiums	(12,370)	--	(12,370)	19,982	--	19,982
Changes in reinsurance share of unearned premium	7,397	--	7,397	(16,038)	--	(16,038)
<b>Net premiums earned</b>	<b>152,449</b>	<b>--</b>	<b>152,449</b>	<b>150,313</b>	<b>--</b>	<b>150,313</b>
Reinsurance commissions	11,518	--	11,518	22,290	--	22,290
<b>TOTAL REVENUES</b>	<b>163,967</b>	<b>--</b>	<b>163,967</b>	<b>172,603</b>	<b>--</b>	<b>172,603</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	(112,829)	--	(112,829)	(90,479)	--	(90,479)
Reinsurers' share of claims paid	34,204	--	34,204	31,909	--	31,909
<b>Net claims and other benefits paid</b>	<b>(78,625)</b>	<b>--</b>	<b>(78,625)</b>	<b>(58,570)</b>	<b>--</b>	<b>(58,570)</b>
Changes in outstanding claims	496	--	496	(13,350)	--	(13,350)
Changes in reinsurance share of outstanding claims	2,810	--	2,810	14,955	--	14,955
Changes in IBNR, net	14,294	--	14,294	8,883	--	8,883
Other technical reserves	1,040	--	1,040	1,458	--	1,458
<b>Net claims incurred</b>	<b>(59,985)</b>	<b>--</b>	<b>(59,985)</b>	<b>(46,624)</b>	<b>--</b>	<b>(46,624)</b>
Policy acquisition costs	(17,993)	--	(17,993)	(25,421)	--	(25,421)
Other underwriting expenses	(1,615)	--	(1,615)	(1,383)	--	(1,383)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	<b>(79,593)</b>	<b>--</b>	<b>(79,593)</b>	<b>(73,428)</b>	<b>--</b>	<b>(73,428)</b>
<b>NET UNDERWRITING INCOME</b>	<b>84,374</b>	<b>--</b>	<b>84,374</b>	<b>99,175</b>	<b>--</b>	<b>99,175</b>

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2018

25. SUPPLEMENTARY INFORMATION (CONTINUED)

B) STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	SAR '000					
	For the year ended					
	----- 2018 -----			----- 2017 -----		
	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>						
Allowance for doubtful debts	(2,164)	--	(2,164)	(1,722)	--	(1,722)
General and administrative expenses	(57,782)	(1,806)	(59,588)	(55,380)	(1,806)	(57,186)
Investment income on term deposits	4,188	5,060	9,248	2,942	4,055	6,997
Other investment income	--	2,255	2,255	--	1,708	1,708
Other income	--	--	--	16	--	16
<b>TOTAL OTHER OPERATING (EXPENSES)/ INCOME</b>	<b>(55,758)</b>	<b>5,509</b>	<b>(50,249)</b>	<b>(54,144)</b>	<b>3,957</b>	<b>(50,187)</b>
<b>TOTAL INCOME FOR THE YEAR</b>	<b>28,616</b>	<b>5,509</b>	<b>34,125</b>	<b>45,031</b>	<b>3,957</b>	<b>48,988</b>
Total income for the year attributed to the insurance operations	(2,862)	--	(2,862)	(4,503)	--	(4,503)
Shareholders' absorption of deficit/ (Surplus transferred to Shareholders)	(31,263)	31,263	--	(44,485)	44,485	--
<b>NET INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>--</b>	<b>31,263</b>	<b>31,263</b>	<b>--</b>	<b>44,485</b>	<b>44,485</b>
<b>Earnings per share (Expressed in SAR per share)</b>						
Basic and diluted earnings per share	--	0.78	0.78	--	1.11	1.11

Statement of comprehensive income

	SAR '000					
	For the year ended					
	----- 2018 -----			----- 2017 -----		
	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
Total income for the year	2,862	31,263	34,125	4,503	44,485	48,988
<b>Other comprehensive loss</b>						
<i>Items that will not be reclassified to statement of income in subsequent periods</i>						
Change in fair value of available for sale investments	--	(809)	(809)	--	(172)	(172)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2,862</b>	<b>30,454</b>	<b>33,316</b>	<b>4,503</b>	<b>44,313</b>	<b>48,816</b>
<i>Items that will not be reclassified to the statement of income</i>						
Re-measurements of defined benefit liability-employee benefits	1,218	--	1,218	(1,675)	--	(1,675)
	4,080	30,454	34,534	2,828	44,313	47,141
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO INSURANCE OPERATIONS</b>	<b>(4,080)</b>	<b>--</b>	<b>(4,080)</b>	<b>(2,828)</b>	<b>--</b>	<b>(2,828)</b>
<b>NET COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>--</b>	<b>30,454</b>	<b>30,454</b>	<b>--</b>	<b>44,313</b>	<b>44,313</b>



**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**

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**25. SUPPLEMENTARY INFORMATION (CONTINUED)**

**C) STATEMENT OF CASH FLOWS**

	Insurance operations	Shareholders operations	Total	Insurance operations	Shareholders operations	Total
	----- 2018 -----	----- 2018 -----		----- 2017 -----	----- 2017 -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net profit for the year	2,862	31,263	34,125	4,503	44,485	48,988
<b>Adjustments for non-cash items:</b>						
Depreciation of property and equipment	414	--	414	128	--	128
Amortization of investments	--	301	301	--	545	545
Allowance for provisions for doubtful debts	2,164	--	2,164	1,722	--	1,722
Provision for end-of-service benefits	2,492	--	2,492	2,051	--	2,051
<b>Changes in operating assets and liabilities:</b>						
Deposits against letter of guarantees	200	--	200	--	--	--
Premiums and reinsurers' receivable	8,152	--	8,152	(18,689)	--	(18,689)
Reinsurers' share of unearned premiums	(7,397)	--	(7,397)	16,038	--	16,038
Reinsurers' share of outstanding claims	(2,810)	--	(2,810)	(14,955)	--	(14,955)
Reinsurers' share of claims Incurred but not reported	17,108	--	17,108	8,004	--	8,004
Deferred policy acquisition costs	(839)	--	(839)	354	--	354
Deferred excess of loss premiums	--	--	--	--	--	--
Due from related parties	(599)	--	(599)	3,707	--	3,707
Prepaid expenses and other assets	(50)	(1,687)	(1,737)	(608)	(806)	(1,414)
Statutory deposits	--	(855)	(855)	--	(962)	(962)
Accounts payables	(4,548)	--	(4,548)	3,470	--	3,470
Accrued expenses and other liabilities	1,811	704	2,515	(1,800)	(1050)	(2,850)
Reinsurers' balances payable	12,064	--	12,064	(13,298)	--	(13,298)
Unearned premiums	12,370	--	12,370	(19,982)	--	(19,982)
Unearned reinsurance commission	(1,099)	--	(1,099)	(2,442)	--	(2,442)
Outstanding claims	(496)	--	(496)	13,349	--	13,349
Zakat and Tax paid	--	(2,726)	(2,726)	--	(1,734)	(1,734)
Claims incurred but not reported	(31,402)	--	(31,402)	(16,887)	--	(16,887)
Other technical reserves	(1,040)	--	(1,040)	(1,458)	--	(1,458)
Accrued commission income payable to SAMA	--	855	855	--	962	962
Due to related parties	(19)	--	(19)	(204)	(648)	(852)
	9,338	27,855	37,193	(36,997)	40,792	3,795
End-of-service benefits paid	(546)	--	(546)	(2,608)	--	(2,608)
Surplus paid to policy holders	(2,215)	--	(2,215)	(2,833)	--	(2,833)
<b>Net cash generated from/(used in) operating activities</b>	<b>6,577</b>	<b>27,855</b>	<b>34,432</b>	<b>(42,438)</b>	<b>40,792</b>	<b>(1,646)</b>
<b>CASH FLOWS FROM INVESTING</b>						
(Additions)/disposals in investments	--	(16,813)	(16,813)	--	(195)	(195)
(Additions)/disposals in term deposits	(29,984)	52,859	22,875	(7,557)	1,102	(6,455)
Additions in property and equipment	(1,269)	--	(1,269)	(654)	--	(654)
<b>Net cash generated from/(used in) investing activities</b>	<b>(31,253)</b>	<b>36,046</b>	<b>4,793</b>	<b>(8,211)</b>	<b>907</b>	<b>(7,304)</b>
<b>Net change in cash and cash equivalents</b>	<b>(24,676)</b>	<b>63,901</b>	<b>39,225</b>	<b>(50,649)</b>	<b>41,699</b>	<b>(8,950)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>14,110</b>	<b>1,641</b>	<b>15,751</b>	<b>24,492</b>	<b>209</b>	<b>24,701</b>
<b>Due from/ (to) insurance operations</b>	<b>22,741</b>	<b>(22,741)</b>	<b>--</b>	<b>40,267</b>	<b>(40,267)</b>	<b>--</b>
<b>Cash and cash equivalents, end of the year</b>	<b>12,175</b>	<b>42,801</b>	<b>54,976</b>	<b>14,110</b>	<b>1,641</b>	<b>15,751</b>

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**

For year ended 31 December 2018

**26. COMPARATIVE FIGURES**

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

**27. APPROVAL OF THE FINANCIAL INFORMATION**

The financial statement have been approved by the Board of Directors on 19 March 2019, corresponding to 12 Rajab 1440H.