



التعاونية Tawuniya

FOR A BRIGHTER **FUTURE**

2018
ANNUAL REPORT





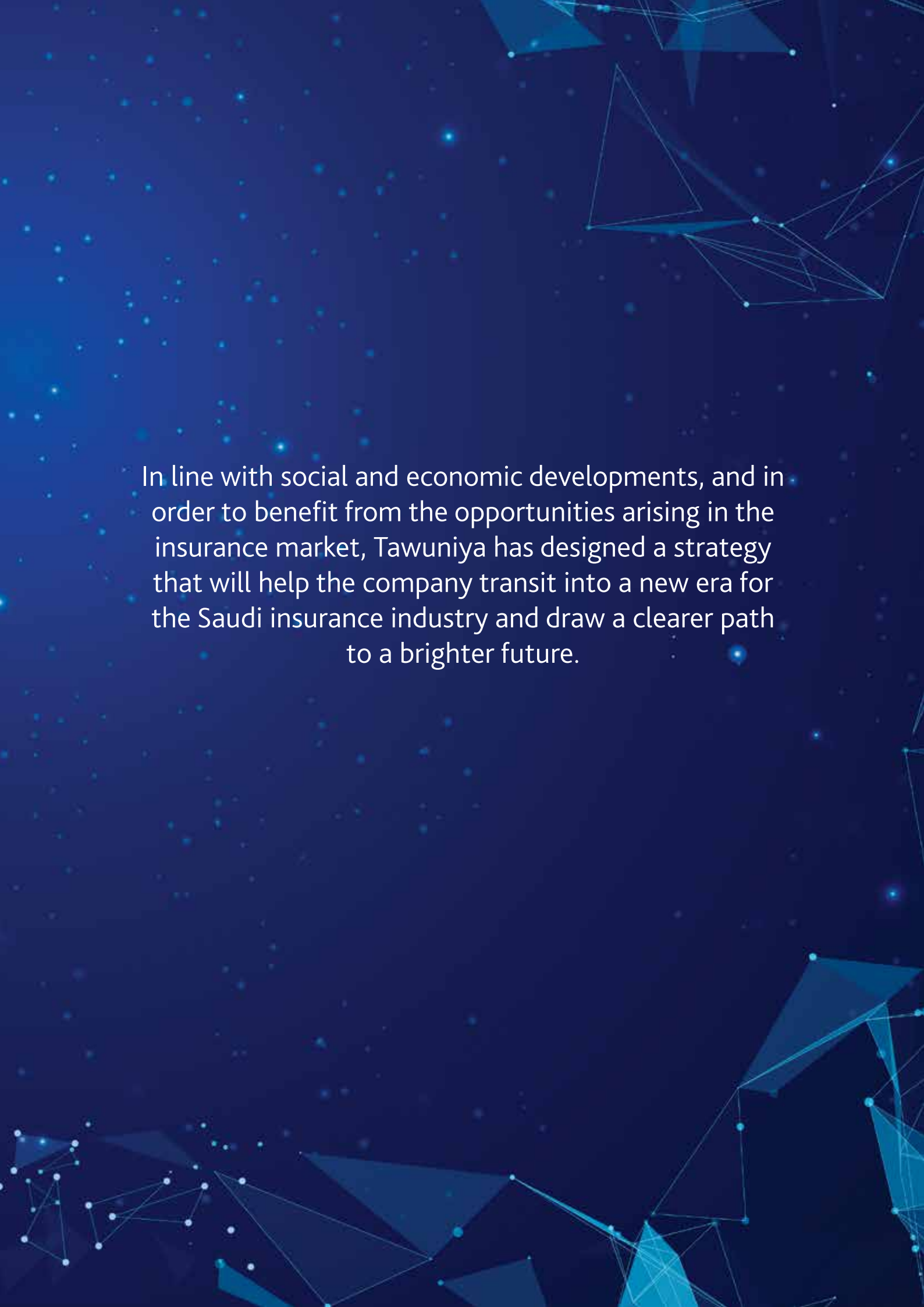
Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al Saud



His Royal Highness
Prince Mohammed Bin Salman Bin Abdulaziz Al Saud
Crown Prince, Deputy Premier and Minister of Defense



OUR PATH TO A BRIGHTER FUTURE

The background is a deep blue gradient. It is decorated with numerous small, glowing blue dots scattered across the surface. In the upper right and lower right corners, there are complex, interconnected white and light blue lines forming geometric, crystalline structures. These structures resemble molecular models or abstract architectural frameworks, with some lines forming triangles and other polygons. The overall aesthetic is futuristic and technological.

In line with social and economic developments, and in order to benefit from the opportunities arising in the insurance market, Tawuniya has designed a strategy that will help the company transit into a new era for the Saudi insurance industry and draw a clearer path to a brighter future.



STRATEGY PILLARS

LARGE CORPORATES

We partner with our customers to help them achieve the highest level of risk management, in any challenges they are facing. We also strive to increase the share of major clients in our portfolio.



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STRATEGY PILLARS

SME

We are a one-stop-shop for SMEs looking to cover their entire insurance scope and we spearhead sales in this vital sector, which comes in alignment with the objectives of the Kingdom's Vision 2030.





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The Chairman's Statement



Soliman Saad Al-Humayyd
The Chairman

Dear Shareholders,

It gives me great pleasure to present the 32nd Annual Report of the Company for Cooperative Insurance (Tawuniya). The annual report includes Board of Directors' report, the auditors' report, the audited financial statements for the year ending 31/12/2018 and notes to financial statements.

In response to significant increases in net claims incurred and additional technical reserves as recommended by the actuary, factors which resulted in recording a loss in operating results in 2017, Tawuniya implemented a set of corrective measures to improve its operational performance and maintain financial solvency standards stipulated by regulatory requirements. These measures helped improve several financial performance aspects in 2018. However, a few negative results still persist.

Despite still recording a loss in operating results in 2018, the deficit was cut by 22.8% compared to the previous year. While the gross written premiums declined by 9%, the performance of insurance operating segments improved, especially medical insurance. Profitability of motor insurance also improved after we prioritized profitable insurance contracts and disposed of contracts with high loss ratio, leading to a reduction in the size of motor insurance portfolio. The property and casualty insurances continued their steady pace.

In addition, claims and costs management improved during the year, resulting in a 3.6% decrease in net claims incurred. The policy acquisition costs fell by 20.8% and other underwriting expenses declined by 13.5%.

The investments earned an income of SR 246.5million. While this is an improvement compared to the average return on investment in past years, it was less than returns earned in 2017, which was an exceptional year. This decline contributed to an increase in loss from operations before Zakat by 45.5%.

These indicators affirm that Tawuniya has set a course in the right direction and is well on its way to restoring the outstanding results of years past, especially as many of the projects outlined by the company's strategy having already come online, with the rest due for completion in 2019 and 2020.

Tawuniya continues to implement its strategy based on five main pillars: corporate and key accounts, SME, retail, credit life insurance and investment. The strategy aims to grow our share of sales across various customer segments, increase sales of credit life insurance policies and increase return on investment. The company's plans in each of these areas are expected to increase its overall sales, improve financial performance and retain a larger market share.

The company is currently focusing on specific well-defined enablers that will guide its strategy over the next phase, with customer centricity being the most important enabler. In this vein, Tawuniya undertook a restructuring of its operating segments - especially in medical and Takaful insurance - to develop new operational concepts that benefit customers and make them the prime focus of all departments. In parallel, a comprehensive set of enhancements encompassing a wide range of areas is also

“Tawuniya is currently focusing on specific well-defined enablers that will guide its **strategy over the next phase**”

taking place, covering services, programs, pricing, underwriting, claims, e-services, digitalization, information infrastructure development, product and sales mechanisms innovation, and marketing initiatives, with the aim of maximizing the value of our products and services and set us apart from the competition, leading to improve results and profitability.

Despite the challenges Tawuniya faced in 2018, the company had strong local and international recognition by winning a number of prestigious awards, including the Best Islamic Insurance Company by World Finance, Best Cooperative Insurance Company in GCC by Global Brand Magazine and Best Electronic General Insurance Company in Saudi Arabia by Global Banking & Finance Review. The company was also ranked first of the insurance sector in Al-Eqtisadiyah Top 100 Saudi Companies List as well as being ranked by Al-Watan newspaper in its annual list of the top 100 Brands in Saudi Arabia.

In addition, the Saudization rate in Tawuniya exceeded 81% of the total workforce for the first time since its establishment, including 95% of the leadership positions. This comes as a direct result of several initiatives aimed at attracting distinguished talents across different disciplines, increasing the efficiency of performance of its human cadres and conducting a series of general and specialized training programs to develop employees' skills at various managerial levels.

The year 2018 also witnessed launching a number of pioneering programs and initiatives in the Saudi insurance market, the most notable of which was the Tawuniya Women Driving Ambassador that launched to coincide with women driving in the Kingdom for the first time. The initiative played a prominent role in raising awareness amongst female drivers and understanding the role of insurance in explanatory risks of road accidents. In addition, the company launched the Tawuniya SME Academy to qualify Saudi entrepreneurs to successfully manage their start-ups, as well as the Tawuniya Sales Academy to boost the effectiveness of sales forces. Moreover, 2018 witnessed the launch of the e-learning portal to raise employee competencies, in addition to devising a number of insurance programs with the aim of attracting new customer segments, including cyber risk insurance, motor traders insurance and fire residential insurance.

In the area of corporate social responsibility (CSR) during 2018, Tawuniya focused on voluntary participations by company employees, celebrating important international days and supporting various charitable organizations such as Kilana and Ensan.

A thorough review of the company's 2018 financial results confirms that we are on track and that the corrective measures we have taken will lead to an improved financial performance over the next phase, as the company has invested in putting place the necessary robust infrastructure to underpin future results.

We view the future of our company with great optimism, a view that is supported by your invaluable trust in Tawuniya's Board and executive team. This trust continues to inspire us as we get through this challenging stage, and I am fully confident in our ability to achieve improved results moving forward.

In conclusion, I would like to reiterate my sincere gratitude for your invaluable trust, and extend my heartfelt thanks to all of Tawuniya's loyal clients who continue to support and believe in this distinguished company.

Soliman Saad Al-Humayyd

The Chairman



STRATEGY PILLARS

INDIVIDUAL CUSTOMERS

Offering innovative products for individuals at the best prices and at convenient times with the aim of creating new markets and attracting different social segments.





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The Board of Directors



H.E. Mr. Soliman S. Al-Humayyd
Chairman



Mr. Waleed A. Al-Eisa
Vice-Chairman



Mr. Ghassan A. Al-Malki
Director



Mr. Abdulaziz I. Al Nowaiser
Director



Mr. Raed A. Al-Tamimi
Director



Mr. Abdullah M. Al-Fayez
Director



Mr. Abdulaziz A. Al-Zaid
Director



Mr. Abdulaziz A. Al-Khamis
Director



Mr. Jasser A. Al-Jasser
Director



STRATEGY PILLARS

LIFE INSURANCE

Catering to society's needs by providing different life insurance products, and pursuing the sector's growth and expansion by increasing sales.



The 2018 Board of Directors' Report

Introduction

The Board of Directors (BOD) of The Company for Cooperative Insurance (Tawuniya) is pleased to present the 32nd Annual Report to our shareholders, comprising of The Company's most significant regulatory-based plans, decisions, operational activities, financial results and disclosures. Along with the audited financial statements and their notes for the fiscal year ending in December 31, 2018.

1. Distinctive Awards and Ratings Achieved by the Company in 2018

- The best credit rating in the Saudi insurance market for the thirteenth year consecutively by Standard & Poor's (S&P) which has assigned Tawuniya an (A-) rating with "stable" outlook.
- The best Islamic insurance company by Finance World Magazine.
- The best cooperative insurance company in GCC by Global Brand Magazine.
- The best electronic general insurance company in Saudi Arabia by Global Banking & Finance Review.
- Among the top 100 Saudi companies list issued by Al Eqtisadiah newspaper and the first in insurance sector.
- Among the top 100 most famous Brands in the Kingdom issued by Al Watan newspaper.

2. Evaluation of the Company's Strategy and its Position in Financial Terms

Tawuniya continues to implement its strategy, which is based on five main pillars: the corporate and key accounts, the small and medium enterprises (SME) and the retail sectors, as well as credit life insurance and investment. Tawuniya's strategy aims to support the Company's market share in different customer segments, expand sales of credit life insurance and support return on investment. The Company's plans in these areas are expected to increase sales, improve its financial performance and maintain a larger market share.

3. Description of Significant Plans, Decisions and Future Prospects of the Company's Business

A. Significant Plans and Decisions

- Restructuring the medical insurance division to provide balanced customer delivery and performance, to improve quality and span of control and to introduce risk management to medical governance.
- Development of Sales Transformation Program and enhancing operating model; to provide renewed focus on the customer, free up sales capacity, and simplify the go-to-market approach.
- Enhancement of the services provided to small and medium enterprises (SME) through the provision of several initiatives such as Tawuniya SME Academy that enable the Saudi entrepreneurs to successfully manage their projects as well as the enhancement of SME value proposition by increased penetration throughout the kingdom and streamlined the distribution model.

- Participating in activating the decision to allow Saudi women to drive motor vehicles for the first time in the Kingdom, where Tawuniya developed services, plans and systems that facilitate women's access to insurance programs and provide the necessary assistance to make their driving safer.
- Introducing Sales Academy, which will drive sales forces performance improvement and to move Tawuniya towards a customer centric approach.
- Introducing the new performance management system to improve strategy cascading, objectives alignment, and provide an enhanced view of corporate and individual performance. This will also enhance corporate ability to identify gaps and take the necessary steps for improvement.
- Establishing a cyber-security department to address cyber risks and setting rules and standards to protect company systems.
- Adoption of anti-money laundering policy, the whistle-blowing policy, the Information Security Committee's regulation, the Nomination and Remuneration Committee' regulation, the updated Audit Committee's regulation and the updated corporate governance regulation.
- Adoption of the policy, criteria and procedures for nomination to the Board of Directors and the approval of remuneration policy for the members of the Board of Directors and its committees as well as the policy of remuneration for top executives.
- Development of a plan to increase collection rates.

B. Future Prospects of The Company's Business

The future prospects of The Company's business is based on a range of areas that attract The Company's interest to improve performance and increase growth including the following indicators:

- Continue to implement transformation programs, especially with regard to digital transformation in line with the Company's strategy.
- Focusing on customer satisfaction by improving individual's capabilities, streamlining services process, and dedicating digital platforms, which will allow high quality of self-servicing.
- Focusing on product customization for clients and increased cross-selling and bundled offerings.
- Improving workforce by enhancing technical skills and developing expertise within The Company.
- Capitalizing on improved competencies of sales teams, and adjusted operating model to adapt to our digitization approach.
- Focus on supporting the various services provided to SMEs.

4. Description of Operating Activities During 2018

A- Medical Insurance and Takaful

In 2018, the medical SBU was reorganized under a new structure to support future business growth plans and streamline operations. The new structure strengthened controls and compliance in the

“The future prospects of The Company's business is based on a range of areas that attract The Company's interest to
**improve performance
 and increase growth**”

underwriting function and introduced new functions to help in revamping the medical operations.

The medical operation unit applied new changes in its pre-authorization operations and protocol. These changes will positively reflect in the operation efficiency and will support in increasing customer satisfaction. The major changes that have been implemented include developing clear guidelines and protocols and linking them to new international medical protocols and guidelines. It also included enhancing the system capabilities through applying standard protocols that will ease the approval process for customers. The Fraud Unit developed new controls in the fraud system that will support in detecting fraud actions, in addition to adjusting existing controls that clearly helped in identifying questionable cases.

Moreover, Tawuniya applied the new CCHI changes of additional benefits, limits and coverage.

B- Motor Insurance

The Company has implemented a new pricing structure with increased number of rating factors to enable us to have a competitive edge in the market as well as better customer profiles. A new Risk Control Department was formed to proactively control the claims cost and identify the risks. In order to attract a new segment of customers, the motor insurance system has been modified to allow customers to upgrade their Sanad third party insurance policies to Sanad Plus or Al-Shamel.

The company also enhanced the performance of motor operations by moving to aggregator implementation, implementing a new rating structure, and developing Taqdeer system for settlement of recoveries between insurance companies as well as enhancing underwriting rules. In addition, Tawuniya has interacted with the implementation of the decision to enable women to drive the car in the Kingdom, where insurance programs were provided for women at attractive prices and many seminars have been organized to raise awareness of the benefits of motor insurance programs and how to choose the appropriate program.

C- Property and Casualty

New strategic insurance products were introduced to the market related to food security and information technology security; namely Aquaculture insurance and Cyber Risk insurance. In addition, Tawuniya has launched new products to enrich the market included Residential Fire insurance and Motor Trade insurance.

In this context, the Company conducted a client workshop on Cyber Insurance and signed an agreement with a major specialized company for the SME business consultancy. The Company successfully managed to renew the prestigious accounts and added new key clients. In addition, the online sales of medical malpractice insurance was launched. The Tawuniya's Risk Control Management provided services to the selected major clients, which included thermographic scanning of the electrical equipment, review the design of fire protection systems and review the safety process.

D- Corporate and Key Accounts Sales

Tawuniya entered into a contract for the insurance of all SAUDIA Airlines fleet and affiliated airlines, being the largest aviation insurance contract in the Kingdom, which contributed to the growth of the aviation insurance portfolio and the acquisition of insurance contracts of the Saudi civil aviation sector. At the same time, Tawuniya has developed initiatives aimed at increasing the sales of other products to key account customers segment, as well as expanding the use of value added services such as Tabibi phone medical service, Dawee (re-fill medicine) service and Tawuniya Health Zone. The Company's restructuring program conducted last year to the corporate and key accounts sales division has attracted more customers and retained the majority of existing customers.

E- Small and Medium Enterprises Sales (SME)

To expand SME sales in accordance with a specialized professional methodology, the Company has established a specialized sales team for small and medium enterprises consisting of young Saudis to meet the customers' demands in the field and by telesales throughout the Kingdom. To support this approach, the Company launched Tawuniya SME Academy that is the first of its kind in the Saudi insurance market, to enable Saudi entrepreneurs to manage their projects successfully through the avail of local and international academic experts as well as trainers from Tawuniya. In order to attract a large number of small and medium enterprises to join Tawuniya insurance portfolio, the Company has taken a number of measures, including expanding the list of medical insurance categories to 13, launching 4 new products for the business insurance sector, reviewing and lowering third party liability motor insurance rates. The Company also updated the procedure to facilitate and expedite the issuance of insurance policies and expanded sales outside the major cities. To promote insurance awareness among the SMEs, Tawuniya has participated as an insurance sponsor at the Biban Asir and Biban Makkah exhibitions and as an official sponsor of the "Launch Your Project" initiative.

F- Retail Insurance and E-commerce

Tawuniya has developed electronic services that allow customers to purchase retail insurance products through the online store, such as medical malpractice insurance. The Company also increased the services provided through its website and smart phones application such as the medical expenses reimbursement service. The partnership channel was created to target the market with special offers, with the completion of the broker e. link for the sale of motor insurance products. This followed the activation of the new structure of the retail sales division to achieve more care and attention to retail customers, as well as the restructuring of e-commerce department and the launch of an integrated digital business management aimed at exploiting and investing in digital techniques and mechanisms in sales and customer service.

G- Marketing and Communication

Tawuniya launched a number of offers and marketing campaigns to promote its products, especially those for the SME and retail segments. This coincided with the issuance of product development policy and procedures. The Company launched a widespread marketing campaign in line with the activation of the women's driving decision for the first time in the Kingdom. In this regards, the initiative entitled, "Tawuniya Ambassador" for women driving was activated to raise women's awareness about safe driving. In this initiative, lectures and awareness messages were delivered to women inside and outside the Company. As part of the Company's policy to improve customer experience, "Ethraa", the first loyalty program in the Saudi insurance sector, was launched. The Company also implemented a customer classification project based on customer value and launched a proactive service for distinguished clients with medical service providers. Tawuniya has conducted several studies focused on motor insurance products, medical malpractice insurance, and understanding of women's attitudes towards driving cars. This came after the Research and Innovation Department was established within the marketing division.

H- Customer Service

Customer Service Division focused on raising the skills and capabilities of the Call Center team to provide the highest quality service, with the development of systems to allow the expansion of self-service and meet customer requirements. These efforts have resulted in a 90% increase in customer satisfaction over the previous year and an increase of 1.9 million incoming calls received during the year.

I- Recruitment Activities and Improvement of Competencies

Tawuniya has carried out many updates and introduced a number of new systems to improve employees' competencies and to increase all teams' efficiency performance. The "E-learning" portal was implemented for the Company employees and a new performance management system was designed. In addition, the Company created the electronic recruitment portal and established the Sales Academy to develop the skills of sales forces. The Saudization ratio within Tawuniya has increased to about 95% of the leading positions and 81.4% of the total number of employees, representing the highest ratio reached by the Company since its inception. Moreover, Tawuniya participated in the Graduation and Career Day that was organized by the Institute of Public Administration to attract distinguished professionals from various disciplines. The Company also provided an opportunity for its

employees to compete for vacant internal positions, and provided a large number of Saudi students with training for graduation requirements. The training process has witnessed remarkable activity at all levels through a series of general and specialized training programs, including the second session of the "Fast Track Technical Insurance program" (FIT2), the second session of the Middle Management Program, E-courses, management and technical training courses, anti-money laundering courses as well as more than 170 tests of the IFCE.

J- Information Systems and Technology

Since Tawuniya developed its strategy, IT has been identified as a strategic key enabler to meet the corporate strategy goals. Therefore, a holistic IT Strategy has been defined to strengthen the IT landscape and capabilities to fulfill the future business needs and objectives. The IT transformation concluded many projects in different streams including; technology remediation, technology foundation, business foundation, business & technology transformation and IT operating model.

With regard to other activities of the Information Services Division, a number of systems and applications have been issued, updated and developed including, for example, the online medical SME sales and services, online travel policy sales, online medical malpractice sales, online motor claim submission and online visit visa extension and cancellation. In addition, the IT systems were updated to be line with the regulations issued by the controlling authorities.

K- Support Services and Improvement of Work Environment

A number of projects have been implemented to improve The Company's working environment, make it safer and meet the requirements of expansion and business growth. Tawuniya made modifications to a number of divisions and departments in the framework of the administrative restructuring implemented by Tawuniya in its plan to activate its new strategy. These include expansion of the departments of Customer Service, Medical & Takaful, Information Services, Risk Management, Internal Audit, Sales Division, Investment, Motor and Small & Medium Enterprises sales division. As part of the improvement of security measures, the security monitoring and follow-up unit was established in emergency evacuation cases, the electronic gates of the head office was created, the security and safety procedures of the Eastern Regional Office (ERO) premises in Khobar and the motor claim center in Riyadh were developed to comply with the Saudi Civil Defense guidelines. Evacuation tests in the head office were implemented successfully.

5. Articles of the Corporate Governance Regulations Applied/Not Applied and Reasons for Non-Implementation

Tawuniya has applied all articles of the Insurance Corporate Governance Regulation issued by the Saudi Arabia Monetary Authority (SAMA) and the Corporate Governance Regulations issued by the Capital Market Authority (CMA), except for the following articles:

No. of Article/ Para	Wording of Article/ Para	Extent of Application	Reasons for non-implementation	Notes
Article 54-(b) (Guiding Para not binding).	The Chairman of the audit committee shall be an independent Board member.	Not applied	Guiding Para not binding	The Chairman of the Audit Committee is independent but he is not a Board member.
Article 78- (a) (Guiding article not binding)	Internal Audit Report: a) The internal audit unit or department shall prepare and submit a written report on its activities at least quarterly to the Board and the Audit Committee. Such report shall include an assessment of The Company's internal control system and the final opinion and recommendations of the unit or department. The report shall also specify the procedures taken by each department for addressing the findings and recommendations from the previous audit, and any remarks thereon, particularly failures to promptly address such findings and recommendations and the reasons for such failure.	Not applied	Guiding article not binding	Now, the Internal reports are reported on a quarterly basis to the Internal Audit Department and reported on an annual basis to the Board of Directors. If necessary, the Internal Audit Department will report to the Board on a quarterly basis.

6. Names of BOD Members, BOD Committees' Members, and Executive Management, Current and Previous Positions, Qualifications and Experience:

A) Board Members:

Name	Current Position	Previous Position	Qualifications	Experience
H.E. Mr. Soliman S. Al-Humayyd	BOD Chairman, The Company for Cooperative Insurance (Tawuniya)	Minister of Social Affairs	<ul style="list-style-type: none"> • Master of Business Administration (MBA) – Finance. • Diploma in Business Administration. • Bachelor of Business Administration– Finance. • Many specialized and professional certificates. 	<ul style="list-style-type: none"> • Governor of the General Organization for Social Insurance. • Vice-Chairman of the International Organization of Social Insurance
Mr. Waleed A. Aleisa	Chief Operating Officer of RAZA Company (affiliated to Raidah Investment Company)	Chief Operating Officer of Raidah Investment Company	<ul style="list-style-type: none"> • Master of Chemical Engineering. • Master of Computer Science. • Bachelor of Chemical Engineering. • Many specialized and professional certificates. 	Projects Management, research and planning at Al-Raidah Investment Company and the Capital Market Authority.
Mr. Ghassan A. Al-Malki	Director of the Center of Digital Excellence - General Organization for Social Insurance	Business Development Manager, Computer Department- General Organization for Social Insurance	<ul style="list-style-type: none"> • Master of Computer - Computer Science. • Bachelor of Computer-Information Systems. • Many specialized and professional certificates. 	Occupied several managerial positions in the field of information technology at the General Organization for Social Insurance.
Mr. Abdullah M. Al-Fayez	BOD member, The Company for Cooperative Insurance (Tawuniya)	The General Manager of Saudi Public Transport Company (SAPTCO))	<ul style="list-style-type: none"> • Bachelor of Engineering in Minerals. • Chase Manhattan Bank, Credit and Banking Program. • Many specialized and professional certificates. 	Participated in the board of directors and Audit Committees of a number of national companies.
Mr. Abdulaziz A. Al Zaid	BOD member, The Company for Cooperative Insurance (Tawuniya)	Assistant Governor for Investment in the General Organization for Social Insurance	<ul style="list-style-type: none"> • Bachelor of Civil Engineering. • Many professional and specialized certificates in the fields of governance, project management and financial evaluation. 	Occupied several leading positions in the General Organization for Social Insurance and is a member of the boards of directors and committees of a number of national companies and banks.
Mr. Abdul Aziz I. Al-Nuwaiser	Chief Operating Officer – Tahakom Investment Co.	Vice President - Finance, Arabian Internet Services & Telecom Co. Ltd.	<ul style="list-style-type: none"> • Master of Accounting with two sub-specialties: Finance and Information Systems • Bachelor of Accounting • Many professional certificates in accounting, financial administration and auditing. 	Executive Partner and CEO of National Advisory House. He also worked as a lecturer in the accounting section at King Saud University in Riyadh.
Mr. Raed A. Al-Tamimi	BOD member, The Company for Cooperative Insurance (Tawuniya)	Chief Executive Officer (CEO) of CARE	<ul style="list-style-type: none"> • Bachelor of Medical Science • Professional Certificate in health insurance. • Many professional and specialized certificates in Insurance and management. 	Chief Executive Officer, The Company for Cooperative (Tawuniya) and a member of the boards of directors of a number of national companies and banks.
Mr. Abdulaziz A. Alkhamis	Consultant - Raidah Investment Company	Deputy Governor for Investment in the Public Pension Agency	<ul style="list-style-type: none"> • Bachelor of Economics. • Many professional and specialized certificates. 	Occupied several positions in the Saudi Arabian Monetary Authority for 21 years.
Mr. Jaser A. Aljaser	General Manager of Planning, Studies and Research Department in the Public Pension Agency.	Actuary specialist, supervisor in the Public Pension Agency.	<ul style="list-style-type: none"> • Master of Actuarial Science. • Bachelor of Operations Research. • Many professional and specialized certificates. 	Occupied several positions in the fields of planning, development, studies, and actuarial studies at the Public Pension Agency.

B) Board Committees' Members

Executive Committee

Name	Current Position	Previous Position	Qualifications	Experience
H.E. Mr. Soliman S. Al-Humayyd	BOD Chairman, The Company for Cooperative Insurance (Tawuniya)	Minister of Social Affairs	<ul style="list-style-type: none"> • Master of Business Administration (MBA) – Finance. • Diploma in Business Administration • Bachelor of Business Administration – Finance • Many specialized and professional certificates 	<ul style="list-style-type: none"> • Governor of the General Organization for Social Insurance. • Vice-Chairman of the International Organization of Social Insurance
Mr. Waleed A. Aleisa	Chief Operating Officer of RAZA Company (affiliated to Raidah Investment Company)	Chief Operating Officer of - Raidah Investment Company	<ul style="list-style-type: none"> • Master of Chemical Engineering. • Master of Computer Science. • Bachelor of Chemical Engineering. • Many specialized and professional certificates. 	Projects Management, research and planning at Al-Raidah Investment Company and the Capital Market Authority.
Mr. Raaed A. Al-Tamimi	BOD member, The Company for Cooperative Insurance (Tawuniya)	Chief Executive Officer (CEO) of CARE	<ul style="list-style-type: none"> • Bachelor of Medical Science • Professional Certificate in health insurance. • Many professional and specialized certificates in Insurance and management. 	Chief Executive Officer, The Company for Cooperative (Tawuniya) and a member of the boards of directors of a number of national companies and banks.
Mr. Abdulaziz H. Alboug	Chief Executive Officer (CEO) of The Company for Cooperative Insurance (Tawuniya)	Senior Vice President – Sales and Marketing, (Tawuniya)	<ul style="list-style-type: none"> • Master of Business Administration. • Bachelor of International Business Administration. • American Health Insurance Associate Certification. • Medical Underwriting Specialist Certification from the Chartered Insurance Institute, UK. • Many professional and specialized certificates in Insurance and management. 	Occupied a number of leading positions in Tawuniya.

Risk Committee

Name	Current Position	Previous Position	Qualifications	Experience
Mr. Waleed A. Aleisa	Chief Operating Officer of RAZA Company (affiliated to Raidah Investment Company)	Chief Operating Officer of - Raidah Investment Company	<ul style="list-style-type: none"> • Master of Chemical Engineering. • Master of Computer Science. • Bachelor of Chemical Engineering. • Many specialized and professional certificates. 	Projects Management, research and planning at Al-Raidah Investment Company and the Capital Market Authority.
Mr. Raaed A. Al-Tamimi	BOD member, The Company for Cooperative Insurance (Tawuniya)	Chief Executive Officer (CEO) of CARE	<ul style="list-style-type: none"> • Bachelor of Medical Science • Professional Certificate in health insurance. • Many professional and specialized certificates in Insurance and management. 	Chief Executive Officer, The Company for Cooperative (Tawuniya) and a member of the boards of directors of a number of national companies and banks.
Mr. Abdulaziz H. Alboug	Chief Executive Officer (CEO) of The Company for Cooperative Insurance (Tawuniya)	Senior Vice President – Sales and Marketing, (Tawuniya)	<ul style="list-style-type: none"> • Master of Business Administration. • Bachelor of International Business Administration. • American Health Insurance Associate Certification. • Medical Underwriting Specialist Certification from the Chartered Insurance Institute, UK. • Many professional and specialized certificates in Insurance and management. 	Occupied a number of leading positions in Tawuniya

Remuneration and Nomination Committee

Name	Current Position	Previous Position	Qualifications	Experience
Mr. Abdulaziz A. Al Zaid	BOD member, The Company for Cooperative Insurance (Tawuniya)	Assistant Governor for Investment in the General Organization for Social Insurance	<ul style="list-style-type: none"> • Bachelor of Civil Engineering. • Many professional and specialized certificates in the fields of governance, project management and financial evaluation. 	Occupied several leading positions in the General Organization for Social Insurance and is a member of the boards of directors and committees of a number of national companies and banks.
Mr. Ghassan A. Al-Malki	Director of the Center of Digital Excellence - General Organization for Social Insurance	Business Development Manager, Computer Department- General Organization for Social Insurance	<ul style="list-style-type: none"> • Master of Computer - Computer Science. • Bachelor of Computer-Information Systems. • Many specialized and professional certificates. 	Occupied several managerial positions in the field of information technology at the General Organization for Social Insurance.
Mr. Jaser A. Aljaser	General Manager of Planning, Studies and Research Department in the Public Pension Agency.	Actuary specialist, supervisor in the Public Pension Agency.	<ul style="list-style-type: none"> • Master of Actuarial Science. • Bachelor of Operations Research. • Many professional and specialized certificates. 	Occupied several positions in the fields of planning, development, studies, and actuarial studies at the Public Pension Agency.
Mr. Abdullah M. Al-Fayez	BOD member, The Company for Cooperative Insurance (Tawuniya)	The General Manager of Saudi Public Transport Company (SAPTCO)	<ul style="list-style-type: none"> • Bachelor of Engineering in Minerals. • Chase Manhattan Bank, Credit and Banking Program. • Many specialized and professional certificates. 	Participated in the board of directors and Audit Committees of a number of national companies.

Investment Committee

Name	Current Position	Previous Position	Qualifications	Experience
Mr. Abdulaziz A. Alkhamis	Consultant - Raidah Investment Company	Deputy Governor for Investment in the Public Pension Agency	<ul style="list-style-type: none"> • Bachelor of Economics. • Many professional and specialized certificates. 	Occupied several positions in the Saudi Arabian Monetary Authority for 21 years.
Mr. Abdulaziz A. Al Zaid	BOD member, The Company for Cooperative Insurance (Tawuniya)	Assistant Governor for Investment in the General Organization for Social Insurance	<ul style="list-style-type: none"> • Bachelor of Civil Engineering. • Many professional and specialized certificates in the fields of governance, project management and financial evaluation. 	He occupied several leading positions in the General Organization for Social Insurance and is a member of the boards of directors and committees of a number of national companies and banks.
Mr. Abdulaziz H. Alboug	Chief Executive Officer (CEO) of The Company for Cooperative Insurance (Tawuniya)	Senior Vice President – Sales and Marketing, The Company for Cooperative Insurance (Tawuniya)	<ul style="list-style-type: none"> • Master of Business Administration. • Bachelor of International Business Administration. • American Health Insurance Associate Certification. • Medical Underwriting Specialist Certification from the Chartered Insurance Institute, UK. • Many professional and specialized certificates in Insurance and management. 	Occupied a number of leading positions in Tawuniya.

Audit Committee

Name	Current Position	Previous Position	Qualifications	Experience
Mr. Turky A. Alluhaid	Partner in Alluhaid & Alyahya Chartered Accountants (LYCA)	Chief Financial Officer-Al-Ayouni Investment & Contracting Co	<ul style="list-style-type: none"> • Bachelor of Accounting. • Saudi Association of Certified Public Accountants (SCOPA) • Certified Public Accountant (CPA) 	<ul style="list-style-type: none"> • Chief Financial Officer-Al-Ayouni Investment & Contracting Co. • Audit Director, Ernest & Young Office. • Credit manager in Riyad Bank.
Mr. Mohammed Farhan Alnader	Executive Partner of United Accountants (member of RSM International Group)	Chief Financial Officer of Awqaf Sulaiman Bin Abdulaziz Al Rajhi Holding Company	<ul style="list-style-type: none"> • Bachelor of Accounting • Master of Business Administration and Finance • American Fellowship of Certified Public Accountants (CPA) • Fellowship of the Saudi Association of Certified Public Accountants (SOCPA) 	<ul style="list-style-type: none"> • Chief Financial Officer of Awqaf Sulaiman Bin Abdulaziz Al Rajhi Holding Company. • Director of Audit and Quality at Deloitte. • Assistant Director of Price Waterhouse Coopers. • Senior Auditor at KPMG • Auditor Assistant at Grant Thornton Co.
Mr. Ayman M. Almegham	General Manager at Integra International Almegham Chartered Accountants Office	Chief Financial Officer of Al Rajhi Real Estate Investments.	<ul style="list-style-type: none"> • Master of Accounting. • Bachelor of Accounting. • Saudi Fellowship of Certified Public Accountants (SOCPA). • American Fellowship of Certified Public Accountants (CPA) 	<ul style="list-style-type: none"> • Chief Financial Officer of Al Rajhi Real Estate Investments. • Audit Director of Deloitte & Touche.
Mr. Abdul Aziz I. Al-Nuwaiser	Chief Operating Officer – Tahakom Investment Co.	Vice President - Finance, Arabian Internet Services & Telecom Co. Ltd.	<ul style="list-style-type: none"> • Master of Accounting with two sub-specialties: Finance and Information Systems. • Bachelor degree in Accounting. • Many professional certificates in accounting, financial administration and auditing. 	Executive Partner and CEO of National Advisory House. He also worked as a lecturer in the accounting section at King Saud University in Riyadh.

C) Senior Executives

Name	Current Position	Previous Position	Qualifications	Experience
Mr. Abdulaziz H. Alboug	Chief Executive Officer (CEO) of The Company for Cooperative Insurance (Tawuniya)	Senior Vice President – Sales and Marketing, Tawuniya	<ul style="list-style-type: none"> • Master of Business Administration. • Bachelor of International Business Administration. • American Health Insurance Associate Certification. • Medical Underwriting Specialist Certification from the Chartered Insurance Institute, UK. • Many professional and specialized certificates in Insurance and management. 	Occupied a number of leading positions in Tawuniya.
Mr. Sultan S. Al-Khomashi	Senior Vice-President (SVP) – General Insurance, The Company for Cooperative Insurance (Tawuniya)	SVP-Technical, Tawuniya	<ul style="list-style-type: none"> • Master and Bachelor's degrees in Chemical Engineering. • Master in Insurance and Risk Management. • Advanced Diploma in Insurance (ACII). • Many professional and specialized certificates and training courses. 	Occupied a number of managerial positions in Tawuniya, particularly in Property and Casualty Insurance Division.
Mr. Abdullah A. Al-Arfaj	Chief Operating Officer (COO), The Company for Cooperative Insurance (Tawuniya)	Vice President- Medical Insurance and Takaful, Tawuniya	<ul style="list-style-type: none"> • Bachelor degree in Quantitative Methods. • Many professional and specialized certificates and training courses. 	Occupied a number of managerial positions in Tawuniya, particularly in Medical Insurance and Takaful sector. He is currently the Chairman of a number of committees in The Company as well as a member of the Board of Directors of Waseel Application Services Provider.
Mr. Adel A. Al-Hamoudi	Senior Vice President (SVP)- Sales and Marketing, The Company for Cooperative Insurance (Tawuniya).	Vice President- Key Accounts, Tawuniya	<ul style="list-style-type: none"> • Bachelor degree in Mass Communication. • Many professional and specialized certificates and training courses. 	Occupied a number of managerial positions in Tawuniya, particularly in the field of key accounts sales and western regional manager.
Mr. Fahad S. Al-Moammar	Senior Vice President (SVP)- Investment, The Company for Cooperative Insurance (Tawuniya).	Vice President- Investment, Tawuniya.	<ul style="list-style-type: none"> • Master degree in Finance. • Bachelor degree in Insurance and Real Estate. • Many professional and specialized certificates and training courses. 	Long experience in investment management, investment portfolios for banks and financial institutions.
Mr. Hisham F. Radwan	Senior Vice President (SVP)- Medical & Takaful, The Company for Cooperative Insurance (Tawuniya).	General Manager – Middle East & Africa, Aetna International Company	<ul style="list-style-type: none"> • Bachelor degree in Accounting. • A number of technical and managerial courses. 	Has wide experience in insurance particularly Medical Insurance.
Mr. Abdulrahman M. Al-Dokhayel	Vice President- Property and Casualty, The Company for Cooperative Insurance (Tawuniya).	General Manager- Reinsurance, Tawuniya	<ul style="list-style-type: none"> • Master degree in financial Services and insurance. • Bachelor degree in Financial Administration. • Many professional and specialized certificates and training courses. 	Occupied a number of managerial positions in Tawuniya, particularly in the field of reinsurance and technical support.
Mr. Mansoor F. Abuthnein	Vice President- Motor, The Company for Cooperative Insurance (Tawuniya).	General Manager- Customer Service, Tawuniya	<ul style="list-style-type: none"> • Bachelor degree in Information Systems. • Many professional and specialized certificates and training courses. 	Occupied a number of managerial positions in Tawuniya, particularly in the field of motor insurance and customer service.
Mr. Anwar S. Harahsheh	Vice President- Medical Underwriting & Performance, The Company for Cooperative Insurance (Tawuniya).	Executive Manager, Aetna International Company	<ul style="list-style-type: none"> • Master degree in Business Administration. • Many professional and specialized certificates and training courses. 	Has wide experience in insurance particularly Medical Insurance.
Mr. Majed A. Al-Bahiti	Vice President- Marketing & Communication, The Company for Cooperative Insurance (Tawuniya).	General Manager- Marketing & Communication, Tawuniya	<ul style="list-style-type: none"> • Bachelor degree in Marketing. • A number of technical and managerial courses. 	Wide experience in the art of marketing, innovation, creativity and communication strategies.
Eng. Mohammed H. Al-Quraisha	Vice President- Corporate & Key Accounts, The Company for Cooperative Insurance (Tawuniya).	General Manager - Corporate & Key Accounts, Tawuniya	<ul style="list-style-type: none"> • Master degree in Business Administration. • Bachelor degree in Industrial Engineering. • A number of technical and managerial courses. 	Wide experience in the corporate and key accounts sales.

7. Names of Companies within or outside the Kingdom in which a BOD Director is a Member of its Current and Previous Boards of Directors or is a Director therein:

Name of BOD Director	Names of the Companies in which the BOD director is a member of its current Boards or a director therein	Inside/ Outside the Kingdom of Saudi Arabia (KSA)	Legal Entity (Listed/ Unlisted Joint Stock Company, LLC/)	Names of the Companies in which the BOD director was a member of its previous Boards or a director therein	Inside/ Outside the Kingdom of Saudi Arabia (KSA)	Legal Entity (Listed / Unlisted Joint Stock Company, LLC/)
H.E. Mr. Soliman S. Al-Humayyd	BOD Chairman, United Insurance Company (Bahrain)	Outside KSA	Bahraini closed joint stock company	BOD member, Mohammed Abdulaziz Al-Rajhi Holding Company (2013-2015)	Inside KSA	Holding Company
	BOD member, Al-Faisliah Holding Group	Inside KSA	Holding Group	BOD Member and Executive Committee member – Saudi Arabian Mining Company (Maaden) (2008-2013)	Inside KSA	Joint Stock Company
Mr. Waleed A. Aleisa	BOD member, United Insurance Company (Bahrain)	Outside KSA	Bahraini closed joint stock company	BOD member, Riyad Bank (2010-2016)	Inside KSA	Joint Stock Company
	RAZA Company (affiliated to Raidah Investment Company)	Inside KSA	Joint Stock Company			
	Jabal Omar Development Company	Inside KSA	Joint Stock Company			
Mr. Ghassan A. Al-Malki	None			None		
Mr. Abdullah M. Al-Fayez	BOD member, United Insurance Company (Bahrain)	Outside KSA	Bahraini closed joint stock company	BOD member, Raidah Investment Company (2007-2015)	Inside KSA	Joint Stock Company
	BOD member, National Petrochemical Company (Petrochem)	Inside KSA	Joint Stock Company			
Mr. Abdulaziz A. Al Zaid	BOD member in Mohammed Abdulaziz Al-Rajhi & Sons Investment Company	Inside KSA	Closed Joint Stock Company	BOD member, DAEM Real Estate Investment (2013-2017)	Inside KSA	Joint Stock Company
				BOD member, Manafea Company (2016-2018)	Inside KSA	Closed Joint Stock Company
				BOD and Executive Committee member, National Commercial Bank (NCB)	Inside KSA	Joint Stock Company
				BOD member, SABIC (2012-2013)	Inside KSA	Joint Stock Company
				Chief of Managers Board, Granada Investment Center (2002-2013)	Inside KSA	Limited Liability Company
				BOD and Executive Committee member, National Company for Tourism (1989-1999)	Inside KSA	Joint Stock Company

Name of BOD Director	Names of the Companies in which the BOD director is a member of its current Boards or a director therein	Inside/ Outside the Kingdom of Saudi Arabia (KSA)	Legal Entity (Listed/ Unlisted Joint Stock Company, LLC/)	Names of the Companies in which the BOD director was a member of its previous Boards or a director therein	Inside/ Outside the Kingdom of Saudi Arabia (KSA)	Legal Entity (Listed / Unlisted Joint Stock Company, LLC/)
Mr. Abdulaziz A. Al Zaid (cont.)				BOD and Executive Committee member, Al-Ahsa Medical Services (1996-1999)	Inside KSA	Joint Stock Company
				BOD and Executive Committee chairman, NCB Capital, (2013-2015)	Inside KSA	Joint Stock Company
				BOD member, Qassim Cement Company up to 31/12/2018	Inside KSA	Joint Stock Company
Mr. Abdul Aziz I. Al-Nuwaiser	Founder and BOD member of the House of National Consulting Company	Inside KSA	Limited Liability Company	BOD Chairman, The Saudi Tourism Development Company (2009-2011)	Inside KSA	Limited Liability Company
	BOD member, Al-Hamaid and Al-Nemr Consulting Company	Inside KSA	Professional Company	CEO, House of National Consulting Company (2010-2014)	Inside KSA	Limited Liability Company
	BOD member, Entertainment Company for Development and Investment	Inside KSA	Unlisted Joint Stock Company	CFO and Administrative Manager Al-Elm Information Security Company (2003-2005)	Inside KSA	
	BOD Member, Tahakom Investment Co.	Inside KSA	Closed Joint Stock Company	Vice President - Finance at Abdullah Al Othaim Investment & Real Estate Development Company (2014-2016)	Inside KSA	
	BOD member, Maharah Human Resources Company	Inside KSA	Closed Joint Stock Company	Vice President – Finance and consultant for Mergers and Acquisitions Program in the Arabian Internet Services & Telecom Co. Ltd. (2016-2018)	Inside KSA	
Mr. Raed A. Al-Tamimi	BOD member, Al-Rajhi Bank	Inside KSA	Joint Stock Company	BOD member, United Insurance Company (Bahrain) (2014-2015)	Outside KSA	Bahraini closed joint stock company
	BOD member, Najm Insurance Services Company	Inside KSA	Joint Stock Company	BOD member, Cooperative Real Estate Investment Company (2011-2013)	Inside KSA	Limited Liability Company
	BOD member, CARE Company	Inside KSA	Joint Stock Company	BOD member, Waseel Application Services Provider, up to Oct. 2018	Inside KSA	Joint Stock Company
				Chairman of the General Committee of Insurance Companies Managing Directors	Inside KSA	Professional Committee
				Chief Executive Officer (CEO) of CARE (2017-2018)	Inside KSA	Saudi Joint Stock Company
Mr. Abdulaziz A. Alkhamis	Vice Chairman, Saudi Investment Bank	Inside KSA	Joint Stock Company	BOD member, National Petrochemical Company (2007-2016)	Inside KSA	Joint Stock Company
	BOD member, United Insurance Company (Bahrain)	Outside KSA	Bahraini closed joint stock company	BOD member, Saudi Petrochemical Company (2010-2016)	Inside KSA	Joint Stock Company
Mr. Jaser A. Aljaser	BOD member, Saudi Industries Development Company	Inside KSA	Joint Stock Company	None		

8. Formation of the Board of Directors, the Classification of its Members as Follows: Executive, Non-Executive and Independent:

Below is the formation of the Board of Directors and the classification of directors according to the Saudi Arabia Monetary Authority. Noting that no director of the Company's Board of Directors occupies any executive position in Tawuniya:

Member Name and the entity such director represents	Members Classification (Executive/ Non-Executive/ Independent)
H.E. Mr. Soliman S. Al-Humayyd Chairman	Non-Executive
Mr. Waleed A. Aleisa Vice Chairman	Independent
Mr. Ghassan A. Al-Malki Director (Representative of the General Organization for Social Insurance – GOSI)	Non-Executive
Mr. Abdullah M. Al-Fayez Director	Independent
Mr. Abdulaziz A. Al Zaid Director	Non-Executive
Mr. Abdul Aziz I. Al-Nuwaiser Director	Independent
Mr. Raeed A. Al-Tamimi Director	Non-Executive
Mr. Abdulaziz A. Alkhamis Director	Non-Executive
Mr. Jaser A. Aljaser Director (Representative of Public Pension Agency)	Independent

9. Actions Taken by the Board of Directors to Apprise its Members – Especially Non-Executive- with the Shareholders Proposals and their Remarks about The Company and its Overall Performance:

In the event of receiving any proposals or remarks from shareholders, the Board of Directors shall apprise its members, specifically the Non-Executive – with such suggestions and remarks by using the following means:

1. Meetings of the Board of Directors.
2. Meetings of Board Committees.
3. Meetings of the General Assembly.

10. A Brief Description of the Competences of the Committees and their Functions, along with the Names of Committees, their Chairmen, Members, Number of Meetings Held, Dates Of Meetings and Attendees per Each Meeting:

a) Executive Committee

Chairman and Members	Membership capacity	Classification
Soliman S. Al-Humayyd	Chairman	Non-executive
Waleed A. Aleisa	Member	Independent
Raeed A. Al Tamimi	Member	Non-executive
Abdulaziz H. Al-Boug	Member/ CEO	Not a Board member

Executive Committee Jurisdictions and Duties

- 1- Providing recommendations to the Board of Directors' (BOD) on strategic and operating plans, budgets, business plans and necessary actions required.
- 2- Making decisions about the issues delegated by the Board that are outside the scope of CEO's powers, including those issues related to capital expenditures and purchases within the limits delegated to the committee from the Board of Directors.

Attendance Record of Executive Committee Meetings

Number of meetings	Soliman S. Al-Humayyd	Waleed A. Aleisa	Raeed A. Al Tamimi	Abdulaziz H. Al-Boug
First: 06/02/2018	Attended	Attended	Attended	Attended
Second: 22/04/2018	Attended	Attended	Attended	Attended
Third: 03/06/2018	Attended	Attended	Attended	Attended
Fourth: 12/09/2018	Attended	Attended	Attended	Attended
Fifth: 12/11/2018	Attended	Attended	Attended	Absent
Sixth: 19/12/2018	Attended	Attended	Attended	Attended
Total	6	6	6	5

b) Remuneration and Nomination Committee

Chairman and Members	Membership capacity	Classification
Abdulaziz A. Al Zaid	Chairman	Non-executive
Ghassan A. Al-Malki	Member	Non-executive
Jaser A. Aljaser	Member	Independent
Abdullah M. Al-Fayez	Member	Independent

Remuneration and Nomination Committee Jurisdictions and Duties

- 1- To recommend to the Board of Directors nomination for membership of the Board of Directors and its committees, in accordance with the regulatory requirements, policies and standards adopted.
- 2- The annual revision required for the needs of the suitable skills for membership of the Board of Directors and its committees and preparing a description to the capabilities and qualifications required for membership of the Board and its committees and determine the time that needs to be devoted by the member to the work of the Board and / or its committees.
- 3- Assess the structure and composition of the Board and its committees, determine their vulnerabilities on a regular basis and propose the necessary steps to address them.
- 4- Assess and monitor the independence of the members of the Board and its committees and making sure there are no conflicts of interests, including ensuing, on an annual basis, the independence of Board independent members.
- 5- Develop clear policies for compensation and remuneration of the members of the Board of Directors and its committees and senior management.
- 6- Evaluate the performance of the Chairman and members of the Board of Directors and its committees.
- 7- Present recommendations with respect to the nomination and dismissal of the members of senior management.
- 8- Design the policy and procedures for succession to the CEO and members of senior management and monitoring the implementation of the succession plans and procedures.
- 9- Review the compensation plans of the members of senior management.
- 10- Supervise the induction program and training for members of the Board of Directors.
- 11- Submit recommendation to the Board on matters relating to nomination and remuneration.

Attendance Record of Remuneration and Nomination Committee Meetings

Number of meetings	Abdulaziz A. Al-Zaid	Ghassan Al-Malki	Jaser Aljaser	Abdullah Al-Fayez
First: 19/01/2018	Attended	Attended	Attended	Attended
Second: 19/04/2018	Attended	Attended	Attended	Attended
Third: 06/06/2018	Attended	Attended	Attended	Attended
Fourth: 11/09/2018	Attended	Attended	Attended	Attended
Fifth: 11/11/2018	Attended	Attended	Attended	Attended
Total	5	5	5	5

C) Audit Committee

Chairman and Members	Membership capacity	Classification
Turky A. Al -Luhaid	Chairman	Not a Board member
Mohammed Farhan Al-Nader	Member	Not a Board member
Abdulaziz I. Al-Nuwaiser	Member	Independent
Ayman M. Al-Muqhem	Member	Not a Board member

Audit Committee Jurisdictions and Duties

- 1- Present recommendations to Board Of Directors (BOD) to approve the nomination or re-nomination of the external auditors, and this includes ensuring that the external auditors have expertise necessary to perform the audit of the Company's business professionally.
- 2- Appoint and dismiss the chief compliance officer after obtaining "No Objection" in writing from SAMA.
- 3- Recommends to the Board for the nomination and dismissal of the chief internal auditor after obtaining "No Objection" in writing from SAMA.
- 4- Ensure the independence of the external auditors from the Company, Board members and senior management.
- 5- Ensure the independence of the Internal Audit Department or the internal auditor in the performance of their duties and verify the absence of any restrictions on their acts or the presence of any matter of negative impact on their acts.
- 6- Ensure the independence of Compliance Department or chief compliance officer in the performance of their duties and verify the absence of any restrictions on their acts or the presence of any matter of negative impact on their acts.
- 7- Discuss the annual and quarterly interim financial statements with the external auditors and senior management of The Company before they are issued.
- 8- Examine and review the annual and interim financial statements and recommend to the Board thereon.
- 9- Study the internal and external auditors' plan.
- 10- Study, approve and follow-up the implementation of compliance plan.
- 11- Study the important accounting policies, their procedures and changes that may be carried out on them.
- 12- Prepare a report on the Committee's opinion on the adequacy of internal controls system in The Company and the other work the Committee has performed within the scope of its jurisdiction. This report must be presented in Head Office of The Company before (10) days from the date of the General Assembly.
- 13- Coordinate between the internal and external auditors.
- 14- Examine the reports of external auditors and make recommendations thereon to the Board of Directors.
- 15- Review the reports of the Internal Audit Department or internal auditor and make recommendations thereon to the Board of Directors.
- 16- Review the reports of the Compliance Department and make recommendations thereon to the Board of Directors.
- 17- Study the reports issued by the regulatory and supervisory authorities or official regulator and make recommendations thereon to the Board of Directors.
- 18- Assess the level of efficiency, effectiveness and objectivity of the work of external auditors, Internal Audit Department or internal auditor, the Compliance Department or chief compliance officer.
- 19- Study the observations of SAMA and the relevant supervisory and regulatory authorities on any legal violations or requests for corrective measures and make recommendations thereon to the Board of Directors.
- 20- Study the evaluation of the internal and external auditors on the internal control procedures.
- 21- Study the processes among the entities of the group and operations with related parties.
- 22- Study the actuary reports and make recommendations thereon to the Board.
- 23- Ensure The Company's compliance with implementation of the proposals and recommendations of the actuary when they are compulsory under the regulations and instructions issued by SAMA and the relevant supervisory and regulatory authorities.
- 24- Follow-up the reports issued by SAMA and the relevant supervisory and regulatory authorities concerned and make recommendations thereon to the Board.
- 25- Determine the monthly salary, stimulating bonus and other awards for the Internal Audit Department or internal auditor in accordance with the internal regulations of The Company which are approved by the Board.
- 26- Determine the monthly salary, stimulating bonus and other awards for the Compliance Department or chief compliance officer in accordance with the internal regulations of The Company which are approved by the Board.
- 27- Ensure the availability of a written regulation on the rules of professional ethics and conduct after its approval by the Board to ensure that The Company's business activities are transacted in a fair and ethical manner.
- 28- Follow-up the important lawsuits filed by or versus The Company with the manager of Compliance Department or chief compliance officer, and submit periodic reports on them to the Board.
- 29- Ensure the optimal use of information technology and the availability of necessary controls to get accurate, authentic and reliable information and data.

Attendance Record of Audit Committee Meetings

Number of meetings	Turky Al-Luhaid	Abdulaziz I. Al-Nuwaiser	Mohammed Al-Nader	Ayman Al-Muqhem
First: 01/01/2018	Attended	Attended	Attended	Attended
Second: 08/01/2018	Attended	Attended	Attended	Attended
Third: 09/01/2018	Attended	Attended	Attended	Attended
Fourth: 10/01/2018	Attended	Attended	Attended	Attended
Fifth: 11/01/2018	Attended	Attended	Absent	Attended
Sixth: 14/01/2018	Attended	Attended	Attended	Attended
Seventh: 15/01/2018	Attended	Attended	Attended	Absent
Eighth: 21/01/2018	Attended	Attended	Attended	Attended
Ninth: 22/01/2018	Attended	Attended	Attended	Attended
Tenth: 28/1/2018	Attended	Attended	Attended	Absent
Eleventh: 08/03/2018	Attended	Attended	Attended	Attended
Twelfth: 12/03/2018	Attended	Attended	Absent	Attended
Thirteenth: 20/03/2018	Attended	Attended	Attended	Absent
Fourteenth: 24/03/2018	Attended	Attended	Attended	Attended
Fifteenth: 09/05/2018	Attended	Attended	Attended	Absent
Sixteenth: 28/05/2018	Attended	Attended	Attended	Attended
Seventeenth: 23/07/2018	Attended	Attended	Attended	Attended
Eighteenth: 30/07/2018	Attended	Attended	Absent	Attended
Nineteenth: 01/08/2018	Attended	Attended	Attended	Attended
Twentieth: 26/09/2018	Attended	Attended	Absent	Attended
Twenty first: 31/10/2018	Attended	Attended	Absent	Attended
Twenty second: 09/12/2018	Attended	Attended	Attended	Absent
Twenty third: 23/12/2018	Attended	Attended	Attended	Attended
Total	23	23	18	18

D) Investment Committee

Chairman and Members	Membership capacity	Classification
Abdulaziz A. Al -Khamees	Chairman	Non-executive
Abdulaziz A. Al Zaid	Member	Non-executive
Abdulaziz H. Al-Boug	Member/ CEO	Not a Board member

Investment Committee Jurisdictions and Duties

- 1- Review and approve the investment strategy and policies provided by the executive management.
- 2- Supervise the implementation of the investment strategy and policies and ensure strict compliance with them.
- 3- Review and evaluate the investment proposals that require the approval of the Committee and make decisions about The Company's investments in the limits of powers granted by the Board of Directors.
- 4- Nominate the investment managers outside the Kingdom and evaluate their services, terminate their duties and determine their fees.
- 5- Define the investment limits inside and outside the Kingdom in accordance with the Investment Regulation issued by SAMA.
- 6- Supervise the observance of investment limits in each investment tool.
- 7- Review and evaluate The Company's existing investments through the periodic reports on the same.
- 8- Inform the Board on its works, findings or decisions taken.

Attendance Record of Investment Committee Meetings

Number of meetings	Abdulaziz A. Al -Khamees	Abdulaziz A. Al Zaid	Abdulaziz H. Al-Boug
First : 25/01/2018	Attended	Attended	Attended
Second : 19/04/2018	Attended	Attended	Attended
Third : 03/06/2018	Attended	Attended	Attended
Fourth : 10/09/2018	Attended	Attended	Attended
Fifth : 11/11/2018	Attended	Attended	Attended
Total	5	5	5

E) Risk Committee

Chairman and Members	Membership capacity	Classification
Waleed A. Aleisa	Member	Independent
Raeed A. Al Tamimi	Member	Non-executive
Abdulaziz H. Al-Boug	Member/ CEO	Not a Board member

Risk Committee Jurisdictions and Duties

- 1- Identify the risks The Company may be exposed to and maintain a level of risk acceptable to The Company.
- 2- Supervise the risk management systems and assessing their effectiveness.
- 3- Design a comprehensive strategy for the management of The Company's risks, supervise the application of risk management, review and update such strategy periodically, taking into account the relevant internal and external changes.
- 4- Review the risk management policies.
- 5- Review and re-assess the level of risk acceptance by The Company and the extent of its exposure to risks periodically.
- 6- Present detailed reports to the Board on the potential risks and make recommendations on how to manage them.
- 7- Provide advice to the Board of Directors about the issues pertaining to risk management.

Attendance Record of Risk Committee Meetings

Number of meetings	Waleed A. Aleisa	Raeed A. Al Tamimi	Abdulaziz H. Al-Boug
First: 06/02/2018	Attended	Attended	Attended
Second: 22/04/2018	Attended	Attended	Attended
Third: 12/09/2018	Attended	Attended	Attended
Fourth: 19/12/2018	Attended	Attended	Attended
Total	4	4	4

11. The Means by Which the Board of Directors Relied on the Evaluation of its Performance and That of its Committees and Members:

The policy for assessing the performance of the Board members and committees has been adopted. The forms approved under this policy have been used as a means of evaluation.

12. Disclosure of Remuneration of Board Members and Executive Management as provided for in article (93) of the Corporate Governance Regulations:

Remuneration policy and method adopted to determine the remuneration of Board Members and Executive Management:

In accordance with Article No. (19) of The Company's Articles of Association, the minimum limit of the annual reward for the Board chairman and members is (SR 300,000) Three Hundred Thousand Saudi Riyal, and the maximum is (SR 500,000) Five Hundred Thousand Saudi Riyal against their membership in the Board and services they perform inclusive of additional rewards in case of any member participate in any of the committees related to the Board of Directors. If The Company achieves profits, a percentage equal to 10% of the net profit may be distributed after deducting provisions approved by the general assembly in accordance with the Law on Supervision of Cooperative Insurance Companies and after distributing the profits to Shareholders not lesser than 5% of The Company's paid-up Capital provided that such reward shall be as per the number of meetings attended by the member, and any otherwise contrary assessment shall be null and void.

In all cases, total remuneration annually paid to the member of the Board of Directors shall not exceed (SR 500,000) Five Hundred Thousand Saudi Riyal. Maximum limit for attending the session meetings and committees is (5,000 SR) Five Thousand Saudi Riyal for each session excluding travel expenses and residence. The Board members and chairman shall receive the actual costs they incur for attending the Board meetings or related committees meetings including travel expenses and other costs.

The Ordinary General Assembly of The Company held on 18/4/2018 approved the policy of remuneration and compensation for members of the Board of Directors and its related committees and the policy of remuneration and compensation for members of the Executive Management.

Note that this article of Company Articles of Association has been amended by adding an item "The Board of Directors shall determine the special remuneration of the Chairman of the Board for his work and responsibilities in this capacity, in addition to the remuneration paid to members of the Board. The special remuneration of the Chairman of the Board shall not be subject to the maximum limit for the annual remuneration adopted for the BOD members. The approval of the General Assembly and the regulatory authorities will be obtained before the award is paid".

The Relationship between the Remuneration Awarded and the Applicable Remuneration Policy

In granting the remuneration to the Board members, The Company adopts the contents set forth in Article (19) of the Articles of Association of The Company and in accordance with the policy of remuneration to the Board members and committees as well as the Executive Management, which has been approved by the Company's General Assembly.

Remuneration of the Board Members

(SR'000)

	Fixed Remuneration							Variable Remuneration							End of service award	Grand total	Expenditure allowance
	Fixed amount	Remuneration for Board meetings attended	Committee meetings attended	In-kind benefits	Amount for technical, administrative or consulting works	Remuneration of Chairman, managing director or BOD secretary, if he is a member	Total	Share in profits	Periodic Remuneration		Short-term incentive plans	Long-term incentive plans	Shares granted (value to be entered)	Total			
									(Committee membership)	(BOD Membership)							
First: Independent Members																	
Waleed A. Aleisa	0	27	30	0	0	0	57	0	100	300	0	0	0	400	0	457	13.51
Abdullah Al-Fayez	0	27	15	0	0	0	42	0	100	300	0	0	0	400	0	442	13.51
Abdul Aziz Al-Nuwaiser	0	24	40	0	0	0	64	0	100	300	0	0	0	400	0	464	13.51
Jaser Aljaser	0	27	15	0	0	0	42	0	100	300	0	0	0	400	0	442	13.51
Total	0	105	100	0	0	0	205	0	400	1200	0	0	0	1600	0	1805	54.04
Second : Non-executive Members																	
Soliman Al-Humayyd	0	27	18	0	0	420	465	0	100	300	0	0	0	400	0	865	13.51
Ghassan Al-Malki	0	27	15	0	0	0	42	0	100	300	0	0	0	400	0	442	13.51
Abdulaziz Al-Zaid	0	24	30	0	0	0	54	0	100	300	0	0	0	400	0	454	13.51
Raeed Al Tamimi	0	27	30	0	0	0	57	0	100	300	0	0	0	400	0	457	13.51
Abduaziz Al-Khamis	0	24	15	0	0	0	39	0	100	300	0	0	0	400	0	439	13.51
Total	0	129	108	0	0	420	657	0	500	1500	0	0	0	2000	0	2657	67.55
Third : Executive Members																	
None	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	0	234	208	0	0	420	862	0	900	2700	0	0	0	3600	0	4462	121.59

* The Board of Directors recommended to the General Assembly of the Company to approve the payment of an annual remuneration to the members of the Board of Directors at SR 300,000 per member for the fiscal year 2018, which is the minimum limit according to the Articles of Association. The Board also recommended the adoption of the payment of an annual remuneration for membership of the committees at SR 100,000 per member for the fiscal year 2018.

** Expenses allowance includes travel and residence expenses.

*** Like the Company personnel, BOD members are granted an insurance cover for home and private motor vehicles at reduced rates (up to two motor vehicles for each BOD member). Added to that, each BOD member obtains free medical insurance for him and his family members at the same benefits provided in the Medical Insurance Policy applicable to the Tawuniya employees.

Remunerations and Compensations of Senior Executives

(SR'000)

Description	Remuneration and compensations received by Five Senior Executives Including the CEO and CFO who received the highest remuneration and compensation
Salaries and compensation	6,513
Fixed Allowances	2,989
Variable Remunerations	1,681
Other Remunerations and Plans	2,506
Performance-linked Annual Remunerations	903
Total	14,592

Remuneration of the Board Committee members

(SR'000)

	Fixed Remuneration (excluding the meetings attending allowance)	Meetings attending allowance	Total
Executive Committee Members			
Soliman S. A. Al Humayyd	100	18	118
Waleed A. Al Eissa	100	18	118
Raeed A. Al Tamimi	100	18	118
Abdulaziz H. Alboug	100	15	115
Total	400	69	469
Audit Committee Members			
Abdulaziz Al Nowaiser	100	40	40
Turky Al-Luhaid	100	40	140
Mohammed Frahan Al-Nader	100	40	140
Ayman Al-Muqhem	100	40	140
Total	400	160	460
Remuneration and Nomination Committee Members			
Abdulaziz A. Al Zaid	100	15	115
Ghassan A. Al-Malki	100	15	115
Jaser A. Aljaser	100	15	115
Abdullah M. Al-Fayez	100	15	115
Total	400	60	460
Risk Committee Members			
Waleed A. Al Eissa	0	12	12
Raeed A. Al Tamimi	0	12	12
Abdulaziz H. Alboug	0	12	12
Total	0	36	36
Investment Committee Members			
Abdulaziz Al-Khamis	100	15	115
Abdulaziz A. Al Zaid	0	15	15
Abdulaziz H. Alboug	0	15	15
Total	100	45	145

13. Any penalty, punishment , precautionary measure or reserve restriction imposed on The Company by CMA or any supervisory, regulatory or judicial body, indicating the reasons of the violation, inflicting party and the ways of remedying it and avoiding its occurrence the future:

The Company for Cooperative Insurance (Tawuniya) acknowledges that there is no penalty, fine, precautionary measure or reserve restriction imposed on The Company by CMA or any supervisory, regulatory or judicial authority.

14. Results of the annual audit of the effectiveness of the internal control procedures of The Company, in addition to the opinion of the Audit Committee on the adequacy of internal control system in The Company

The Internal Audit Department of The Company has implemented the annual internal audit plan approved by the Audit Committee, and submitted the important audit observations to Senior Management and the Audit Committee. The Board of Directors reviewed the important observations made by the Audit Committee regarding the effectiveness of The Company's internal control procedures. The board then directed the Executive Management to prepare an action plan to implement and address all observations presented.

The Audit Committee believes that the Company's internal control system needs to develop some of its components and improve the risk control tools applied by Tawuniya to cope with the size of the company's business and requirements.

The executive management of the company discussed the observations of the internal audit committee, and explained that a corrective plan has been prepared. The audit committee will follow up the implementation of the corrective plan during 2019.

15. Recommendation of the Audit Committee on the need to appoint a chief internal auditor in The Company

The Audit Committee recommended to the Board of Directors the appointment of a chief internal auditor. He commenced his duties in December 2018. The Audit Committee also directed the internal audit department to hire an external consultant for providing a full risk assessment for all the company's departments in order to create a three-year audit plan. In addition, the Audit Committee requested the Chief Internal Auditor to undertake a comprehensive assessment of the Internal Audit Department, to submit recommendations for the development of the Department, and to strengthen it with the appropriate competencies to carry out the tasks assigned.

16. Recommendations of the Audit Committee, which have a conflict with the Board of Directors' decisions or which the Board has refused to adopt in respect of the nomination of The Company's external auditor, his dismissal, determination of his fees, evaluation of his performance or the appointment of the chief internal auditor and the reasons for not adopting them:

Not applicable.

17. Details of The Company's social contributions:

Tawuniya's Social Responsibility vision during 2018 has supported the voluntary participation of The Company employees. In this framework, the Company organized a number of donation campaigns, including blood donation in cooperation with King Faisal Specialist Hospital in Riyadh, donation of Ramadan Basket to needy families and donation of sacrifice inside and outside the Kingdom as well as winter clothing donation.

The Company has launched awareness campaigns focused on health and safety for specific categories, such as the campaign to raise awareness of pilgrims, and awareness campaign on diabetes and breast cancer in interaction with the World Health Days. In addition, the Company has organized a campaign to raise awareness on savings for developing personal investments, safe women car driving rules as well as self-development courses for the Company employees. Tawuniya has continued to support the Prince Fahad Bin Salman Charity Association for Renal Failure Patients Care (Kellana), which started in 2006 through the free administration of dialysis program. The Company also organized a leisure trip for the members of the Charity Committee for Orphans Care (Ensan).

18. A statement of the dates of the General Assembly meetings of shareholders held during 2018 and the names of the BOD members attended:

The Tawuniya General Assembly held one ordinary meeting on 18th April 2018. The following is the attendance record of the Board members for this meeting:

Name	Ordinary General Assembly Meeting Held on 18.4.2018
H.E. Mr. Soliman S. A. Al Humayyd	Attended
Mr. Waleed A. Al Eissa	Attended
Mr. Ghassan A. Al-Malki	Attended
Mr. Abdullah M. Al Fayez	Attended
Mr. Abdulaziz A. Al Zaid	Attended
Mr. Abdulaziz I. Al Nowaiser	Absent
Mr. Raed A. Al Tamimi	Attended
Mr. Abdulaziz A. Alkhamis	Attended
Mr. Jaser A. Aljaser	Attended

19. A description of main lines of business of The Company and its subsidiaries' business. If two or more lines of business activity are described, a statement of each activity and its impact on the size of The Company's business and its contribution to the results should be attached:

Description of the Principal Activities of Tawuniya

The Company is composed of three strategic business units based on its products and services and has three operating segments divided as follows:

- 1- Medical insurance: providing coverage for healthcare insurance,
- 2- Motor insurance: providing third party liability and comprehensive motor vehicles insurance.
- 3- Property and Casualty insurance: which includes coverage for property, engineering, marine, aviation, energy and general accidents insurance.

In addition, The Company is operating the compulsory third party liability insurance for foreign vehicles (Manafeth). It is a joint activity with other motor insurance companies.

The following table shows the results of operating segments and their contribution to The Company's business for the fiscal year of 2018:

(SR'000)

Business Activity	Revenues	Percentage
Medical insurance and Takaful	5,756,882	75%
Motor insurance	672,110	9%
Property and Casualty insurance	1,068,268	14%
Outpost (Manafeth) insurance	143,985	2%
Total	7,641,245	100%

Description of the Subsidiary Companies' Main Business Activities

(SR'000)

Subsidiary Company name	Main business activity	Revenues	Percentage
United Insurance Company	Motor insurance	90,915	100%
Najm Insurance Services Company	Determines the responsibility of parties involved in motor accidents	279,981	100%
Waseel Application Services Provider	Information applications and website development	26,969	100%

Note: The revenues of the United Insurance Company were calculated as of 30 November 2018, Waseel's revenues as of 30 September 2018, and the revenues of Najm as of 30 September 2018.

20. Information on Surrounding Risks Facing the Company (Whether Operational, Financing or Market Risks), and the Risk Management and Control Policy

a) Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk The Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims; actual benefits paid being greater than originally estimated and subsequent development of long-term claims.

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

b) Reinsurance Risk

In order to minimize financial exposure arising from large claims, The Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes. To minimize its exposure to significant losses from reinsurer insolvencies, The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

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

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

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance of the reinsurers, wherever applicable, are thoroughly reviewed by The Company and agreed to pre-set requirements of The Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business. Reinsurance ceded contracts do not relieve The Company from its obligations to policyholders and as a result The Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

c) Market Risk

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

Market risk comprises of three types of risk:

- **Currency Risk:** Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Arabian Riyals and US Dollar. Management monitors the fluctuations in currency exchange rates, acts accordingly, and believes that the foreign currency risk is not significant.
- **Commission Rate Risk:** Commission rate risk is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates and by investing in floating rate instruments.
- **Other price risks:** Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from commission rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

d) Credit Risk

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

e) Liquidity Risk

Liquidity risk is the risk that The Company will encounter difficulty in raising funds to meet obligations and commitments associated with financial liabilities. The Company has a proper cash management system, where daily cash collections and payments are strictly monitored and reconciled on regular basis. The Company manages liquidity risk by maintaining maturities of financial assets and financial liabilities and investing in liquid financial assets. To manage the liquidity risk arising from financial liabilities mentioned above, The Company holds liquid assets comprising cash and cash equivalents and investment securities. These assets can be readily sold to meet liquidity requirements.

f) Operational Risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting The Company's operations either internally within The Company or externally at The Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of The Company's activities. The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

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

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

g) Competition in the Market Putting Pressure on Prices

Pricing is one of the vital factors for capturing the market along with customer centric services. The products need to be competitively priced by having effective operations and monitoring the loss ratios tightly.

h) Maintaining solvency & capital requirements

Not meeting these requirements may attract regulatory sanctions and may result in rating downgrade, which is not good for the Company

i) Maintaining the operating standards in the light of business expansion

When the business expands, it is a challenge to maintain the operating standards to differentiate in the market and to retain the clientele.

j) Company's business portfolio skewed towards Medical line of business

Though it is in line with the industry, considering the lion's share of Medical portfolio, a small change in the portfolio may have impact on the Company's performance.

k) Flexibility of The Company's Processes and Systems

The infrastructure & the processes adopted need to cope up with the demands of the business growth and changing market practices, otherwise business may suffer.

l) Risk Concentration

Accumulation of risk in a certain place or area exposes The Company to grave losses in case of occurrences. Therefore, The Company monitors concentration of insurance risks primarily by class of business whether in specific geographical location or certain area. The major concentration lies in medical segment. The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighboring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to The Company.

m) High Staff Turnover

Besides increasing the cost of recruitment & training, it will adversely affect the operational efficiency and in turn the customer service.

n) Leakage of Sensitive Information

Leakage of business sensitive information may put The Company in disadvantageous position and also may expose The Company to reputational loss. The Company designed the policies and procedures which clearly define the sensitive information and how to handle to ensure information protection and prevent such leakage.

o) Frauds and Financial Crimes

Frauds/Abuse in financial operations, claims operations, sales etc. may strain The Company's bottom line. Therefore, The Company designed a set of appropriate policies and procedures to mitigate the suspicious cases and detect fraudulent activities.

p) Breaching of Laws and Regulations

Breaching the regulations - issued by the supervisory and regulatory authorities such Capital Market Authority (CMA) Saudi Arabian Monetary Authority (SAMA) and the Council of Cooperative Health Insurance (CCHI) - may attract imposition of penalties which in turn may affect reputation of The Company. Thus, The Company endeavours to update its policies and by-laws and implement its transactions in line with the laws and regulations issued by the regulatory authorities.

q) Geopolitical Situations Impacting The Company's Insurance Contracts and Investments

Geopolitical situations may affect the insurance contracts more particularly of P&C lines, reinsurance arrangements and the investments. However, The Company monitors these situations closely and designs the appropriate precaution policies.

r) Changing Regulatory, Legal, and Behavioural Environment Affecting the Company Performance

This may put The Company at the disadvantageous position due to additional costs required to incur to meet the requirements.

s) Services Outage Due to Potential Attacks

The availability of systems and services may be at risk due cyber-attacks, virus and malware attacks. To avoid such exposures, The Company continuously upgrades the effective protective systems that ensure deterring such attacks and maintain business continuity and unceasing provision of service.

Tawuniya Risk Management Policy

A Well-Established Risk Management Structure Aims to:

- Recognized the importance of Risk Management way back and embedded risk culture in its operations by implementing several risk management assessment programs/methodologies.
- Has dedicated and independent Risk Management Function.
- Established a Board Risk Management Committee to enhance the effectiveness of Enterprise Risk Management.

Well established Risk Management processes for:

- Ensuring operations within the Company's risk appetite by implementing Risk Appetite Framework.
- Regular monitoring of regulatory solvency position and capital position as per rating agency capital model.
- Updating the risk profiles of critical entities periodically and continuous monitoring of the profiles as a part of Control & Risk Self-Assessment.
- Monitoring of adequacy of technical reserves, underwriting practices etc.
- Devising required controls to mitigate the identified risks.
- Review of policies and procedures and aligning them with applicable legal, regulatory, and control provisions.

The Future Challenges and Risks:

- Maintaining the target growth.
- Meeting the new regulatory requirements.
- Aligning the operations to new information technology trends and managing information technology risks.
- Achieving the strategic objectives initiated by the Company.

21. Summary in a form of a Table or a Diagram to The Company's Assets, Liabilities and Results of its Business Operations for the Last Five Years or Since its Incorporation, Whichever is Shorter

Comparison of Business Results for the Last Five Financial Years, 2014 – 2018					(In SR million)
Description	2018	2017	2016	2015	2014
Gross written premiums	7,641	8,407	8,055	7,545	6,208
Total revenues	7,188	7,432	7,001	5,804	5,005
Gross claims paid	7,820	6,690	5,328	4,999	4,672
Total costs and expenses	7,669	8,052	6,325	4,342	4,536
Operating (deficit)/ surplus	(455)	(590)	676	462	426
(Deficit)/ Surplus from Insurance operations	(427)	(368)	767	533	469
(Loss)/ income from shareholders operations, net	(213)	(147)	801	642	602

Comparison between Assets and Liabilities for the Last Five Years 2014-2018

Description	2018	2017	2016	2015	2014
Assets – insurance operations	10,474,958	10,211,815	10,361,822	9,478,721	7,684,918
Assets – shareholders' operations	2,152,620	2,458,494	3,135,733	2,468,506	2,253,588
Total assets	12,627,578	12,670,309	13,497,555	11,947,227	9,965,342
Liabilities and surplus – insurance operations	10,474,958	10,211,815	10,361,822	9,478,721	7,684,918
Liabilities and equity – shareholders' operations	2,152,620	2,458,494	3,135,733	2,468,506	2,253,588
Total liabilities	12,627,578	12,670,309	13,497,555	11,947,227	9,965,342

22. Geographical Analysis to the Total Revenues of The Company and its Subsidiaries:

A. Geographical Analysis of Tawuniya Gross Written Premiums in 2018

The Gross Written Premiums had reached SR 7,641 million in 2018, compared to SR 8,407 million in 2017 realizing a decline rate of 9.1%. The Company's business is mainly conducted in Saudi Arabia and has acquired all premiums from clients inside the Kingdom. The following table shows the distribution of gross written premiums in the regions of Saudi Arabia in 2018.

		(In SR million)
Region	Gross Written Premiums	
Central Region and Head Office	5,034	
Western Region	1,608	
Eastern Region	962	
Other regions	37	
Total	7,641	

B. Geographical analysis to the total revenues of Associate Companies in 2018

				(In SR '000)
Associate Company	Revenues inside the Kingdom	Revenues outside the Kingdom (Bahrain)	Total Revenues	
United Insurance Company	-	90,915	90,915	
Waseel Application Services Provider	26,969	-	26,969	
Najm Insurance Services Company	279,981	-	279,981	

Note: Revenues of the United Insurance Company as of 30 November 2018, revenues of the Waseel Application Services Provider as of 30 September 2018 and revenues of the Najm Insurance Services Company as of 30 September 2018.

23. Clarification of any Significant Differences in Operating Results of the Previous Years or Any Projections Announced by The Company:

(In SR million)

Description	2018	2017	Variable value	Change %
Gross written premiums (GWP)	7,641	8,407	(766)	-9.12%
Net earned premiums (NEP)	7,066	7,303	(237)	-3.25%
Total operating revenues	7,188	7,432	(244)	-3.29%
Gross claims paid	7,820	6,690	1,130	16.89%
Net claims incurred	6,572	6,814	(242)	-3.56%
Total cost and expenses	7,669	8,052	(383)	-4.76%
Surplus (deficit) from insurance operations less the return on policyholders' investments (operations results)	(455)	(590)	135	-22.89%
Policyholders' Investment income, net	28	222	(194)	-87.39%
(Deficit)/ Surplus from Insurance operations	(427)	(368)	(58)	16.04%
Shareholders' appropriation from surplus/ deficit	(427)	(368)	(58)	16.04%
Shareholders' Investment income, net	218	227	(9)	-3.97%
(Loss)/ income from operations before Zakat	(213)	(147)	(66)	44.9%
Earnings (loss) per share after Zakat (in SR)	(1.71)	(1.17)	-	-

24. Clarification of Any Deviation from the Accounting Standards Adopted by the Saudi Organization for Certified Public Accountants (SOCPA)

As per the request of the Saudi Arabian Monetary Authority (SAMA), and effective from 1st of January, 2009 The Company has adapted its financial statements to be fully compliant with the International Financial Reporting Standards (IFRS) instead of those issued by the Saudi Organization for Certified Public Accountants (SOCPA). With reference to the plan for the transformation to the International Financial Reporting Standards adopted by the Board of Directors of the Saudi Organization for Certified Public Accountants (SOCPA) to comply with the International Financial Reporting Standards for the listed companies as of 1/1/2017, the Capital Market Authority (CMA) has required the companies listed in the market (Tadawul) to apply IFRS on that date. In this respect, the Saudi Arabian Monetary Authority issued the Circular No. 381000074519 dated 14 Rajab 1438H (corresponding to 11 April 2017) and subsequent amendments through certain clarifications relating to the calculation of Zakat and Income Tax. The effect of these amendments on Zakat and Income Tax is reflected in the statement of changes in shareholders' equity with the same amount entered in the statement of financial position. Accordingly, the financial information of The Company has been prepared using IAS 34 and SAMA's instructions to calculate Zakat and Income Tax. There is no reservation or attention indicated by the external auditor.

25. The Name of Each Associate Company, Its Capital, the Percentage of Tawuniya's Shares Acquired, Its Business Activity, Its Country of Place of Business and Country of Incorporation

Associate Company Name	Paid-up Capital	Tawuniya's Share Acquired %	Main Business Activity	Country of Place of Business	Country of Incorporation
Najm Insurance Services Company	55,769,320 Saudi Riyal	3.44%	Determining the responsibility of parties involved in motor accidents	Saudi Arabia	Saudi Arabia
United Insurance Company	5,000,000 Bahraini Dinar	50%	Motor insurance	Bahrain	Bahrain
Waseel Application Services Provider	24,000,000 Saudi Riyal	45%	Information systems and upgrade of websites	Saudi Arabia	Saudi Arabia

26. Details of Shares and Debt Instruments Issued for Each Associate Company

Company Name	Number of Shares	Debt instruments
Najm Insurance Services Company	5,576,932	-
United Insurance Company	5,000,000	-
Waseel Application Services Provider	24,000,000	-

27. A Description of the Company's Dividend Distribution Policy

The Board of Directors recommends to the General Assembly the proposed distributions, taking into consideration several factors, the most important of which are:

- Maintain a rate of at least 100% of the financial solvency required in accordance with the rules of insurance practice.
- Maintaining a high credit rating commensurate with the Kingdom's premier credit rating.
- Maintain an acceptable liquidity rate to meet the operational and expansion requirements.

The dividend distribution mechanism is determined in accordance with Articles (44), (45) and (46) of the Amended Articles of Association of The Company. Distribution shall be in accordance with the regulations issued by the Saudi Arabian Monetary Authority and according to the following rules:

- Net surplus distribution shall be done by distributing 10% for the insured either directly or by rebate of their following year premiums and forwarding of 90% to the Shareholders' income statement.

The shareholders' profits consist of the return on the investment of the shareholders' equity in accordance with the rules established by the Board of Directors and the shareholders' share of the net surplus as set out above. The distribution rules of dividends to shareholders are determined as follows:

- 1) To set aside the sums of Zakat and income tax.
- 2) To set aside 20% of the net profits to build up the statutory reserve of The Company. The Ordinary General Assembly may resolve to stop such step aside when the said reserve amounts reach (100%) of the paid up Capital.
- 3) The ordinary General Assembly may, in determining the dividend out of the net profits, resolve to create other reserves to the extent that it serves the interests of The Company or ensures the distribution of fixed profits as much as possible to the Shareholders.

The shareholder shall be entitled to his share in the profits as per the General Assembly resolution issued in this respect; such resolution shall show the due date and distribution date. Shareholders registered in the Shareholders register shall be eligible to profits at the end of the day specified for eligibility. The Company shall notify the Capital Market Authority – without delay – about any decision or recommendation for profits distribution. The profits shall be paid to Shareholders at the place and times specified by the Board of Directors in accordance with the instructions issued by the competent authority and subject to the prior written approval of the Saudi Arabian Monetary Authority.

The Company distributes annual dividends to Shareholders and no dividends are distributed during the year. The Board of Directors of The Company recommended not distributing dividends to the Shareholders of The Company for fiscal year 2018.

Year	Percentage of profits distributed during 2018	Proportion of profits proposed for distribution at the end of 2018	Total Profits
2018	0	0	0

28. A description of any interest in the class of voting shares belonging to persons (other than The Company's Board directors, senior executives and their relatives) notified The Company of such rights under Article "45" of the Registration and Listing Rules and any change in those rights during the financial year 2018:

There have been no changes in the ownership ratios of the major shareholders who own 5% or more which necessitates the shareholders to inform The Company or the CMA accordingly.

29. A Description of Interest, Contractual Securities and Subscription Rights of The Company's Directors, The Company's Senior Executives and their Relatives in the Shares or Debt Instruments of The Company or any of its Subsidiaries and any Changes in such Interest or Rights during the Financial Year 2018:

A Description of Interest, Contractual Securities and Subscription Rights of members of the Company's Board of Directors and their Relatives in the Shares or Debt Instruments of The Company

Serial No.	Name of person to whom interest is accrued	Beginning of the Year		Closing of the Year		Net Change	Change Ratio
		No. of Shares	No. of Debt Instruments	No. of Shares	No. of Debt Instruments		
1	Soliman S. Al-Humayyd	203,640	--	203,640	--	00	00%
2	Waleed A. Aleisa	111	--	111	--	00	00%
3	Ghassan A. Al-Malki	0	--	0	--	--	--
4	Abdullah M. Al-Fayez	15,000	--	15,000	--	00	00%
5	Abdulaziz A. Al-Zaid	26,250	--	26,250	--	00	00%
6	Abdulaziz I. Al-Nuwaier	250	--	250	--	00	00%
7	Raeed A. Al-Tamimi	1,250	--	1,250	--	00	00%
8	Abdulaziz A. Alkhamis	1,250	--	1,250	--	00	00%
9	Jaser A. Aljaser	0	--	0	--	--	--

* Family ownership is included.

A Description of Interest, Contractual Securities and Subscription Rights of The Company's Senior Executives and their Relatives in the Shares or Debt Instruments of The Company

Serial No.	Name of Person to Whom Interest is Accrued	Beginning of the Year		Closing of the Year		Net Change	Change Ratio
		No. of Shares	No. of Debt Instruments	No. of Shares	No. of Debt Instruments		
1	Abdulaziz H. Al Boug	00	--	00	--	00	--
2	Sultan S. Al Khomashi	00	--	00	--	00	--
3	Abdullah A. Al Arfaj	00	--	00	--	00	--
4	Adel A. Al-Hamoudi	00	--	00	--	00	--
5	Fahad S. Al Moammar	00	--	00	--	00	--
6	Hisham Fayez Radwan	00	--	00	--	00	--
7	Abdul Rahman Al Dokhayel	00	--	00	--	00	--
8	Mansoor Abuthnein	00	--	00	--	00	--
9	Anwar Saud Harahsheh	00	--	00	--	00	--
10	Mejed Ahmed Al-Behaiti	00	--	00	--	00	--
11	Mohamed Hamad Quraisha	00	--	00	--	00	--

A Description of Interest, Contractual Securities and Subscription Rights of The Company's Directors, and their Relatives in the Shares or Debt Instruments of The Company's Subsidiaries.

Serial No.	Name of person to whom interest is accrued	Beginning of the Year		Closing of the Year		Net Change	Change Ratio
		No. of Shares	No. of Debt Instruments	No. of Shares	No. of Debt Instruments		
1	Soliman S. Al-Humayyd	00	--	00	--	00	--
2	Waleed A. Aleisa	00	--	00	--	00	--
3	Ghassan A. Al-Malki	00	--	00	--	00	--
4	Abdullah M. Al-Fayez	00	--	00	--	00	--
5	Abdulaziz A. Al-Zaid	00	--	00	--	00	--
6	Abdulaziz I. Al-Nuwaizer	00	--	00	--	00	--
7	Raeed A. Al-Tamimi	00	--	00	--	00	--
8	Abdulaziz A. Alkhamis	00	--	00	--	00	--
9	Jaser A. Aljaser	00	--	00	--	00	--

A Description of Interest, Contractual Securities and Subscription Rights of The Company's Senior Executives and Their Relatives in the Shares or Debt Instruments of The Company's Subsidiaries

Serial No.	Name of Person to Whom Interest is Accrued	Beginning of the Year		Closing of the Year		Net Change	Change Ratio
		No. of Shares	No. of Debt Instruments	No. of Shares	No. of Debt Instruments		
1	Abdulaziz H. Al Boug	00	--	00	--	00	--
2	Sultan S. Al Khomashi	00	--	00	--	00	--
3	Abdullah A. Al Arfaj	00	--	00	--	00	--
4	Adel A. Al-Hamoudi	00	--	00	--	00	--
5	Fahad S. Al Moammar	00	--	00	--	00	--
6	Hesham Fayez Ali Redwan	00	--	00	--	00	--
7	Abdul Rahman M. Al Dokhayel	00	--	00	--	00	--
8	Mansoor Abuthnein	00	--	00	--	00	--
9	Anwar Saud Harahsheh	00	--	00	--	00	--
10	Mejed Ahmed Al-Behaiti	00	--	00	--	00	--
11	Mohamed H. Quraisha	00	--	00	--	00	--

30. Information relating to any loans to The Company (whether payable on demand or otherwise), disclosure of the total indebtedness of The Company and its subsidiaries, any amounts paid by The Company for the repayment of loans during the year, loan amount, shares of issuing entity, loan duration and remaining amount:

Tawuniya declares that there are no loans to The Company during 2018 (whether payable on demand or otherwise).

31. A description of the classes and numbers of any convertible debt instruments, contractual securities, options, warrants or similar rights issued or granted by The Company during the fiscal year 2018, indicating any consideration received by The Company against this:

Tawuniya declares that there are no convertible debt instruments, contractual securities, options, warrants or similar rights issued or granted by The Company during 2018, and there is no consideration received by The Company against this.

32. A description of any conversion or subscription rights under any convertible debt instruments, contractual securities, options, warrants or similar rights issued or granted by The Company during 2018.

Tawuniya declares that there are no conversion or subscription rights under any convertible debt instruments, contractual securities, options, warrants or similar rights issued or granted by The Company during 2018.

33. A description of any redemption, purchase or cancellation by The Company of any redeemable debt instruments and the amount of such securities outstanding, distinguishing between the listed securities purchased by The Company and those purchased by its subsidiaries.

Tawuniya declares that it has not made no redemption, purchase, or cancellation by The Company of any redeemable debt instruments or the amount of such securities outstanding, whether bought by The Company or its subsidiaries during the fiscal year 2018.

34. The number of meetings of the Board of Directors held during 2018, the dates of the meeting, the attendance record of each meeting and the names of the attendees.

No. of meetings	Soliman Al Humayyd	Waleed Aleisa	Abdul Aziz Alkhamis	Jaser Al-Jaser	Abdullah Al-Fayez	Raeed Al-Tamim	Abdulaziz Al-Zaid	Ghassan Al-Malki	Abdul Aziz Al-Nuwaiser
1st Meeting 7/1/2018	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
2nd Meeting 7/2/2018	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Absent
3rd Meeting 13/2/2018	Attended	Attended	Absent	Attended	Attended	Attended	Absent	Attended	Attended
4th Meeting 23/4/2018	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
5th Meeting 4/6/2018	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
6th Meeting 13/9/2018	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
7th Meeting 13/11/2018	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
8th Meeting 5/12/2018	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
9th Meeting 27/12/2018	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Total	9	9	8	9	9	9	8	9	8

35. Number of Applications by the Company for the Shareholders Register, their Dates and Reasons

No. of Applications to the Shareholders Register	Application Date	Application Reasons
1	01/01/2018	Corporate procedures
2	13/03/2018	Corporate procedures
3	13/03/2018	Corporate procedures
4	13/03/2018	Corporate procedures
5	30/07/2018	Corporate procedures
6	15/08/2018	Corporate procedures
7	13/11/2018	Corporate procedures

36. Description of any transaction between The Company and related parties

Related party	Relation with The Company	Contract Type	Contract Duration	Amount (SR)
Al-Faislaih Holding Group	Joint BOD membership for H.E. Mr. Soliman AL-Humayyd	Insurance policies	One Gregorian Year	23,772,877
United Insurance Company (Bahrain)	Joint BOD membership for <ul style="list-style-type: none"> H.E. Mr. Soliman AL-Humayyd Mr. Waleed Aleisa Mr. Abdullah Al-Fayez Mr. Abdulaziz Al-Khamis Mr. Abdulaziz Al-Boug 	Policy issuing fees Claims	One Gregorian Year One Gregorian Year	There is no specific amount for the contract, but determined as per transactions
Jabal Omar Company	Joint BOD membership for Mr. Waleed Aleisa	Insurance policies	One Gregorian Year	13,274,350
Raidah Investment Company (His membership ended in 2018)	Joint BOD membership for Mr. Waleed Aleisa	Insurance policies	One Gregorian Year	117,067
Qassim Cement Company (His membership ended in 2018)	Joint BOD membership for Mr. Abdulaziz Al-Zaid	Insurance policies	One Gregorian Year	1,411,428
National Commercial Bank (NCB) (His membership ended in 2018)	Joint BOD membership for Mr. Abdulaziz Al-Zaid	Motor Insurance Policies.	One Gregorian Year	There is no specific amount for the contract, but determined as per transactions.
		Insurance policies	One Gregorian Year	2,524,591
Najm Insurance Services Company	Joint BOD membership for Mr. Raaed Al-Tamimi	Insurance policies	One Gregorian Year	12,202,562
		Claim management fees	One Gregorian Year	There is no specific amount for the contract, but determined as per transactions.
Waseel Application Services Provider	Joint BOD membership for <ul style="list-style-type: none"> Mr. Raaed Al-Tamimi (His membership ended in 2018) Mr. Abdulaziz Al-Boug 	Insurance policies	One Gregorian Year	884,002
		Claim management fees	One Gregorian Year	There is no specific amount for the contract, but determined as per transactions.
National Medical Care Company (CARE) and its medical centers	Joint BOD membership for <ul style="list-style-type: none"> Mr. Raaed Al-Tamimi Mr. Ghassan Al-Malki 	Insurance policies	One Gregorian Year	13,734,105
		Claim paid for proving healthcare services	One Gregorian Year	There is no specific amount for the contract, but determined as per transactions.
General Organization for Social Insurance	Joint BOD membership for Mr. Ghassan Al-Malki	Insurance policies	One Gregorian Year	26,517,330
		Providing services	One Gregorian Year	117,664
The Cooperative Real Estate Investment Company	Joint BOD membership for Mr. Ghassan Al-Malki	Lease contract	One Gregorian Year	467,600
The Public Pension Agency	Joint BOD membership for Mr. Jasser Al-Jasser	Insurance policies	One Gregorian Year	15,281,840
National Petrochemical Company (Petrochem)	Joint BOD membership for Mr. Abdullah Al-Fayez	Insurance policies	One Gregorian Year	74,392
The Saudi Investment Bank	Joint BOD membership for Mr. Abdulaziz Al-Khamis	Insurance policies	One Gregorian year	25,159,819
Development and Investment Entertainment Company	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	696,400
Saudi Technology and Security Comprehensive Control Co. (Tahakom)	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	23,796,809
Management Support Company Ltd.	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	137,794
Infinity Support Services	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	956,288
Alpha Star Aviation Services	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	6,364,410
Tawari for Information Technology Limited	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	156,112
Sky Prime Aviation Services	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	There is no specific amount for the contract, but determined as per transactions.
Technology Control Company LTD (TCC)	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	6,716,845
Kafaat Business Solutions LTD	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	17,207,668
Arabian Internet and Communications Services Company (His membership ended in 2018)	Joint BOD membership for Mr. Abdulaziz Al-Nuwaier	Insurance policies	One Gregorian year	3,901,871

37. Information related to any business or contracts to which The Company is a party, in which there is an interest of for a member of the Board of Directors of The Company, its senior executives or for any person related to any of them, including the names of the persons involved in such business or contracts, the nature, terms and condition, duration and amount of such business or contracts. If there are no business or contracts, The Company shall submit a declaration in this regard.

Name of Company/ related party	Nature of Business/ Contract	Volume of transactions during the year from 1 January 2018 to 31 December 2018 (SR)	Business/ contract amount (SR)	Business/ contract duration	Business/ contract conditions	Name of stakeholder (BOD director/ senior executives)
Al-Faislaih Holding Group	Insurance policies	34,455,288	23,772,877	One Gregorian year	According to SAMA regulations without preferential advantages	H.E. Mr. Soliman Al-Humayyd
United Insurance Company	Fees of Insurance policies	1,968,024	There is no specific amount for the contract, but determined as per transactions	One Gregorian year	According to SAMA regulations without preferential advantages	<ul style="list-style-type: none"> • H.E. Mr. Soliman Al-Humayyd • Mr. Waleed A. Aleisa • Mr. Abdullah M. Al-Fayez • Mr. Abdulaziz A. Alkhamis • Mr. Abdulaziz H. Al Boug
	Insurance Claims	9,845,748	There is no specific amount for the contract, but determined as per transactions		According to SAMA regulations without preferential advantages	
Jabal Omar Company	Insurance policies	15,436,592	13,274,350	One Gregorian year	According to SAMA regulations without preferential advantages	• Mr. Waleed A. Aleisa
Raidah Investment Company (His membership ended in 2018)	Insurance policies	117,067	117,067	One Gregorian year	According to SAMA regulations without preferential advantages	• Mr. Waleed A. Aleisa
Qassim Cement Company (His membership ended in 2018)	Insurance policies	1,453,590	1,411,428	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz A. Al-Zaid
National Commercial Bank (His membership ended in 2018)	Insurance policies	(1,570,430)	There is no specific amount for the contract, but determined as per transactions	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz A. Al-Zaid
	Insurance policies	8,792,568	2,524,591		According to SAMA regulations without preferential advantages	
Najm Insurance Services Company.	Insurance policies	32,945,662	12,202,562	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Raed A. Al-Tamimi
	Claims management fees	38,011,663	There is no specific amount for the contract, but determined as per transactions	One Gregorian year	According to SAMA regulations without preferential advantages	
Waseel Application Services Provider.	Insurance policies	928,078	884,002	One Gregorian year	According to SAMA regulations without preferential advantages	<ul style="list-style-type: none"> • Mr. Raed A. Al-Tamimi (His membership ended in 2018). • Mr. Abdulaziz Al Boug
	Claims management fees	17,288,758	There is no specific amount for the contract, but determined as per transactions	One Gregorian year	According to SAMA regulations without preferential advantages	

Name of Company/ related party	Nature of Business/ Contract	Volume of transactions during the year from 1 January 2018 to 31 December 2018 (SR)	Business/ contract amount (SR)	Business/ contract duration	Business/ contract conditions	Name of stakeholder (BOD director/ senior executives)
National Medical Care Company and its medical centers	Insurance policies	13,514,033	13,734,105	One Gregorian year	According to SAMA regulations without preferential advantages	<ul style="list-style-type: none"> • Mr. Raed A. Al-Tamimi • Mr. Ghassan A. Al-Malki
	Claims management fees	63,341,395	There is no specific amount for the contract, but determined as per transaction		According to SAMA regulations without preferential advantages	
General Organization for Social Insurance	Insurance policies	28,289,767	26,517,330	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Ghassan A. Al-Malki
	Service provision contract	139,692	117,664		According to SAMA regulations without preferential advantages	
The Cooperative Real Estate Investment Company	Lease Contract	619,877	467,600	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Ghassan A. Al-Malki
The Public Pension Agency	Insurance policies	16,726,249	15,281,840	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Jaser Aljaser
National Petrochemical Company (Petrochem)	Insurance policies	2,651	74,392	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdullah M. Al-Fayez
The Saudi Investment Bank	Insurance policies	27,267,374	25,159,819	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz A. Alkhamis
Development and Investment Entertainment Company	Insurance policies	1,323,892	696,400	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser
Saudi Technology and Security Comprehensive Control Co.	Insurance policies	23,796,809	23,796,809	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser
Management Support Company Ltd.	Insurance policies	137,794	137,794	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser
Infinity Support Services	Insurance policies	1,077,228	956,288	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser
Alpha Star Aviation Services	Insurance policies	8,082,398	6,364,410	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser
Tawari for Information Technology Limited	Insurance policies	227,154	156,112	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser

Name of Company/ related party	Nature of Business/ Contract	Volume of transactions during the year from 1 January 2018 to 31 December 2018 (SR)	Business/ contract amount (SR)	Business/ contract duration	Business/ contract conditions	Name of stakeholder (BOD director/ senior executives)
Sky Prime Aviation Services	Insurance policies	9,866	There is no specific amount for the contract, but determined as per transactions	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser
Technology Control Company LTD (TCC)	Insurance policies	6,685,146	6,716,845	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser
Kafaat Business Solutions	Insurance policies	25,149,887	17,207,668	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser
Arabian Internet and Communications Services Company	Insurance policies	2,151,132	3,901,871	One Gregorian year	According to SAMA regulations without preferential advantages	Mr. Abdulaziz Al-Nuwaiser

38. A description of any arrangement or agreement, under which a member of the Board of Directors or a senior executive has waived any remuneration.

Tawuniya declares that there are no arrangements or agreements, under which any member of the Board of Directors or a senior executive has waived any salary or remuneration.

39. A description of any arrangement or agreement, under which any shareholder has waived his rights to profits

Tawuniya declares that there is no arrangement or agreement, under which any shareholder has waived his rights to profits.

40. A description of any statutory payments paid and due for the payment of any Zakat, taxes, fees or other entitlements, which have not been paid until the end of the annual financial period, with a brief description to them and their reasons

(SR'000)

Description	2018		Brief Description	Reasons
	Paid	Due until the end of financial year and not paid		
Zakat	62,232	237,080	Tawuniya's share of Zakat payable	Zakat payable pursuant to the regulations of Zakat and Income Tax Department.
Tax	10,388	365,462	Withholding tax	Tax payable pursuant to the regulations of Zakat and Income Tax Department.
Social insurance	9,756	3,329	GOSI subscriptions for The Company employees.	Payable under the regulations of the General Organization for Social Insurance
Visas and passport fees	676	-	Fees for the issuance of visas and passport services	Payable under the regulations of the Ministry of Interior.
Labor office fees	1,733	-	Fees for the issuance of Work Permits.	Payable under the regulations of the Ministry of Labor.
Supervision fees	40,402	29,893	To the Saudi Arabian Monetary Authority (SAMA).	Payable under the Law On Supervision of the Cooperative Insurance Companies.
Supervision fees	58,705	20,321	To the Council of Cooperative Health Insurance (CCHI).	Payable under the Cooperative Health Insurance Law.

41. Investment and Reserve Plans Created Interest for Tawuniya Staff:

The Company has a savings plan under which a definite percentage of the employees' salary is periodically deducted, with Tawuniya investing this amount through one of the investment funds compatible with the rules of Islamic Shariah. The total number of subscribers at the end of 2018 reached 196 employees with a subscription amounting to SR 5,826,696. The Company continued its home loans plan for its eligible Saudi employees, where the number of employees granted home loans in year 2018 reached four (4) employees obtained SR 3,269,800.

42. Statements and declarations:

- A. The Company for Cooperative Insurance (Tawuniya) states that the proper books of accounts and principles have been maintained.
- B. The system of internal control is sound in design and effectively implemented:
The Audit Committee, through the reports of internal auditors and external auditors, believes that the internal control system prepared by the company's management has been developed in 2018 based on the auditors' observations and recommendations. In 2019, the audit committee will follow up with the executive management to ensure the implementation of all corrective measures that will positively affect the integrity and effectiveness of the internal control system as a whole.
- C. Tawuniya states that there are no significant doubts concerning The Company's ability to continue as an ongoing concern.

43. If the external auditor's report contains reservations on the annual financial statements, the report of the Board of Directors shall indicate those reservations, their reasons and any information related to them.

Tawuniya declares that there are no reservations to the annual financial statements included in the external auditor's report.

44. In the event of recommendation by the Board of Directors to change the external auditor before the end of designated period, the report must contain this, indicating the reasons for recommending such change

Tawuniya declares that its Board of Directors has not issued any recommendation to change the external auditor before the end of the designated period.

45. Disclosure of treasury shares held by The Company and details of their use:

No. of treasury shares held by The Company	Shares Amounts	Date of Retaining	Details of their Use
There are no shares	-	-	-

46. Deficit/ Surplus from Insurance Operations:

After the addition of investment income, the insurance operations realized a deficit of (SR 427 million) in 2018. As per the requirements of the Executive Regulations of the Law On Supervision of Cooperative Insurance Companies, the full amount (equivalent to 100% of the deficit of the insurance operations) was transferred to the shareholders' income statement. Accordingly, there is no surplus distribution to the policyholders for 2018.

47. Board Powers:

With due regard to the prerogatives of the General Assembly, the Board of Directors shall have full powers in managing the Company to achieve its objectives. Within the limits of its powers, it shall have the right to authorize one or more members of the Board or other non-members to handle certain assignment(s) that is not inconsistent with relevant regulations. For example, but not limited to, the Board shall have power to represent the Company in its relations with third parties, governmental and private entities, before all competent courts, Grievances Lifting Board, labor offices, senior and primary committees for the settlement of labor disputes, commercial papers committee, all other judicial committees and arbitration organizations. Civil Rights Dept., police authorities, chambers of commerce and industry, all companies and establishments, banks, commercial houses and government financing institutions of various titles and terms of reference as well as other lenders. The Board shall have full powers for ratification, claiming, defending, pleading, filing suits, compromise, conciliation, acceptance and objecting of verdicts, arbitration, request the execution of verdicts, raising opposition, receiving proceeds of verdicts enforcement, discharge debtors from their obligations, engage in the bidding, buying, selling and mortgaging of real estate. In addition, the Board shall have full powers to enter into contracts, sign on behalf of the Company on all types of contracts, papers and documents, including for instance, but without limitation, the articles of incorporation of the companies in which the Company has shares, sing all their amendments, addendums and the decisions of amendment, sign the agreements and deeds before notary publics and official bodies, as well as signing loans, guarantees and warranties agreements and deeds for the sale and purchase of real estate, issuance of legal powers of attorney on behalf of the Company, buying, selling release and discharge, acceptance of release, handing over and take over, leasing, rental, receiving and payment of rents and payables, the opening of accounts and credits, withdrawals from and deposits at the various banks, issuance of guarantees for banks, funds and government funding institutions and to sign all papers, bonds, checks, all commercial papers and documents as well as all banking transactions.

48. A Description of Any Punishment, Penalty or Statutory Reserve or Restriction Imposed on Any of the Board Members by Any Judicial, Supervisory, or Regulatory Authority in Respect of The Company.

Tawuniya declares that there is no punishment, penalty, statutory reserve or restriction imposed on any of the board members by any judicial, supervisory, or regulatory authority in respect of The Company.

49. The Capital and Ownership of Company Shares

The authorized, issued and paid-up capital of The Company amounts to SR 1,250 million (One Billion and two hundred fifty million Saudi Riyals) and is divided into 125 million nominal shares of SR 10 each. The ownership of company shares reflected at the beginning and end of the year are as follows:

Owner	No. of Shares Beginning of the Year	No. of Shares Close of the Year	Change Ratio	Ownership Ratio
Public Pension Agency	29,737,685	29,737,685	00%	23.79%
General Organization for Social Insurance	28,549,306	28,549,306	00%	22.84%
Held by the Public	66,713,009	66,713,009	00%	53.37%
Total	125,000,000	125,000,000	00%	100%

50. External Auditors

The Ordinary General Assembly of The Company held on 18th of April 2018 agreed with the Audit Committee's recommendation to enter into contract with Price Waterhouse Coopers (PWC) and Mohamed Al-Amri & Co. (BDO), as joint external auditors of The Company accounts and financial statements for the year 2018. The BOD did not issue any recommendation to replace the external auditors approved by the General Assembly during 2018.

Conclusion

The Board of Directors' (BOD) expresses its sincere gratitude and appreciation to our esteemed customers for the invaluable confidence. In addition, the Board expresses its deepest thanks and appreciation to all shareholders.



STRATEGY PILLARS

INVESTMENTS

Maintaining our ability to achieve the highest return on investment in the market in order to enhance Tawuniya's financial status and confirm our ability to deliver on our promises to customers and stakeholders.



4

Independent Auditors' Report



الدكتور محمد العمري وشركاه
Dr. Mohamed Al-Amri & Co.

INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS' OF THE COMPANY FOR COOPERATIVE INSURANCE (A SAUDI JOINT STOCK COMPANY)

Opinion: We have audited the financial statements of The Company for Cooperative Insurance (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 37. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

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

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

Key audit matters	How the matter was addressed in our audit
<p>Valuation of ultimate claim liabilities arising from insurance contracts</p> <p>As at 31 December 2018, gross outstanding claims and reserves including claims incurred but not reported (IBNR) amounted to Saudi Riyals 4.9 billion as reported in Note 10 to the financial statements.</p> <p>The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best estimate of ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling cost.</p> <p>The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs. The Company principally uses an external actuary ("management's expert") to provide them with the estimate of such liabilities. A range of methods were used to determine these provisions which were based on a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>We considered this as a key audit matter as the valuation of insurance contract liabilities require the use of significant judgement and estimates.</p> <p>Refer to notes 2 and 3 to the financial statements which explain the valuation methodology used by the Company and critical judgments and estimates.</p>	<p>We performed the following procedures</p> <ul style="list-style-type: none"> Understood, evaluated and tested key controls around the claims handling and provision setting processes. Evaluated the competence, capabilities and objectivity of the management's expert based on their professional qualifications and experience and assessed their independence. 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 claim reserves. Obtained sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, and tested on sample basis, the accuracy of underlying claims data utilised by the management's expert in estimating the IBNR by comparing it to the accounting and other records. Challenged management's methods and assumptions, through assistance of our internal actuarial expert to understand and evaluate the Company's actuarial practices and provisions established and gained comfort over the actuarial report issued by management's expert, by performing the following: <ul style="list-style-type: none"> (i) Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences; (ii) Assessed key actuarial assumptions including claims ratios and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and (iii) Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivity analysis performed. Assessed the adequacy and appropriateness of the related disclosures in the financial statements.

“Basis for Opinion, we conducted our audit in accordance with
International Standards on Auditing”



الدكتور محمد العمري وشركاه
 Dr. Mohamed Al-Amri & Co.

Key audit matters	How the matter was addressed in our audit
<p>Valuation of available-for-sale investments</p> <p>Available-for-sale investments comprise a portfolio of debt and investment in mutual funds amounted to Saudi Riyals 2.9 billion as at 31 December 2018. These instruments are measured at fair value with the corresponding fair value changes recognised in other comprehensive income.</p> <p>For certain investments, fair valuation often involve the exercise of judgment by the management and the use of assumptions and estimates.</p> <p>Estimation uncertainty exists for those instruments not traded in an active market and where the significant unobservable valuation inputs use (level 3) is particularly high.</p> <p>In the Company's accounting policies, the management has described the key sources of estimation involved in determining the valuation of level 3 financial instruments.</p> <p>We considered this as a key audit matter given the degree of complexity involved in valuing these financial instruments and the significance of the judgment and estimates made by the management.</p> <p>Refer to notes 2 and 28 to the financial statements which explain the valuation methodology used by the Company and critical judgments and estimates.</p>	<p>We have performed the following procedures to obtain comfort over the valuation of investments:</p> <ul style="list-style-type: none"> • We have performed an assessment of the methodology, appropriateness of the valuation techniques and inputs used to value available-for-sale investments. • We tested the valuation of available-for-sale investments classified under level 2 and 3 of fair value hierarchy. As part of these audit procedures, we assessed key inputs used in the valuation such as the pricing data used, credit spreads, etc. • We have also obtained confirmations from external parties to corroborate the fair value of investments at year end. Where appropriate, we have also reviewed the valuation reports from external parties.
<p>Provision for doubtful receivables</p> <p>As at 31 December 2018, the Company had receivables of Saudi Riyals 1.6 billion, against which an impairment provision of Saudi Riyals 159 million was maintained.</p> <p>We considered this as a key audit matter as the assessment of impairment requires subjective judgments with respect to the estimation of the amount and timing of future cash flows. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms. For individually significant receivables, the Company also assesses the impairment individually on a regular basis.</p> <p>Refer to notes 2 and 3 to the financial statements which explain the valuation methodology used by the Company and critical judgments and estimates.</p>	<p>We understood, evaluated and tested the operating effectiveness of key controls over management's process of establishing provision against doubtful receivables.</p> <p>We performed the following procedures to obtain comfort over provision against doubtful receivables:</p> <ul style="list-style-type: none"> • Reviewed the methodology and judgments used and challenged management's key assumptions used in assessing impairment provision; • We considered the adequacy of provisions for doubtful receivables for significant customers, taking into account specific credit risk assessments for each customer based on time past due, the existence of any disputes over the balance outstanding, the history of settlements of receivables and review of correspondence with the customers; • On sample basis checked the completeness and accuracy of the receivables aging reports by tracing the balances to the source documents; • Considered the consistency of the approach with the prior years, and enquired about any major variations and changes in key assumptions and its basis used; and • We tested the subsequent collection of receivables post year end.



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Dr. Mohamed Al-Amri & Co.

Other Information included in the Company's 2018 Annual Report

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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



الدكتور محمد العمري وشركاه

Dr. Mohamed Al-Amri & Co.

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.

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

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

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Omar M. Al Sagga
Certified Public Accountant
Registration No. 369

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Public Accountants & Consultants
P. O. Box 8736
Riyadh 11491
Kingdom of Saudi Arabia

Gihad M. Al-Amri
Certified Public Accountant
Registration No. 362



Date: 31 March, 2019
Corresponding to: 24 Rajab, 1440H





OUR STRATEGY'S ENABLERS

CUSTOMER CENTRICITY

Providing the best customer experience and putting customers at the heart of everything we do so that we evolve from “service provider” to “partner”.



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Financial Statements for the year ended December 31, 2018

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

SAR'000	Notes	2018	2017
ASSETS			
Statutory deposit	13	125,000	125,000
Accrued income on statutory deposit		2,254	1,997
Property and equipment, net	4	266,233	279,051
Intangible assets	5	3,633	7,653
Investment property		9,861	9,861
Investments in associates	6	95,116	95,468
Available for sale investments	7	2,905,130	5,525,209
Mudaraba/ Murabaha deposits	8	2,239,125	82,035
Prepaid expenses and other assets	9	261,088	191,369
Deferred excess of loss premiums		8,775	11,293
Deferred policy acquisition costs	10	130,651	170,790
Reinsurers' share of gross outstanding claims	10	2,725,809	1,375,277
Reinsurers' share of incurred but not reported claims	10	191,837	391,207
Reinsurers' share of unearned premiums	10	544,839	591,125
Receivables, net	12	1,517,987	2,257,678
Accrued investment income		-	158,093
Cash and cash equivalents	14	1,600,240	1,397,203
TOTAL ASSETS		12,627,578	12,670,309

The accompanying notes 1 to 37 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

SAR'000	Notes	2018	2017
LIABILITIES			
Reserve for discontinued operations	18	1,621	1,621
End-of-service indemnities	17	133,276	119,242
Return payable on statutory deposit		2,254	1,997
Claims payable, accrued expenses and other liabilities	16	1,513,102	1,291,652
Reserve for takaful activities		8,690	10,576
Gross outstanding claims	10	3,271,156	2,374,764
Incurred but not reported claims reserve	10	1,684,183	1,700,269
Premium deficiency reserve	10	7,272	137,248
Unearned commission income	10	39,299	53,661
Gross unearned premiums	10	3,820,293	4,405,244
Reinsurers' balances payable		94,720	207,922
Dividends payable		6,411	6,414
Zakat	20	237,080	233,318
TOTAL LIABILITIES		10,819,357	10,543,928
EQUITY			
Share capital	21	1,250,000	1,250,000
Legal reserve	22	1,000,000	1,000,000
Fair value reserve for investments	7	(198,724)	(166,244)
Remeasurement of defined benefit obligation	17	(12,226)	(5,879)
Retained earnings		(230,829)	48,504
TOTAL EQUITY		1,808,221	2,126,381
TOTAL LIABILITIES AND EQUITY		12,627,578	12,670,309
CONTINGENT LIABILITIES	34		

The accompanying notes 1 to 37 form an integral part of these financial statements.

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

SAR'000	Notes	2018	2017
REVENUES			
Gross premiums written	10	7,641,245	8,406,669
Reinsurance ceded - local	10	(45,160)	(257,097)
Reinsurance ceded - international	10	(1,052,943)	(834,310)
Fee income from takaful		8,534	5,423
Excess of loss premiums		(24,587)	(40,375)
Net premiums written		6,527,089	7,280,310
Changes in unearned premiums		584,951	(15,015)
Changes in reinsurers' share of unearned premiums		(46,286)	37,312
Net premiums earned		7,065,754	7,302,607
Reinsurance commissions	10	111,663	113,768
Other underwriting income		10,435	15,301
TOTAL REVENUES		7,187,852	7,431,676
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid		7,800,323	6,672,777
Expenses incurred related to claims		19,204	17,479
Reinsurers' share of claims paid		(847,028)	(848,579)
Net claims and other benefits paid	10	6,972,499	5,841,677
Changes in outstanding claims		896,392	227,663
Changes in reinsurance share of outstanding claims		(1,350,532)	405,125
Changes in incurred but not reported claims reserve		(16,086)	254,672
Changes in reinsurance share of incurred but not reported claims		199,370	(52,855)
Changes in premium deficiency reserve		(129,976)	137,248
Net claims and other benefits incurred	10	6,571,667	6,813,530
Changes in reserves for takaful activities		(1,886)	(2,326)
Policy acquisition costs		390,541	492,772
Other underwriting expenses		137,864	159,419
Manafeth insurance share distribution	23	56,939	83,335
TOTAL UNDERWRITING COSTS AND EXPENSES		7,155,125	7,546,730
Net underwriting income/ (loss)		32,727	(115,054)
OTHER OPERATING (EXPENSES) / INCOME			
General and administrative expenses	25	(498,112)	(474,921)
Allowance for doubtful debts	12	(20,235)	(35,545)
Dividend and realized gain on investments, net	24	216,801	434,323
Share of profit from investments in associates, net	6	29,698	13,748
Other income, net		25,782	30,905
TOTAL OTHER OPERATING EXPENSES		(246,066)	(31,490)
Net loss for the year		(213,339)	(146,544)
Surplus attributed to the insurance operations		-	-
Net loss for the year attributable to the shareholders		(213,339)	(146,544)
Earnings per share			
Basic and diluted earnings per share (in SAR)		(1,71)	(1,17)
Weighted average number of shares in issue		125,000,000	125,000,000

The accompanying notes 1 to 37 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

SAR'000	Notes	2018	2017
Net loss for the year		(213,339)	(146,544)
Net loss for the year attributable to insurance operations		-	-
Net loss for the year attributable to shareholders		(213,339)	(146,544)
Other comprehensive income:			
Not to be recycled back to statement of income in subsequent years:			
Remeasurements of defined benefit obligation	17	(6,347)	(5,879)
To be recycled back to statement of income in subsequent years:			
Available for sale investments:			
• Net change in fair value	7	(9,063)	(92,884)
• Net amounts transferred to statement of income	7	(23,808)	(12,247)
Share of other comprehensive income of associates	6	391	1,040
Total comprehensive loss for the year		(252,166)	(256,514)

The accompanying notes 1 to 37 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2018

SAR'000	Notes	Share capital	Legal reserve	Fair value reserve for investments	Remeasurements of defined benefit obligation	Retained earnings	Total
Balance at January 1, 2017		1,000,000	1,000,000	(62,153)	-	998,707	2,936,554
Comprehensive income for the year:							
Net loss for the year		-	-	-	-	(146,544)	(146,544)
Actuarial (losses) on defined benefits obligation	17	-	-	-	(5,879)	-	(5,879)
Changes in fair value of available-for-sale investments	7	-	-	(92,884)	-	-	(92,884)
Amount transferred to statement of income	7	-	-	(12,247)	-	-	(12,247)
Share of other comprehensive income of investments in associates		-	-	1,040	-	-	1,040
Total comprehensive loss for the year attributable to shareholders		-	-	(104,091)	(5,879)	(146,544)	(256,514)
Zakat	20	-	-	-	-	(53,659)	(53,659)
Issuance of bonus shares	15	250,000	-	-	-	(250,000)	-
Dividend distribution	15	-	-	-	-	(500,000)	(500,000)
Balance at December 31, 2017		1,250,000	1,000,000	(166,244)	(5,879)	48,504	2,126,381

Balance at January 1, 2018		1,250,000	1,000,000	(166,244)	(5,879)	48,504	2,126,381
Comprehensive income for the year:							
Net loss for the year	17	-	-	-	-	(213,339)	(213,339)
Actuarial (losses) on defined benefits obligation	7	-	-	-	(6,347)	-	(6,347)
Changes in fair value of available-for-sale investments	7	-	-	(9,063)	-	-	(9,063)
Amount transferred to statement of income	6	-	-	(23,808)	-	-	(23,808)
Share of other comprehensive income of investments in associates		-	-	391	-	-	391
Total comprehensive loss for the year attributable to shareholders		-	-	(32,480)	(6,347)	(213,339)	(252,166)
Zakat	20	-	-	-	-	(65,994)	(65,994)
Balance at December 31, 2018		1,250,000	1,000,000	(198,724)	(12,226)	(230,829)	1,808,221

The accompanying notes 1 to 37 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

SAR'000	Notes	2018	2017
Operating activities:			
Net loss for the year		(213,339)	(146,544)
Adjustments for non-cash items:			
Depreciation of property and equipment	4	22,313	23,728
Amortization of intangible assets	5	7,488	4,830
Loss on sale of property and equipment	4	-	114
Allowance for doubtful debts	12	20,235	35,545
Gain on sale of investments		(23,808)	(12,247)
Share of profit of associates, net	6	(29,698)	(14,788)
Provision for end-of-service indemnities	17	16,466	26,731
		(200,343)	(82,631)
<u>Changes in operating assets and liabilities:</u>			
Prepaid expenses and others assets		(69,719)	83,880
Deferred excess of loss premiums		2,518	1,679
Deferred policy acquisition costs		40,139	47,310
Reinsurers' share of gross outstanding claims		(1,350,532)	405,125
Reinsurers' share of claims incurred but not reported		199,370	(52,855)
Reinsurers' share of unearned premiums		46,286	(37,312)
Receivables, net		719,456	33,765
Reinsurers' balances payable		(113,202)	28,963
Gross unearned premiums		(584,951)	15,015
Unearned commission income		(14,362)	(778)
Gross outstanding claims		896,392	228,794
Incurred but not reported claims reserve		(16,086)	253,541
Premium deficiency reserve		(129,976)	137,248
Reserve for takaful activities		(1,886)	(2,326)
Claims payable, accrued expenses and other liabilities		221,450	(115,639)
		(355,446)	943,779
End-of-service indemnities paid		(8,779)	(12,045)
Surplus paid to policyholders during the year		-	(76,651)
Net cash (used in)/ from operating activities		(364,225)	855,083
Investing activities:			
Statutory deposit		-	(25,000)
Proceeds from sale of available-for-sale investments	7	6,471,917	4,633,067
Purchase of available-for-sale investments	7	(3,860,901)	(5,716,543)
Proceeds from maturity of murabaha deposits	8	82,035	-
Placement in mudarabah/ murabaha deposits	8	(2,239,125)	(82,035)
Accrued investment income		158,093	(158,093)
Dividends received from investments in associates	6	30,441	26,969
Purchase of property and equipment	4	(9,495)	(4,487)
Purchase of intangible assets	5	(3,468)	(12,483)
Net cash from/ (used in) investing activities		629,497	(1,338,605)
Financing activities:			
Dividends paid	15	(3)	(499,640)
Zakat paid during the year		(62,232)	(20,784)
Net cash used in financing activities		(62,235)	(520,424)
Net change in cash and cash equivalents		203,037	(1,003,946)
Cash and cash equivalents, beginning of the year	14	1,397,203	2,401,149
Cash and cash equivalents, end of the year	14	1,600,240	1,397,203
Non-cash supplemental information:			
Changes in fair value for available-for-sale investments	7	(32,871)	(105,131)
Share of other comprehensive income of associates	6	391	1,040
Loss on re-measurements of defined benefit obligation	17	(6,347)	(5,879)

The accompanying notes 1 to 37 form an integral part of these financial statements.



OUR STRATEGY'S ENABLERS

INNOVATION

Leading the insurance market by introducing the best innovative products, adopting state-of-the-art technologies, and benefiting from the skill set of top professionals and talents in the market.



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Notes to Financial Statements

December 31, 2018

1. GENERAL

The Company for Cooperative Insurance (the "Company") is a Saudi joint stock Company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/5 and incorporated on January 18, 1986 corresponding to Jumada Al-Awal 8, 1406H under Commercial Registration No. 1010061695. The Company's head office is located on Thumamah Road (At Takhassusi) ArRabi District, P.O. Box 86959, Riyadh 11632, Kingdom of Saudi Arabia.

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

On July 31, 2003 corresponding to Jumada Thani 2, 1424H the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On December 1, 2004 corresponding to Shawwal 18, 1425H, the Saudi Arabian Monetary Authority ("SAMA") as the principal authority responsible for the application and administration of the Insurance Law and its implementing regulations, granted the Company a license to transact insurance activities in Saudi Arabia.

The Company conducts the business and advances funds to the insurance operations as required. On January 20, 2004 the Company amended its Articles of Association giving authority to the Board of Directors to determine the disposition of the surplus from insurance operations.

On March 20, 2004, the Board of Directors approved the distribution of the surplus from insurance operations in accordance with the Implementing Regulations issued by SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

2. BASIS OF PREPARATION

a) Statement of compliance

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

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement at

fair value of available for sale investments, investment in associates which is accounted for under the equity method and end of service benefits based on actuarial valuation techniques. The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: statutory deposit, accrued income on statutory deposit, property and equipment, intangible assets, investment property, investments in associates, available for sale investments, reserve for discontinued operations, end-of-service indemnities and return payable on statutory deposit. All other financial statement line items would generally be classified as current.

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly (Note 30). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented in Note 30 of the financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

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

b) Basis of measurement

These financial statements are prepared under the historical cost basis except for the measurement at fair value of available-for-sale investments, investment in associates which is accounted for under the equity method and end of service benefits based on actuarial valuation techniques.

“The Company conducts the business and advances funds to the insurance operations as require”

c) Functional and presentation currency

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

d) Fiscal year

The Company follows a fiscal year ending December 31.

e) Critical accounting judgments, estimates and assumptions

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

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

The estimate and judgments used by management in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2017.

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

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

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

The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain

Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Actuary had also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

ii) Impairment of 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 of the available-for-sale financial assets below its cost. The determination of what is significant or prolonged requires judgment. For equity and mutual funds, a period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgment, the Company also evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

iii) Impairment of receivables

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

iv) Fair value of financial instruments

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

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Please refer fair value of financial instruments disclosure in note 28.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the previous financial year, except for the adoption of the following new standards and other amendments to existing standards mentioned below which have had no significant financial impact on the financial statements of the Company on the current year or prior year and is expected to have no significant effect in future years:

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

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 from future dates.

- IFRS 9 - "Financial Instruments", (including amendments to IFRS 4, Insurance Contracts) In July 2014, the IASB published IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss 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. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

In September 2016, the IASB published 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 2022 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.

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.

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.

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.

The Company is eligible and have chosen to apply the temporary exemption under the amendments to IFRS 4. The impact of the adoption of IFRS 9 on the Company's financial information will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. IASB through its amendments to IFRS 4 issued in September 2016 had allowed temporary exemption if a Company meets the following criteria:

- a) the Company has not previously applied any version of IFRS 9; and
- b) its activities are predominantly connected with insurance that is defined as total percentage of carrying amount of insurance liabilities is greater than 90% of its total liabilities.

During 2018, the Company performed a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its statement of financial position and equity, except for the effect of applying the impairment requirements of IFRS 9. However, the impact of the same is not expected to be significant. Further, the Company believes that IFRS 9 would have an impact on the classification of financial instruments required to be mandatorily mentioned at fair value i.e investments classified under available for sale investments in Note 7. Credit quality of the financial instruments are disclosed in Note 31(d) to the financial statements. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

- IFRS 16 - "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The Company has decided not to early adopt this new standard. Management believes that the impact of this new standard is not expected to be significant due to limited lease contracts.
- 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 statement of income and the statement of financial position. The Company has decided not to early adopt this new standard.

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

a) Revenue Recognition

Recognition of premium and commission revenue

Premiums and commission are recorded in the statement of income – insurance operations and accumulated surplus based on straight line method over the insurance policy coverage period except for long term policies (construction and engineering) and marine cargo. Unearned premiums are calculated on a straight line method over the insurance policy coverage period except for:

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

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

Investment income

Investment income on debt instruments classified under available-for-sale investments and murabaha deposits are accounted for on an effective interest basis.

Dividend income

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

b) Insurance contracts

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

c) Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and is charged to "Changes in outstanding claims and reserves" in the statement of income as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not

paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

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

d) Salvage and subrogation reimbursement

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

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

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

e) Reinsurance

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. An asset or liability is recorded in the statement of financial position - insurance operations' representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

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

f) Deferred policy acquisition costs

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

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

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

g) Liability adequacy test

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

h) Receivables

Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in "Other general and administrative expenses" in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 12 fall under the scope of IFRS 4 "Insurance contracts".

i) Available-for-sale investments

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

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

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

Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values based on the latest available net assets value of the mutual fund. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics. The Company also considers appropriate assumptions for credit spread.

For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values

cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

j) Investments in associates

An associate is an entity in which the Company has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the statement of financial position at cost, plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments.

When the company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

At each reporting date, the Company determines whether there is objective evidence that the investment in associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss in the statement of income, as the case may be.

k) De-recognition of financial instruments

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

l) Offsetting

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

m) Trade date accounting

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

n) Impairment of financial assets

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

Evidence of impairment may include:

- Significant financial difficulty of the issuer or debtor;

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

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

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

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

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

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the statement of income for the year. The determination of what is 'significant' or 'prolonged' requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In making an assessment of whether an investment in debt instrument is impaired, the Company considers the factors such as market's

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

o) Property and equipment

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

	Years
Buildings	40 – 48
Furniture and fixtures	10
Computer equipment	4
Vehicles	4

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

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

p) Intangible assets

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

	Years
Software licenses	4

q) Investment property

Investment property represents land that is held for capital appreciation purposes. Land is stated at cost less recognized impairment loss, if any.

r) Mudaraba/ Murabaha deposits

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

s) Leases

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

t) Impairment of non-financial assets

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

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

u) Employees' end-of-service benefits

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

v) Provisions, accrued expenses and other liabilities

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

w) Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis and charge zakat directly into retained earnings in the statement of changes in equity.

x) Dividend distribution

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

y) Cash and cash equivalents

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

z) Cash flow statement

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

aa) Foreign currencies

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

bb) Operating segments

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

- Medical - coverage for health insurance.
- Motor insurance.
- Property and Casualty - coverage for property, engineering, marine, aviation, energy and general accidents insurance.
- Manafeth – third party liability insurance for foreign vehicles and the profit of this segment is shared with other insurance companies.
- Shareholders' segment - reporting shareholder operations of the Company. Income earned from investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The surplus or loss from the insurance operations is allocated to this segment on an appropriate basis.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions. No inter-segment transactions occurred during the year.

cc) Manafeth shared agreement

As described in note 23, the Manafeth shared agreement is an insurance pooling arrangement related to motor insurers in KSA. This is an arrangement between 25 insurance companies of KSA where the entity is the leader in providing Manafeth (Insurance coverage for motor vehicles entering in KSA). The entity does not act as an agent on behalf of the other insurers in agreement. Therefore the Company accounts for manafeth shared agreement by recording the premiums under the gross written premium and claims under gross claims paid. The relevant assets and liabilities are also recorded as a separate operating segment along with the assets and liabilities of other operating segments. The distribution of share of income to other participating insurance companies is recorded as an expense in "Manafeth insurance share distribution" in the statement of income.

dd) Legal reserve

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

ee) Fair values

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

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

4. PROPERTY AND EQUIPMENT, NET

SAR'000	Land	Buildings	Furniture and fixtures	Computer equipment	Vehicles	Total 2018	Total 2017
Cost:							
January 1	53,036	199,926	65,620	130,633	456	449,671	446,187
Additions	-	-	304	9,191	-	9,495	4,487
Disposals	-	-	-	-	-	-	(1,003)
December 31	53,036	199,926	65,924	139,824	456	459,166	449,671
Accumulated Depreciation:							
January 1	-	19,976	54,877	95,523	244	170,620	147,781
Charge for the year	-	4,851	2,370	15,015	77	22,313	23,728
Disposals	-	-	-	-	-	-	(889)
December 31	-	24,827	57,247	110,538	321	192,933	170,620
Net book value							
December 31, 2018	53,036	175,099	8,677	29,286	135	266,233	-
December 31, 2017	53,036	179,950	10,743	35,110	212	-	279,051

5. INTANGIBLE ASSETS

SAR'000	2018	2017
Cost:		
January 1	12,483	-
Additions	3,468	12,483
December 31	15,951	12,483
Accumulated Amortisation:		
January 1	4,830	-
Charge for the year	7,488	4,830
December 31	12,318	4,830
Net book value	3,633	7,653

6. INVESTMENTS IN ASSOCIATES

SAR'000	2018	2017
Insurance Operations		
Balance, January 1	7,021	12,691
Share of profit/ (loss) (Note 24)	900	(5,670)
Balance, December 31	7,921	7,021
Shareholders Operations		
Balance, January 1	88,447	94,958
Share of profit	28,798	19,418
Dividends received	(30,441)	(26,969)
Unrealized gain on investments	391	1,040
Balance, December 31	87,195	88,447
Total Investments in associates	95,116	95,468

The Company's interest in associate, which is unquoted, is as follows along with summarized financial information:

i) Insurance Operations:

Najm Insurance Services

(SR'000)

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
December 31, 2018 *	Saudi Arabia	357,979	128,411	389,615	15,989	3.45%
September 30, 2017 *	Saudi Arabia	292,010	88,494	260,479	28,063	3.45%

* Based on latest available management accounts.

The Company has significant influence over the financial and operating policy decision of the associate by way of representation on its board of directors.

ii) Shareholders Operations:

a) United Insurance Company

(SR'000)

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
December 31, 2018 *	Bahrain	265,546	132,783	90,455	33,701	50%
November 30, 2017 *	Bahrain	250,989	111,082	80,864	29,502	50%

* Based on latest available management accounts.

b) Waseel Application Services Provider

(SR'000)

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
December 31, 2018 *	Saudi Arabia	57,000	10,590	38,500	19,000	45%
November 30, 2017 *	Saudi Arabia	81,744	8,330	33,895	16,973	45%

* Based on latest available management accounts.

7. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments of the insurance operations comprise the following:

SAR'000	2018	2017
Insurance Operations		
Local funds	94,549	371,365
Local fixed income investments	330,726	281,860
Regional/ foreign funds	96,855	2,291,921
Regional/ foreign fixed income investments	684,718	-
Funds with portfolio manager	28,059	-
Foreign equity	-	15,284
Total	1,234,907	2,960,430
Shareholders Operations		
Local funds	305,026	308,645
Local fixed income investments	146,913	100,000
Regional/ foreign funds*	905,872	2,156,134
Regional/ foreign fixed income investments	301,644	-
Funds with portfolio manager	10,768	-
Total	1,670,223	2,564,779
Total available-for-sale investments	2,905,130	5,525,209

As at December 31, 2018 the Company invested in Shraiah Notes amounting to SAR 2.3 billion. The Shraiah Notes are issued by a special purpose vehicle "SPV" established in Cayman Islands. The administrator of these Shariah Notes is a Company registered in Dubai International Financial Center in Dubai. The underlying investments of Shariah Notes include mutual funds, private equity funds and fixed income portfolios. The legal ownership of these underlying investments is not with the Company, however, the Company is the ultimate beneficial owner of the underlying investments while having control over the Shariah Notes and underlying investments. The custody of the underlying investments is in the custody account of the SPV or its nominee entity opened with fund and portfolio managers.

* This includes investment in foreign funds amounting to SR 306 million invested through Discretionary Portfolio Management agreement with Saudi based authorised persons registered with CMA.

Movements in available-for-sale investments are as follows:

SAR'000	2018			2017		
	Quoted securities	Unquoted securities	Total	Quoted securities	Unquoted securities	Total
Insurance operations						
Balance, January 1	41,245	2,919,185	2,960,430	402,628	2,752,958	3,155,586
Purchases	-	1,784,785	1,784,785	43,806	1,453,478	1,497,284
Disposals	(42,932)	(3,436,511)	(3,479,443)	(402,628)	(1,213,533)	(1,616,161)
Changes in fair value of investments	1,687	(32,552)	(30,865)	(2,561)	(73,718)	(76,279)
Balance, December 31	-	1,234,907	1,234,907	41,245	2,919,185	2,960,430
Shareholders' operations						
Balance, January 1	39,340	2,525,439	2,564,779	58,065	1,320,966	1,379,031
Purchases	-	2,076,116	2,076,116	40,007	4,179,252	4,219,259
Disposals	(40,007)	(2,952,467)	(2,992,474)	(66,480)	(2,950,426)	(3,016,906)
Changes in fair value of investments	667	21,135	21,802	7,748	(24,353)	(16,605)
Balance, December 31	-	1,670,223	1,670,223	39,340	2,525,439	2,564,779
Total	-	2,905,130	2,905,130	80,585	5,444,624	5,525,209

The movement of changes in fair value of investments is as follows:

SAR'000	2018	2017
Insurance operations		
Change in fair value	(30,865)	(76,279)
Net amount transferred to statement of income	32,764	(13,255)
	1,899	(89,534)
Shareholders' operations		
Change in fair value	21,802	(16,605)
Net amount transferred to statement of income	(56,572)	1,008
	(34,770)	(15,597)
Total	(32,871)	(105,131)

The cumulative unrealised loss in fair value of available for sale investments amounts to SR 198,724 thousand (31 December 2017: gain SR 166,244 thousand).

8. MUDARABA/ MURABAHA DEPOSITS

The deposits are held with banks and financial institution registered with Capital Market Authority in the Kingdom of Saudi Arabia. These deposits are predominately in Mudaraba structures. These deposits are denominated in US Dollars and have an original maturity of more than three months to one year and yield on average financial incomes at rates 4.08%. (2017: 2.25%).

The movements in deposits during the year ended December 31, 2018 and 2017, are as follows:

SAR'000	2018	2017
Insurance Operations		
Balance, December 31	-	-
Placed during the year	1,387,500	-
Balance, December 31	1,387,500	-
Shareholders Operations		
Balance, December 31	82,035	-
Placed during the year	851,625	82,035
Matured during the year	(82,035)	-
Balance, December 31	851,625	82,035
Total	2,239,125	82,035

9. PREPAID EXPENSES AND OTHER ASSETS

SAR'000	2018	2017
Advances to medical service providers and others	196,909	125,240
Prepaid expenses	39,559	39,150
Other assets	24,620	26,979
	261,088	191,369

10. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS

a) Deferred policy acquisition costs

SAR'000	2018	2017
Balance, January 1	170,790	218,100
Incurred during the year	350,402	445,462
Amortized during the year	(390,541)	(492,772)
Balance, December 31	130,651	170,790

b) Unearned commission income

SAR'000	2018	2017
Balance, January 1	53,661	54,439
Commission received during the year	97,301	112,990
Commission earned during the year	(111,663)	(113,768)
Balance, December 31	39,299	53,661

c) Unearned premiums

SAR'000	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Balance, January 1	4,405,244	(591,125)	3,814,119	4,390,229	(553,813)	3,836,416
Premiums written during the year	7,641,245	(1,098,103)	6,543,142	8,406,669	(1,091,407)	7,315,262
Premiums earned during the year	(8,226,196)	1,144,389	(7,081,807)	(8,391,654)	1,054,095	(7,337,559)
Balance, December 31	3,820,293	(544,839)	3,275,454	4,405,244	(591,125)	3,814,119

d) Outstanding claims and reserves

SAR'000	2018			2017		
	Gross	Reinsurers share	Net	Gross	Reinsurers share	Net
Balance, January 1	4,212,281	(1,766,484)	2,445,797	3,592,698	(2,118,754)	1,473,944
Claims paid	(7,819,527)	847,028	(6,972,499)	(6,690,256)	848,579	(5,841,677)
Claims incurred	8,569,857	(1,998,190)	6,571,667	7,309,839	(496,309)	6,813,530
Balance, December 31	4,962,611	(2,917,646)	2,044,965	4,212,281	(1,766,484)	2,445,797
Outstanding claims	3,330,828	(2,725,809)	605,019	2,483,435	(1,375,277)	1,108,158
Salvage and subrogation	(59,672)	-	(59,672)	(108,671)	-	(108,671)
Gross outstanding claims	3,271,156	(2,725,809)	545,347	2,374,764	(1,375,277)	999,487
Incurred but not reported claims and other reserves	1,684,183	(191,837)	1,492,346	1,700,269	(391,207)	1,309,062
Premium deficiency reserve	7,272	-	7,272	137,248	-	137,248
Balance, December 31	4,962,611	(2,917,646)	2,044,965	4,212,281	(1,766,484)	2,445,797

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The management and external actuary had made a detailed assessment of technical reserves and the various parameters in the valuation of technical liabilities.

As at December 31, 2018, based on the recommendations of external actuary, management had recorded technical reserves (Gross outstanding claims and reserves) which amounted to SAR 4.9 billion (2017: SAR 4.2 billion). Significant portion of reserves relates to medical line of business. As at December 31, 2018 the Company booked a significant outstanding claim amounting to SAR 1.4 billion with a reinsurance share of outstanding claim at 99% relating to property and casualty line of business.

11. REINSURERS' SHARE OF OUTSTANDING CLAIMS, NET

Reinsurers' share of outstanding claims comprise net amounts due from the following:

SAR'000	2018	2017
Reinsurers' share of insurance liabilities	2,923,716	1,767,968
Impairment provision	(6,070)	(1,484)
	2,917,646	1,766,484

Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the date of the statement of financial position. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern. Reinsurance arrangements are made with counterparties with sound credit ratings under Standard and Poor's ratings methodology and ratings as per other reputable agencies.

Amounts due from reinsurers relating to claims already paid by the Company are included in receivables, net (Note 12).

12. RECEIVABLES, NET

Receivables comprise net amounts due from the following:

SAR'000	2018	2017
Policyholders	778,456	1,200,264
Brokers and agents	757,943	908,273
Related parties (Note 27)	55,506	155,600
	1,591,905	2,264,137
Receivables from reinsurers	62,517	110,677
Administrative service plan	23,105	22,169
	1,677,527	2,396,983
Provision for doubtful receivables	(159,540)	(139,305)
Receivables, net	1,517,987	2,257,678

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

SAR'000	2018	2017
Balance, January 1	139,305	103,760
Provision for the year	20,235	35,545
Balance, December 31	159,540	139,305

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

SAR'000	Total	Neither past due nor impaired	Past due but not impaired			Past due and impaired		
			Less than 30 days	31 – 60 days	61 - 90 days	91 - 180 days	181 - 360 days	More than 360 days
2018								
Premium and reinsurance receivables								
• Policyholders'	778,456	572,378	9,273	33,812	27,270	34,066	63,544	38,113
• Brokers and agents	757,943	439,035	54,301	28,208	101,593	81,644	35,962	17,200
• Due from related parties	55,506	34,289	7,666	5,152	294	2,950	3,752	1,403
• Receivable from reinsurers	62,517	-	5,063	13,272	5,825	16,613	15,460	6,284
• Administrative service plan	23,105	-	9,821	-	-	-	-	13,284
Total	1.677.527	1.045.702	86,124	80,444	134,982	135,273	118,718	76,284
SAR'000	Total	Neither past due nor impaired	Past due but not impaired			Past due and impaired		
			Less than 30 days	31 – 60 days	61 - 90 days	91 - 180 days	181 - 360 days	More than 360 days
2017								
Premium and reinsurance receivables								
• Policyholders'	1,200,264	778,254	29,719	35,888	242,345	32,213	48,870	32,975
• Brokers and agents	908,273	564,225	100,220	34,690	19,607	35,669	126,286	27,576
• Due from related parties	155,600	17,314	128,266	891	188	2,285	3,418	3,238
• Receivable from reinsurers	110,677	-	25,397	43,057	8,939	16,083	1,022	16,179
• Administrative service plan	22,169	-	1,599	3,522	3,764	-	-	13,284
Total	2,396,983	1,359,793	285,201	118,048	274,843	86,250	179,596	93,252

The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

Receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia and reinsurance companies mainly outside the Kingdom of Saudi Arabia. Receivables include an amount of SAR 166 million (2017: SAR 221 million) due in foreign currencies, mainly in US dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of the transaction. Arrangements with reinsurers normally require settlement within a certain agreed period. The five largest customers accounts for 28% (December 31, 2017: 38%) of the premiums receivable as at December 31, 2018.

13. STATUTORY DEPOSIT

In compliance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company has deposited 10 percent of its share capital, amounting to SAR 125 million (December 31, 2017: SAR 125 million), in a bank designated by SAMA. The statutory deposit is maintained with the National Commercial Bank and can be withdrawn only with the consent of SAMA.

14. CASH AND CASH EQUIVALENTS

SAR'000	2018	2017
Insurance operations		
Mudaraba deposits	210,000	-
Murabaha deposits	-	200,133
Banks balances and cash	907,258	915,011
Total	1,117,258	1,115,144
Shareholders Operations		
Mudaraba deposits	400,000	-
Murabaha deposits	-	100,000
Banks balances and cash	82,982	182,059
Total	482,982	282,059
Total cash and cash equivalents	1,600,240	1,397,203

Mudaraba deposits are maintained with banks and financial institutions and have a maturity of three months or less from the date of acquisition. These earn commission at an average rate of 3.99% per annum as at December 31, 2018 (2017: 2.2% per annum).

Bank balances and cash includes call account balance of SAR 65 million (December 31, 2017: SAR 188 million). Both bank balances and mudaraba deposits (including off-balance sheet exposures) are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology.

15. INSURANCE OPERATIONS' SURPLUS AND DIVIDENDS DECLARED

Insurance Operations' surplus

The insurance operations' invests its surplus funds in investments as disclosed in Notes 7 and 8. Changes in the fair value of available-for-sale investments at December 31, 2018 are not considered as part of the net surplus available for distribution to policyholders. At the time such investments are sold or gains and losses are realized, they will be included in the statement of income - insurance operations and accumulated surplus.

Dividends declared

On February 15, 2017, corresponding to Jumada Al-Awal 18, 1438H the Company's Board of Directors proposed to pay cash dividend for the year ended December 31, 2016 of SAR 5 per share amounting to SAR 500 million to its shareholders.

Further on February 15, 2017, corresponding to Jumada Al-Awal 18, 1438H the Company's Board of Directors proposed a bonus issue of 25 million shares of SAR 10 each, amounting to SAR 250 million to its shareholders.

The proposed dividend has been approved by the shareholders at the General Assembly meeting.

16. CLAIMS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

SAR'000	2018	2017
Payables to policyholders	833,110	577,233
Payable - General Authority of Zakat and Tax	365,462	369,015
Accrued expenses	167,568	123,659
Marketing representative commissions	42,682	74,626
Manafeth share of profit distribution payable	56,939	83,335
Provision for leave encashment	13,341	12,365
Employees' savings plan	26,551	25,339
Other liabilities	7,449	26,080
	1,513,102	1,291,652

17. EMPLOYEE END OF SERVICE BENEFITS

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

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

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

SAR'000	2018	2017
Present value of defined benefit obligation	133,276	119,242
Fair value of plan assets	-	-
	133,276	119,242

17.2 Movement of defined benefit obligation

SAR'000	2018	2017
Opening balance	119,242	98,677
Charge to statement of income	16,466	26,731
Charge to statement of comprehensive income	6,347	5,879
Payment of benefits during the year	(8,779)	(12,045)
Closing balance	133,276	119,242

17.3 Reconciliation of present value of defined benefit obligation

SAR'000	2018	2017
Present value of defined benefit obligation as at January 1	119,242	98,677
Current service costs	12,690	22,129
Financial costs	3,776	4,602
Actuarial loss from experience adjustments	6,347	5,879
Benefits paid during the year	(8,779)	(12,045)
Present value of defined benefit obligation as at December 31	133,276	119,242

17.4 Principal actuarial assumptions

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

SAR'000	2018	2017
Valuation discount rate	3%	4.6%
Expected rate of increase in salary level across different age bands	0.5% - 6%	4.5% - 8.8%

17.5 Sensitivity analysis of actuarial assumptions

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

SAR'000	2018	2017
Valuation discount rate	Impact on defined benefit obligation	
• Increase by 0.5%	(4,599)	(4,094)
• Decrease by 0.5%	4,911	4,376
Expected rate of increase in salary level across different age bands		
• Increase by 0.5%	4,707	4,326
• Decrease by 0.5%	(4,458)	(4,086)

18. RESERVE FOR DISCONTINUED OPERATIONS

The reserve for discontinued operations comprise the following in relation to one of the Company's divisions which was discontinued during 1998:

SAR '000	2018	2017
Outstanding claims	1,425	1,425
Reserve for losses	196	196
Total	1,621	1,621

19. CLAIMS DEVELOPMENT TABLE

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the periods beginning from 2015 onwards whose claim experience has not been fully developed.

Claims triangulation analysis is by accident years spanning a number of financial years.

Claims development table gross of reinsurance:

2018 Accident year	2013 & Earlier	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims cost:							
At the end of accident year	17,754,607	3,669,909	4,862,126	5,004,460	5,842,642	7,423,498	
One year later	18,395,367	4,120,395	5,580,651	6,045,645	7,065,784		
Two years later	18,358,637	4,153,516	5,615,040	6,161,715			
Three years later	18,335,212	4,129,605	5,792,120				
Four years later	18,179,149	4,046,050					
Five years later	17,989,834	-					
Current estimate of cumulative claims	17,989,834	4,046,050	5,792,120	6,161,715	7,065,784	7,423,498	48,479,001
Cumulative payments to date	(17,898,396)	(3,949,883)	(5,604,378)	(5,998,251)	(6,715,694)	(4,981,571)	(45,148,173)
Liability recognized in statement of financial position	91,438	96,167	187,742	163,464	350,090	2,441,927	3,330,828
Salvage and subrogation							(59,672)
Incurred but not reported claims	12,676	3,098	6,648	38,305	212,175	1,411,281	1,684,183
Premium deficiency reserve							7,272
Outstanding claims and reserves							4,962,611

2017 Accident year	2012 & Earlier	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims cost:							
At the end of accident year	10,965,384	4,917,107	3,669,909	4,862,126	5,004,460	5,842,642	
One year later	12,837,500	5,596,818	4,120,395	5,580,651	6,045,645		
Two years later	12,798,549	5,522,532	4,153,516	5,615,040			
Three years later	12,836,105	5,511,904	4,129,605				
Four years later	12,823,308	5,511,828					
Five years later	12,667,321						
Current estimate of cumulative claims	12,667,321	5,511,828	4,129,605	5,615,040	6,045,645	5,842,642	39,812,081
Cumulative payments to date	(12,485,859)	(5,399,079)	(3,929,770)	(5,151,135)	(5,675,420)	(4,687,383)	(37,328,646)
Liability recognized in statement of financial position	181,462	112,749	199,835	463,905	370,225	1,155,259	2,483,435
Salvage and subrogation							(108,671)
Incurred but not reported claims	-	5,049	6,683	102,387	181,323	1,404,827	1,700,269
Premium deficiency reserve							137,248
Outstanding claims and reserves							4,212,281

Claims development table net of reinsurance:

2018 Accident year	2013 & Earlier	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims cost:							
At the end of accident year	12,866,989	3,206,828	3,662,092	4,468,422	5,444,158	5,219,686	
One year later	13,512,609	3,713,334	4,288,552	5,423,773	6,521,216		
Two years later	13,530,403	3,736,380	4,341,976	5,618,128			
Three years later	13,550,546	3,738,266	4,342,816				
Four years later	13,537,120	3,735,447					
Five years later	13,517,360						
Current estimate of cumulative claims	13,517,360	3,735,447	4,342,816	5,618,128	6,521,216	5,219,686	38,954,653
Cumulative payments to date	(13,467,091)	(3,705,316)	(4,295,489)	(5,557,860)	(6,449,683)	(4,874,195)	(38,349,634)
Liability recognized in statement of financial position	50,269	30,131	47,327	60,268	71,533	345,491	605,019
Salvage and subrogation							(59,672)
Incurred but not reported claims	12,312	3,481	6,655	38,233	204,275	1,227,390	1,492,346
Premium deficiency reserve							7,272
Outstanding claims and reserves							2,044,965

2017 Accident year	2012 & Earlier	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims cost:							
At the end of accident year	7.915.808	3.594.854	3.206.828	3.662.092	4.468.422	5.444.158	
One year later	9.272.135	4.194.333	3.713.334	4.288.552	5.423.773		
Two years later	9.318.276	4.185.312	3.736.380	4.341.976			
Three years later	9.345.091	4.187.685	3.738.266				
Four years later	9.362.861	4.189.123					
Five years later	9.347.997						
Current estimate of cumulative claims	9.347.997	4.189.123	3.738.266	4.341.976	5.423.773	5.444.158	32.485.293
Cumulative payments to date	(9.293.729)	(4.161.290)	(3.702.084)	(4.288.010)	(5.352.648)	(4.579.374)	(31.377.135)
Liability recognized in statement of financial position	54.268	27.833	36.182	53.966	71.125	864.784	1.108.158
Salvage and subrogation							(108.671)
Incurred but not reported claims	-	4.726	6.256	24.861	125.252	1.147.967	1.309.062
Premium deficiency reserve							137.248
Outstanding claims and reserves							2.445.797

20. ZAKAT

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

SAR '000	2018	2017
Share capital	1,250,000	1,000,000
Reserves, opening provisions and other adjustments	1,979,831	1,872,365
Book value of long term assets	(403,407)	(653,677)
	2,826,424	2,218,688
Zakatable loss for the year	(186,682)	(72,324)
Zakat base	2,639,742	2,146,364
Zakat due at 2.5%	65,994	53,659

As the zakat base for the year is higher than the zakatable income, the zakat for the year is calculated at 2.5% on the zakat base for the year.

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

SAR'000	2018	2017
Balance, January 1	233,318	200,443
Provided during the year	65,994	53,659
Payments during the year	(62,232)	(20,784)
Balance, December 31	237,080	233,318

Status of Assessments

The Company had filed Zakat returns with the General Authority of Zakat and Tax ("GAZT") for the years from 2005 to 2017. In relation to 2005 and 2006, the final assessments had been finalized and the Company had filed an appeal against the assessments of GAZT which is raised to Board of Grievances. During the year GAZT, based on letter dated 6/2/1440H corresponding to 15/10/2018, demanded Zakat amounting to SR 53 million in relation to assessment years 2005 and 2006. The Company responded to GAZT that in relation to 2005 and 2006, the final assessments had been finalized and the Company had filed an appeal against the assessments of GAZT which is raised to Board of Grievances. The Company paid the assessed amount of SAR 53 million from the zakat provision. In relation to 2007 to 2013, GAZT had raised assessments and management had subsequently filed their response. Further, GAZT has yet to commence its review for the years 2014 and 2017. Based on advice from zakat consultant, appropriate provisions have been made and management believes that finalization of the above mentioned assessments is not expected to have a material impact on the financial statements.

21. SHARE CAPITAL

The authorized, issued and paid up capital of the Company is SAR 1.25 billion at December 31, 2018 (2017: SAR 1.25 billion) consisting of 125 million shares of SAR 10 each.

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

2018			
	Authorized and issued	Paid up	
	No. of Shares	SAR'000	
Held by the public	66,713,009	667,130	667,130
Public Pension Agency	29,737,685	297,377	297,377
General Organization for Social Insurance	28,549,306	285,493	285,493
	125,000,000	1,250,000	1,250,000

2017			
	Authorized and issued	Paid up	
	No. of Shares	SAR'000	
Held by the public	66,713,009	667,130	667,130
Public Pension Agency	29,737,685	297,377	297,377
General Organization for Social Insurance	28,549,306	285,493	285,493
	125,000,000	1,250,000	1,250,000

22. LEGAL RESERVE

In accordance with the Articles of Association of the Company and in compliance with Article 70(2)(g) of the Insurance Implementing Regulations issued by SAMA, the Company is required to allocate 20% of its net income for the year to the legal reserve until it equals the value of share capital. This transfer is only made at the year end. The legal reserve is not available for distribution to the shareholders until the liquidation of the Company.

23. MANAFETH SHARED AGREEMENT

On January 13, 2015 together with 25 related insurance companies, the Company signed the Manafeth shared agreement relating to third party liability motor insurance which is effective from 1 January 2015. The agreement relates to motor insurance for vehicles entering the Kingdom of Saudi Arabia. The agreement was subsequently renewed for year starting from January 1, 2018 to December 31, 2018 with 26 related insurance companies.

The main terms of the above mentioned agreement are as follows:

- The Company obtains 15% management fee of the net result of the Manafeth portfolio;
- The Company obtains 4.25% of Manafeth's gross premiums written to cover the related indirect expenses; and
- The net result of the Manafeth portfolio after deducting the two above mentioned items is due to be shared equally by the Company and its related insurers.

24. INVESTMENT INCOME, NET

SAR'000	2018	2017
Insurance Operations		
Available-for-sale:		
• Dividend income	48,761	163,201
• Commission income	11,503	53,212
• Realized (loss)/ gain on sale (Note 7)	(32,764)	13,255
• Investment fees	-	(2,449)
Investment income, net	27,500	227,219
Shareholders Operations		
Available-for-sale:		
• Dividend income	129,800	197,899
• Commission income	2,929	11,630
• Realized gain/ (loss) on sale (Note 7)	56,572	(1,008)
• Investment fees	-	(1,417)
Investment income, net	189,301	207,104
Total investment income, net	216,801	434,323

25. GENERAL AND ADMINISTRATIVE EXPENSES

SAR'000	2018	2017
Salaries and benefits	333,708	308,864
Advertising	9,704	13,831
Insurance, utilities and maintenance	10,976	18,252
Rent	5,217	8,064
Depreciation (Note 4)	22,313	23,728
Communications	9,415	11,004
Office supplies and printing	1,131	2,305
Training and education	2,857	4,065
Professional fees	11,159	16,217
Indirect cost charge of Manafeth	6,119	7,965
License and other charges	20,077	20,215
Others	65,436	40,411
	498,112	474,921

26. (LOSS)/ EARNINGS PER SHARE

Basic and diluted (loss)/ earnings per share have been calculated by dividing the (loss)/ income for the year by 125 million shares.

27. 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 at December 31:

SAR'000	Amount of transactions for the year ended		Balance receivable / (payable) as at	
	2018	2017	2018	2017
Major shareholders				
Insurance premiums written	45,016	28,164	4,091	3,631
General Organization for Social Insurance - Other services	140	100	-	-
Associates				
Insurance premium written	33,874	9,756	210	(40)
Najm fees paid	38,012	46,680	-	(7,883)
Waseel fees paid	17,289	17,744	-	-
United Insurance Co. fees and claims, net	11,814	15,016	3,712	3,393
Entities controlled, jointly controlled or significantly influenced by related parties				
Insurance premiums written	168,110	480,378	51,205	152,009
Rent expenses paid	620	1,020	-	(56)
Amount of claims paid to hospitals	63,341	74,421	(12,088)	10,216

In accordance with the Company's Articles of Association, the Board of Directors is entitled each year to remuneration up to 10% of the remaining profit from Shareholders' operations, as defined, based on a decision by the General Assembly.

Remuneration and compensation of BOD Members and Top Executives

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

SAR'000	BOD members (Executives)	BOD members (Non-Executive)	Top Executives including the CEO and CFO
2018			
Salaries and compensation	-	-	6,513
Allowances	-	750	2,989
Motivational plans	-	-	2,506
Annual remuneration	-	1,300	903
End of service indemnities	-	-	1,681
Total	-	2,050	14,592

SAR'000	BOD members (Executives)	BOD members (Non-Executive)	Top Executives including the CEO and CFO
2017			
Salaries and compensation	-	-	6,001
Allowances	-	858	3,093
Motivational plans	-	-	447
Annual remuneration	-	1,800	3,627
End of service indemnities	-	-	2,897
Total	-	2,658	16,065

28. 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 in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair values of recognised financial instruments are not significantly different from the carrying values included in the financial information. The estimated fair values of financial instruments are based on quoted market prices, when available.

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 market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.
- 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.
- Level 3: valuation techniques for which any significant input is not based on observable market data.

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'000	Level 1	Level 2	Level 3	Total
2018				
Available-for- sale investments				
Insurance operations				
Funds	-	191,404	-	191,404
Fixed income portfolio	-	790,304	-	790,304
Sukuks	-	-	225,140	225,140
Funds placed with portfolio manager	28,059	-	-	28,059
	28,059	981,708	225,140	1,234,907
Shareholders operations				
Funds	-	609,270	601,629	1,210,899
Fixed income portfolio	-	358,556	-	358,556
Sukuks	-	-	90,000	90,000
Funds placed with portfolio manager	10,768	-	-	10,768
	10,768	967,826	691,629	1,670,223
Total	38,827	1,949,534	916,769	2,905,130

SAR'000	Level 1	Level 2	Level 3	Total
2017				
Available-for- sale investments				
Insurance operations				
Mutual funds	25,961	-	2,637,325	2,663,286
Equity shares	15,284	-	-	15,284
Sukuks	-	-	281,860	281,860
	41,245	-	2,919,185	2,960,430
Shareholders operations				
Mutual funds	39,340	-	2,425,439	2,464,779
Sukuks	-	-	100,000	100,000
	39,340	-	2,525,439	2,564,779
Total	80,585	-	5,444,624	5,525,209

The valuation of each publicly traded investment classified under level 1 is based upon the closing market price of that stock as of the valuation date, less a discount if the security is restricted. Fair values of private equity funds and mutual funds classified in Level 3 are determined based on the investees' latest reported net assets values as at the date of statement of financial position taking into account the fair value of underlying investments by the fund. As at December 31, 2018 the Company has invested an amount of SAR 2.3 billion from available for sale investments in Shariah Notes issued by Cayman Sharia Vehicle. The underlying investments such as private equity funds are classified under Level 3, valued based on latest reported net assets values and fund administrator reports whereas, the fair value of Level 2 fixed income investments and funds are taken from reliable and third party sources including Reuters, Bloomberg, etc. Fair values of other investments (including sukuk) classified in Level 3 are determined based on discounted cash flows, which incorporate assumptions regarding an appropriate credit spread. There were no transfers in between levels during the year ended December 31, 2018 and 2017.

The fair values of statutory deposits, accrued investment income on statutory deposit, mudaraba/ murabaha deposits, bank balances and other financial assets in statement of financial position which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements due to the short term nature of balances.

Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy

SAR'000	Balance January 1	Purchases	Sales	Total gain or loss recognized in		Balance December 31
				Statement of income	Other comprehensive income	
December 31, 2018						
Insurance operations						
Mutual funds	2,637,325	928,066	(3,667,918)	16,318	86,209	-
Sukuks	281,860	-	(56,720)	-	-	225,140
	2,919,185	928,066	(3,724,638)	16,318	86,209	225,140
Shareholders operations						
Mutual funds	2,425,439	937,028	(3,005,602)	185,388	59,376	601,629
Sukuks	100,000	-	(10,000)	-	-	90,000
	2,525,439	937,028	(3,015,602)	185,388	59,376	691,629
Total	5,444,624	1,865,094	(6,740,240)	201,706	145,585	916,769

SAR'000	Balance January 1	Purchases	Sales	Total gain or loss recognized in		Balance December 31
				Statement of income	Other comprehensive income	
December 31, 2017						
Insurance operations						
Mutual fund	2,448,388	1,546,680	(1,433,630)	162,860	(86,973)	2,637,325
Sukuks	304,570	-	(22,710)	-	-	281,860
	2,752,958	1,546,680	(1,456,340)	162,860	(86,973)	2,919,185
Shareholders operations						
Mutual funds	890,076	3,823,681	(2,347,066)	81,053	(22,305)	2,425,439
Sukuks	100,000	-	-	-	-	100,000
	990,076	3,823,681	(2,347,066)	81,053	(22,305)	2,525,439
Total	3,743,034	5,370,361	(3,803,406)	243,913	(109,278)	5,444,624

The below table shows significant unobservable inputs used in the valuation of level 3 investments.

Description	Fair value as at Dec 31, 2018 (SR)	Unobservable Inputs	Range of inputs 2018	Relationships of unobservable inputs to fair value
Unquoted Bonds and Sukuks	315,140	Assumption of credit spreads, rates, etc.	+/- 0.5%	Increased risk premium of 10 bps will have a change in fair value of these debt securities of SR 1.2 million.
Mutual funds	601,629	Fund administrator report based on NAV	N/A	N/A

Sensitivity analysis of Level 3 investments

SAR'000	Sensitivity factor	Impact on fair value due to increase in sensitivity factor	Impact on fair value due to decrease in sensitivity factor
December 31, 2018			
Insurance Operations			
Sukuks	+/- 10% change in credit spread	22,514	(22,514)
Shareholders operations			
Mutual funds	+/- 2% change in NAV per unit	12,033	(12,033)
Sukuks	+/- 10% change in credit spread	9,000	(9,000)

SAR'000	Sensitivity factor	Impact on fair value due to increase in sensitivity factor	Impact on fair value due to decrease in sensitivity factor
December 31, 2017			
Insurance Operations			
Mutual funds	+/- 2% change in NAV per unit	53,684	(53,631)
Sukuks	+/- 10% change in credit spread	33,894	(32,190)
Shareholders operations			
Mutual funds	+/- 2% change in NAV per unit	47,620	(48,446)
Sukuks	+/- 5% change in credit spread	10,000	(10,000)

29. OPERATING SEGMENTS

Consistent with the Company's internal reporting process; operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker.

Segment assets do not include insurance operations' property and equipment, prepayments and other assets, receivables, net and cash and cash equivalents. Accordingly, they are included in unallocated assets. Segment liabilities do not include reserve for discontinued operations, surplus distribution payable, due to shareholders operations, reinsurance balances payable, claims payable, accrued expenses and other liabilities and fair value reserve for available-for-sale investments. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premiums receivable and depreciation on the property and equipments) are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

2018							SAR'000
Operating Segments	Medical	Motor	Manafeth	Property & casualty	Total Insurance operations	Total Shareholders' operations	Total
REVENUES							
Gross premiums written	5,756,882	672,110	143,985	1,068,268	7,641,245		7,641,245
Reinsurance ceded - local	-	-	-	(45,160)	(45,160)		(45,160)
Reinsurance ceded - international	(118,447)	-	-	(934,496)	(1,052,943)		(1,052,943)
Fees income from takaful	8,534	-	-	-	8,534		8,534
Excess of loss premiums	-	(18,054)	(2,935)	(3,598)	(24,587)		(24,587)
Net premiums written	5,646,969	654,056	141,050	85,014	6,527,089		6,527,089
Changes in unearned premiums, net	163,529	346,495	2,919	25,722	538,665		538,665
Net premiums earned	5,810,498	1,000,551	143,969	110,736	7,065,754		7,065,754
Reinsurance commissions	2,545	135	-	108,983	111,663		111,663
Other underwriting income	-	10,435	-	-	10,435		10,435
TOTAL REVENUES	5,813,043	1,011,121	143,969	219,719	7,187,852		7,187,852
UNDERWRITING COSTS AND EXPENSES							
Gross claims paid and related expenses	6,381,019	647,299	29,035	762,174	7,819,527		7,819,527
Reinsurers' share of claims paid	(111,495)	(10,297)	-	(725,236)	(847,028)		(847,028)
Net claims paid	6,269,524	637,002	29,035	36,938	6,972,499		6,972,499
Changes in outstanding claims, net	(474,225)	11,845	6,284	1,956	(454,140)		(454,140)
Changes in incurred but not reported claims reserve, net	227,440	(24,255)	(9,546)	(10,355)	183,284		183,284
Changes in premium deficiency reserves	(132,738)	-	-	2,762	(129,976)		(129,976)
Net claims and other benefits incurred	5,890,001	624,592	25,773	31,301	6,571,667		6,571,667
Changes in reserve for takaful activities	(1,886)	-	-	-	(1,886)		(1,886)
Policy acquisition costs	209,798	102,865	31,892	45,986	390,541		390,541
Other underwriting expenses	94,031	3,788	11,155	28,890	137,864		137,864
Manafeth Insurance share	-	-	56,939	-	56,939		56,939
TOTAL UNDERWRITING COSTS AND EXPENSES	6,191,944	731,245	125,759	106,177	7,155,125		7,155,125
NET UNDERWRITING (LOSS) / INCOME	(378,901)	279,876	18,210	113,542	32,727		32,727
General and administrative expenses					(493,483)	(4,629)	(498,112)
Allowance for doubtful debts					(20,235)	-	(20,235)
Dividend and realized gain on investments, net					27,500	189,301	216,801
Share of profit from investments in associates, net					900	28,798	29,698
Other income					25,782	-	25,782
NET (LOSS)/ INCOME FOR THE YEAR					(426,809)	213,470	(213,339)

	2017						SAR'000
Operating Segments	Medical	Motor	Manafeth	Property & casualty	Total Insurance operations	Total Shareholders' operations	Total
REVENUES							
Gross premiums written	5,746,778	1,388,860	187,417	1,083,614	8,406,669		8,406,669
Reinsurance ceded - local	-	-	-	(257,097)	(257,097)		(257,097)
Reinsurance ceded - international	(124,052)	2	-	(710,260)	(834,310)		(834,310)
Fees income from takaful	5,423	-	-	-	5,423		5,423
Excess of loss premiums	-	(22,046)	(2,937)	(15,392)	(40,375)		(40,375)
Net premiums written	5,628,149	1,366,816	184,480	100,865	7,280,310		7,280,310
Changes in unearned premiums	(47,749)	46,951	12,885	10,210	22,297		22,297
Net premiums earned	5,580,400	1,413,767	197,365	111,075	7,302,607		7,302,607
Reinsurance commissions	1,472	4	-	112,292	113,768		113,768
Other underwriting income	7	15,294	-	-	15,301		15,301
TOTAL REVENUES	5,581,879	1,429,065	197,365	223,367	7,431,676		7,431,676
UNDERWRITING COSTS AND EXPENSES							
Gross claims paid and related expenses	4,810,238	1,027,406	42,733	809,879	6,690,256		6,690,256
Reinsurers' share of claims paid	(57,723)	(17,917)	(1,232)	(771,707)	(848,579)		(848,579)
Net claims paid	4,752,515	1,009,489	41,501	38,172	5,841,677		5,841,677
Changes in outstanding claims, net	673,396	(37,120)	1,364	(4,852)	632,788		632,788
Changes in incurred but not reported claims reserve, net	199,262	(1,566)	468	3,653	201,817		201,817
Changes in premium deficiency reserves	137,248	-	-	-	137,248		137,248
Net claims and other benefits incurred	5,762,421	970,803	43,333	36,973	6,813,530		6,813,530
Changes in reserve for takaful activities	(2,326)	-	-	-	(2,326)		(2,326)
Policy acquisition costs	232,268	177,390	32,685	50,429	492,772		492,772
Other underwriting expenses	110,358	15,021	16,231	17,809	159,419		159,419
Manafeth insurance share	-	-	83,335	-	83,335		83,335
TOTAL UNDERWRITING COSTS AND EXPENSES	6,102,721	1,163,214	175,584	105,211	7,546,730		7,546,730
NET UNDERWRITING (LOSS)/ INCOME	(520,842)	265,851	21,781	118,156	(115,054)		(115,054)
General and administrative expenses					(470,041)	(4,880)	(474,921)
Allowance for doubtful debts					(35,545)	-	(35,545)
Dividend and realized gain on investments, net					227,219	207,104	434,323
Share of profit from investments in associates, net					(5,670)	19,418	13,748
Other income					30,905	-	30,905
NET (LOSS)/ INCOME FOR THE YEAR					(368,186)	221,642	(146,544)

As at December 31, 2018							SAR'000
Operating Segments	Medical	Motor	Manafeth	Property & casualty	Total Insurance operations	Total Shareholders' operations	Total
Assets							
Reinsurer's share of unearned premiums	59,626	-	-	485,213	544,839		544,839
Reinsurer's share of incurred but not reported claims	25,624	-	-	166,213	191,837		191,837
Reinsurer's share of outstanding claims	24,664	18,382	2,000	2,680,763	2,725,809		2,725,809
Deferred excess of loss premiums	-	6,123	-	2,652	8,775		8,775
Deferred policy acquisition costs	94,026	22,520	1,312	12,793	130,651		130,651
Investments (including investment property)					1,252,689	1,757,418	3,010,107
Receivables, net					1,517,987	-	1,517,987
Cash and cash equivalents					1,117,258	482,982	1,600,240
Unallocated assets					1,918,454	978,879	2,897,333
Total assets	203,940	47,025	3,312	3,347,634	9,408,299	3,219,279	12,627,578
Liabilities							
Gross unearned premiums	2,917,798	327,510	24,063	550,922	3,820,293		3,820,293
Gross outstanding claims	282,516	152,625	14,092	2,821,923	3,271,156		3,271,156
Incurred but not reported claims reserve	1,284,346	194,701	13,922	191,214	1,684,183		1,684,183
Premium deficiency reserve	4,510	-	-	2,762	7,272		7,272
Unearned commission income	3,034	-	-	36,265	39,299		39,299
Reserve for takaful activities	8,690	-	-	-	8,690		8,690
Reinsurers' balances payable					94,720		94,720
Unallocated liabilities					1,640,177	253,567	1,893,744
Total liabilities	4,500,894	674,836	52,077	3,603,086	10,565,790	253,567	10,819,357

Operating Segments	As at December 31, 2017						SAR'000
	Medical	Motor	Manafeth	Property & casualty	Total Insurance operations	Total Shareholders' operations	Total
Assets							
Reinsurer's share of unearned premiums	62,909	6	-	528,210	591,125		591,125
Reinsurer's share of incurred but not reported claims	28,142	14,987	1,141	346,937	391,207		391,207
Reinsurer's share of outstanding claims	25,547	19,753	-	1,329,977	1,375,277		1,375,277
Deferred excess of loss premiums	-	6,595	-	4,698	11,293		11,293
Deferred policy acquisition costs	99,636	47,306	1,822	22,026	170,790		170,790
Investments (including investment property)					3,049,051	2,739,580	5,788,631
Receivables, net					2,257,678		2,257,678
Cash and cash equivalents					1,115,144	282,059	1,397,203
Unallocated assets					476,323	210,782	687,105
Total assets	216,234	88,647	2,963	2,231,848	9,437,888	3,232,421	12,670,309
Liabilities							
Gross unearned premiums	3,084,610	674,011	26,982	619,641	4,405,244		4,405,244
Gross outstanding claims	757,624	142,151	5,808	1,469,181	2,374,764		2,374,764
Incurred but not reported claims reserve	1,059,424	233,943	24,609	382,293	1,700,269		1,700,269
Premium deficiency reserve	137,248	-	-	-	137,248		137,248
Unearned commission income	5,346	1	-	48,314	53,661		53,661
Reserve for takaful activities	10,576	-	-	-	10,576		10,576
Reinsurers' balances payable					207,922		207,922
Unallocated liabilities					1,408,515	245,729	1,654,244
Total liabilities	5,054,828	1,050,106	57,399	2,519,429	10,298,199	245,729	10,543,928

30. SUPPLEMENTARY INFORMATION

a) Statement of financial position

SAR'000	As at December 31, 2018			As at December 31, 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
ASSETS						
Statutory deposit	-	125,000	125,000	-	125,000	125,000
Accrued income on statutory deposit	-	2,254	2,254	-	1,997	1,997
Property and equipment, net	266,233	-	266,233	279,051	-	279,051
Intangible assets	3,633	-	3,633	7,653	-	7,653
Investment property	9,861	-	9,861	9,861	-	9,861
Investments in associates	7,921	87,195	95,116	7,021	88,447	95,468
Available for sale investments	1,234,907	1,670,223	2,905,130	2,960,430	2,564,779	5,525,209
Mudaraba/ Murabaha deposits	1,387,500	851,625	2,239,125	-	82,035	82,035
Due from/ to Shareholder's operations	1,066,659	(1,066,659)	-	773,927	(773,927)	-
Prepaid expenses and other assets	261,088	-	261,088	189,619	1,750	191,369
Deferred excess of loss premiums	8,775	-	8,775	11,293	-	11,293
Deferred policy acquisition costs	130,651	-	130,651	170,790	-	170,790
Reinsurers' share of gross outstanding claims	2,725,809	-	2,725,809	1,375,277	-	1,375,277
Reinsurers' share of incurred but not reported claims	191,837	-	191,837	391,207	-	391,207
Reinsurers' share of unearned premiums	544,839	-	544,839	591,125	-	591,125
Receivables, net	1,517,987	-	1,517,987	2,257,678	-	2,257,678
Accrued investment income	-	-	-	71,739	86,354	158,093
Cash and cash equivalents	1,117,258	482,982	1,600,240	1,115,144	282,059	1,397,203
TOTAL ASSETS	10,474,958	2,152,620	12,627,578	10,211,815	2,458,494	12,670,309

SAR'000	As at December 31, 2018			As at December 31, 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
LIABILITIES						
Reserve for discontinued operations	1,621	-	1,621	1,621	-	1,621
End-of-service indemnities	133,276	-	133,276	119,242	-	119,242
Return payable on statutory deposit	-	2,254	2,254	-	1,997	1,997
Claims payable, accrued expenses and other liabilities	1,505,280	7,822	1,513,102	1,287,652	4,000	1,291,652
Reserve for takaful activities	8,690	-	8,690	10,576	-	10,576
Gross outstanding claims	3,271,156	-	3,271,156	2,374,764	-	2,374,764
Incurred but not reported claims reserve	1,684,183	-	1,684,183	1,700,269	-	1,700,269
Premium deficiency reserve	7,272	-	7,272	137,248	-	137,248
Unearned commission income	39,299	-	39,299	53,661	-	53,661
Gross unearned premiums	3,820,293	-	3,820,293	4,405,244	-	4,405,244
Reinsurers' balances payable	94,720	-	94,720	207,922	-	207,922
Dividends payable	-	6,411	6,411	-	6,414	6,414
Zakat	-	237,080	237,080	-	233,318	233,318
TOTAL LIABILITIES	10,565,790	253,567	10,819,357	10,298,199	245,729	10,543,928
EQUITY						
Share capital	-	1,250,000	1,250,000	-	1,250,000	1,250,000
Legal reserve	-	1,000,000	1,000,000	-	1,000,000	1,000,000
Fair value reserve for investments	(78,606)	(120,118)	(198,724)	(80,505)	(85,739)	(166,244)
Remeasurements of defined benefit obligation	(12,226)	-	(12,226)	(5,879)	-	(5,879)
Retained earnings	-	(230,829)	(230,829)	-	48,504	48,504
TOTAL EQUITY	(90,832)	1,899,053	1,808,221	(86,384)	2,212,765	2,126,381
TOTAL LIABILITIES AND EQUITY	10,474,958	2,152,620	12,627,578	10,211,815	2,458,494	12,670,309

b) Statement of income

SAR'000	2018			2017		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
REVENUES						
Gross premiums written	7,641,245		7,641,245	8,406,669		8,406,669
Reinsurance premium ceded	(1,098,103)		(1,098,103)	(1,091,407)		(1,091,407)
Fees income from takaful	8,534		8,534	5,423		5,423
Excess of loss premiums	(24,587)		(24,587)	(40,375)		(40,375)
Net premiums written	6,527,089		6,527,089	7,280,310		7,280,310
Changes in unearned premiums, net	538,665		538,665	22,297		22,297
Net premiums earned	7,065,754		7,065,754	7,302,607		7,302,607
Reinsurance commissions	111,663		111,663	113,768		113,768
Other underwriting income	10,435		10,435	15,301		15,301
Total revenues	7,187,852		7,187,852	7,431,676		7,431,676
UNDERWRITING COST AND EXPENSES						
Gross claims paid	7,800,323		7,800,323	6,672,777		6,672,777
Expenses incurred related to claims	19,204		19,204	17,479		17,479
Reinsurance share of claims paid	(847,028)		(847,028)	(848,579)		(848,579)
Net claims and other benefits paid	6,972,499		6,972,499	5,841,677		5,841,677
Changes in outstanding claims, net	(454,140)		(454,140)	632,788		632,788
Changes in incurred but not reported claims, net	183,284		183,284	201,817		201,817
Changes in premium deficiency reserves	(129,976)		(129,976)	137,248		137,248
Net claims and other benefits incurred	6,571,667		6,571,667	6,813,530		6,813,530
Changes in reserves for takaful activities	(1,886)		(1,886)	(2,326)		(2,326)
Policy acquisition costs	390,541		390,541	492,772		492,772
Other underwriting expenses	137,864		137,864	159,419		159,419
Manafeth Insurers share	56,939		56,939	83,335		83,335
Total underwriting costs and expenses	7,155,125		7,155,125	7,546,730		7,546,730
Net underwriting (loss)/ income	32,727		32,727	(115,054)		(115,054)
General and administrative expenses	(493,483)	(4,629)	(498,112)	(470,041)	(4,880)	(474,921)
Allowance for doubtful debts	(20,235)	-	(20,235)	(35,545)	-	(35,545)
Dividend and realized gain on investments, net	27,500	189,301	216,801	227,219	207,104	434,323
Share of profit from investments in associates, net	900	28,798	29,698	(5,670)	19,418	13,748
Other income, net	25,782	-	25,782	30,905	-	30,905
Net (loss) / income for the year before appropriation	(426,809)	213,470	(213,339)	(368,186)	221,642	(146,544)
Net (loss) / income transferred to shareholders' operations	426,809	(426,809)	-	368,186	(368,186)	-
Net income for the year after Shareholders' appropriations	-	(213,339)	(213,339)	-	(146,544)	(146,544)

c) Statement of comprehensive income

SAR'000	2018			2017		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
Net income for the year	-	(213,339)	(213,339)	-	(146,544)	(146,544)
Other comprehensive income:						
Not To be recycled back to statement of income in subsequent years:						
Remeasurements of defined benefit obligation	(6,347)	-	(6,347)	(5,879)	-	(5,879)
To be recycled back to statement of income in subsequent years:						
Available for sale investments						
• Net change in fair value	(30,865)	21,802	(9,063)	(76,279)	(16,605)	(92,884)
• Net amounts recycled to statement of income	32,764	(56,572)	(23,808)	(13,255)	1,008	(12,247)
Share of other comprehensive income of investments in associates	-	391	391	-	1,040	1,040
Total comprehensive (loss) / income for the year	(4,448)	(247,718)	(252,166)	(95,413)	(161,101)	(256,514)

d) Statement of cash flows

SAR'000	2018			2017		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
Operating activities:						
Net loss for the year	-	(213,339)	(213,339)	-	(146,544)	(146,544)
Adjustments for non-cash items:						
Appropriation of (surplus) / deficit	(426,809)	426,809	-	(368,186)	368,186	-
Depreciation	22,313	-	22,313	23,728	-	23,728
Amortization of intangible assets	7,488	-	7,488	4,830	-	4,830
Gain on sale of property and equipment	-	-	-	114	-	114
Allowance for/(Reversal of) doubtful debts	20,235	-	20,235	35,545	-	35,545
Gain/ (loss) on sale of available-for-sale investments	32,764	(56,572)	(23,808)	(13,255)	1,008	(12,247)
Share of profit from investments in associates, net	(900)	(28,798)	(29,698)	5,670	(20,458)	(14,788)
Provision for end-of-service indemnities	16,466	-	16,466	26,731	-	26,731
	(328,443)	128,100	(200,343)	(284,823)	202,192	(82,631)
Changes in operating assets and liabilities:						
Prepaid expenses and others assets	(71,469)	1,750	(69,719)	85,630	(1,750)	83,880
Deferred excess of loss premiums	2,518	-	2,518	1,679	-	1,679
Deferred policy acquisition costs	40,139	-	40,139	47,310	-	47,310
Reinsurers' share of outstanding claims	(1,350,532)	-	(1,350,532)	405,125	-	405,125
Reinsurers' share of claims incurred but not reported	199,370	-	199,370	(52,855)	-	(52,855)
Reinsurers' share of unearned premiums	46,286	-	46,286	(37,312)	-	(37,312)
Receivables, net	719,456	-	719,456	33,765	-	33,765
Reinsurers' balances payable	(113,202)	-	(113,202)	28,963	-	28,963
Gross unearned premiums	(584,951)	-	(584,951)	15,015	-	15,015
Unearned commission income	(14,362)	-	(14,362)	(778)	-	(778)
Gross outstanding claims and reserves	896,392	-	896,392	228,794	-	228,794
Claims incurred but not reported reserves	(16,086)	-	(16,086)	253,541	-	253,541
Premium deficiency reserve	(129,976)	-	(129,976)	137,248	-	137,248
Reserve for takaful activities	(1,886)	-	(1,886)	(2,326)	-	(2,326)
Accrued expenses and other liabilities	217,628	3,822	221,450	(119,639)	4,000	(115,639)
Due from/ to Shareholder's operations	426,809	(426,809)	-	368,186	(368,186)	-
	(62,309)	(293,137)	(355,446)	1,107,523	(163,744)	943,779
End-of-service indemnities paid	(8,779)	-	(8,779)	(12,045)	-	(12,045)
Surplus paid to policyholders during the Year	-	-	-	(76,651)	-	(76,651)
Net cash (used in)/ from operating activities	(71,088)	(293,137)	(364,225)	1,018,827	(163,744)	855,083
Investing activities:						
Statutory deposit	-	-	-	-	(25,000)	(25,000)
Proceeds from sale of available-for-sale investments	3,479,443	2,992,474	6,471,917	1,616,161	3,016,906	4,633,067
Purchase of available-for-sale investments	(1,784,785)	(2,927,741)	(3,860,901)	(1,497,284)	(4,219,259)	(5,716,543)
Proceeds from Murabaha deposits	-	82,035	82,035	-	-	-
Placement in Mudaraba/ Murabaha deposits	(1,387,500)	(851,625)	(2,239,125)	-	(82,035)	(82,035)
Accrued investment income	71,739	86,354	158,093	(71,739)	(86,354)	(158,093)
Dividends received from investments in associates	-	30,441	30,441	-	26,969	26,969
Purchase of property and equipment	(9,495)	-	(9,495)	(4,487)	-	(4,487)
Purchase of intangible assets	(3,468)	-	(3,468)	(12,483)	-	(12,483)
Net cash from/ (used in) investing activities	365,934	263,563	629,497	30,168	(1,368,773)	(1,338,605)

SAR'000	2018			2017		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
Financing activities:						
Dividends paid	-	(3)	(3)	-	(499,640)	(499,640)
Zakat paid during the year	-	(62,232)	(62,232)	-	(20,784)	(20,784)
Due to shareholders	(292,732)	292,732	-	(1,313,253)	1,313,253	-
Net cash (used in)/ from financing activities	(292,732)	230,497	(62,235)	(1,313,253)	792,829	(520,424)
Net change in cash and cash equivalents	2,114	200,923	203,037	(264,258)	(739,688)	(1,003,946)
Cash and cash equivalents, beginning of the year	1,115,144	282,059	1,397,203	1,379,402	1,021,747	2,401,149
Cash and cash equivalents, end of the year	1,117,258	482,982	1,600,240	1,115,144	282,059	1,397,203
Non-cash supplemental information:						
Changes in fair value for available-for-sale investments	1,899	(34,770)	(32,871)	(89,534)	(15,597)	(105,131)
Share of other comprehensive income of associates	-	391	391	-	1,040	1,040
Loss on remeasurements of defined benefit obligation	(6,347)	-	(6,347)	(5,879)	-	(5,879)

31. RISK MANAGEMENT

(a) Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid being greater than originally estimated and subsequent development of long-term claims.

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

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

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

Frequency and severity of claims

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

Concentration of insurance risk

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

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

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

Sources of uncertainty in estimation of future claim payments

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

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

Process used to decide on assumptions

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

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

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

Sensitivity analysis

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

A hypothetical 10% change in the claim ratio, net of reinsurance, would impact income from insurance operations as follows;

SAR'000	2018	2017
Impact of change in claim ratio by + / - 10%		
Medical	152,108	116,853
Motor	35,496	21,895
Manafeth	2,601	2,347
Property and casualty	16,892	3,170
	207,097	144,265

(b) Reinsurance risk

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

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

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

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

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

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

(c) Market Risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market commission rates or the market price of securities or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

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

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

Currency Risk

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

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

SAR'000	2018	2017
Insurance Operations		
Saudi Arabian Riyals and GCC currencies	226,013	612,300
US Dollars	2,396,394	2,291,921
Other currencies	-	56,209
	2,622,407	2,960,430
Shareholders Operations		
Saudi Arabian Riyals and GCC currencies	305,652	97,077
US Dollars	2,216,196	2,090,531
Euros	-	-
Other currencies	-	377,171
	2,521,848	2,564,779

The Company's transactions are principally in Saudi Arabian Riyals and US Dollar. Management monitors the fluctuations in currency exchange rates and acts accordingly and believes that the foreign currency risk is not significant.

Commission Rate Risk

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

An increase or decrease of 100 basis points in interest yields would result in a change in the loss for the year of SAR 3.6 million (2017: SAR 3.8 million).

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

SAR'000	Less than 1 year	More than 1 year	Non- commission bearing	Total
Insurance Operations				
2018				
Mudaraba/ Murabaha deposits	1,387,500	-	-	1,387,500
Available for sale investments	-	1,015,444	219,463	1,234,907
Cash and cash equivalent	210,000	-	907,258	1,117,258
Total	1,597,500	1,015,444	1,126,721	3,739,665
2017				
Available for sale investments	-	329,570	2,630,860	2,960,430
Cash and cash equivalent	200,133	-	915,011	1,115,144
Total	200,133	329,570	3,545,871	4,075,574
Shareholders Operations				
2018				
Mudaraba/ Murabaha deposits	851,625	-	-	851,625
Available for sale investments	-	448,556	1,221,667	1,670,223
Cash and cash equivalent	400,000	-	82,982	482,982
Total	1,251,625	448,556	1,304,649	3,004,830
2017				
Mudaraba/ Murabaha deposits	82,035	-	-	82,035
Available for sale investments	-	-	2,464,779	2,464,779
Cash and cash equivalent	100,000	-	182,059	182,059
Total	182,035	-	2,646,838	2,828,873

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from commission rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company's investments amounting nil (2017: SAR 107.25 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

The impact of hypothetical change of a 10% increase and 10% decrease in the market prices of investments on Company's profit would be as follows:

SAR'000	Fair value change	Effect on Company's loss
December 31, 2018	+ / - 10%	-
December 31, 2017	+ / - 10%	+/- 7,636

The sensitivity analysis presented is based upon the portfolio position as at December 31, 2018 and 2017. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company. The sensitivity of level 3 investments is disclosed in note 28.

(d) Credit Risk

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

SAR'000	2018	2017
ASSETS - INSURANCE OPERATIONS		
Cash and cash equivalents	1,117,258	1,115,144
Receivables, net	1,517,987	2,257,678
Available-for-sale investments	1,234,907	2,960,430
Mudaraba/ Murabaha deposits	1,387,500	-
Accrued investment income	-	71,739
Investment in associates	7,921	7,021
Other assets	261,088	189,619
Reinsurers' share of outstanding claims, net (including IBNR)	2,917,646	1,766,484
Total	8,444,307	8,368,115

SAR'000	2018	2017
ASSETS - SHAREHOLDERS OPERATIONS		
Cash and cash equivalents (Note 13)	482,982	282,059
Available-for-sale investments	1,670,223	2,564,779
Investment in associates	87,195	88,447
Other assets	-	1,750
Murabaha deposits	851,625	82,035
Accrued investment income	-	86,354
Statutory deposit (including accrued income)	127,254	126,997
Total	3,219,279	3,232,421

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Approximately 99% (2017: approximately 99%) of the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk. Also refer Note 11 for details. The Company has significant exposure amounting to SAR 2.3 billion classified as available for sale investments in Shariah Notes issued by Castle Investments Limited (Refer Note 7).

(e) Liquidity risk**Credit risk exposure investments**

SAR '000	2018			2017		
	Investment Grade	Non-investment Grade	Unrated	Investment Grade	Non-investment Grade	Unrated
ASSETS INSURANCE OPERATIONS						
Available-for-sale investments	1,234,907	-	-	2,960,430	-	-
Mudaraba/ Murabaha deposits	1,387,500	-	-	-	-	-
Receivables, net	-	1,517,987	-	-	2,257,678	-
Cash and cash equivalents	1,117,258	-	-	1,115,144	-	-
Total	3,739,665	1,517,987	-	4,075,574	2,257,678	-

SAR '000	2018			2017		
	Investment Grade	Non-investment Grade	Unrated	Investment Grade	Non-investment Grade	Unrated
ASSETS SHAREHOLDERS OPERATIONS						
Available-for-sale investments	1,670,223	-	-	2,564,779	-	-
Mudaraba/ Murabaha deposits	851,625	-	-	82,035	-	-
Accrued investment income	-	-	-	86,354	-	-
Cash and cash equivalents	482,982	-	-	282,059	-	-
Total	3,004,830	-	-	3,015,227	-	-

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

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

Maturity Profile

SAR '000	2018			2017		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
ASSETS INSURANCE OPERATIONS						
Available-for-sale investments	1,234,907	-	1,234,907	2,960,430	-	2,960,430
Investments in associates	7,921	-	7,921	7,021	-	7,021
Mudaraba/ Murabaha deposits	1,387,500	-	1,387,500	-	-	-
Receivables, net	1,517,987	-	1,517,987	2,257,678	-	2,257,678
Prepaid expenses and other assets	261,088	-	261,088	189,619	-	189,619
Accrued investment income	-	-	-	71,739	-	71,739
Cash and cash equivalents	1,117,258	-	1,117,258	1,115,144	-	1,115,144
Reinsurers' share of outstanding claims	2,725,809	-	2,725,809	1,375,277	-	1,375,277
Reinsurers' share of Incurred but not reported claims	191,837	-	191,837	391,207	-	391,207
Total	8,444,307	-	8,444,307	8,368,115	-	8,368,115
LIABILITIES INSURANCE OPERATIONS						
Reinsurers' balances payable	94,720	-	94,720	207,922	-	207,922
Gross outstanding claims	3,271,156	-	3,271,156	2,374,764	-	2,374,764
Incurred but not reported claims reserve	1,684,183	-	1,684,183	1,700,269	-	1,700,269
Premium deficiency reserve	7,272	-	7,272	137,248	-	137,248
Reserve for discontinued operations	1,621	-	1,621	1,621	-	1,621
Reserve for takaful activities	8,690	-	8,690	10,576	-	10,576
Claims payable, accrued expenses and other liabilities	1,505,280	-	1,505,280	1,287,652	-	1,287,652
End-of-service indemnities	-	133,276	133,276	-	119,242	119,242
	6,572,922	133,276	6,706,198	5,720,052	119,242	5,839,294
Total liquidity gap	1,871,385	(133,276)	1,738,109	2,648,063	(119,242)	2,528,821

SAR '000	2018			2017		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
ASSETS SHAREHOLDERS OPERATIONS						
Available-for-sale investments	1,670,223	-	1,670,223	2,564,779	-	2,564,779
Investments in associates	87,195	-	87,195	88,447	-	88,447
Prepaid expenses and other assets	-	-	-	1,750	-	1,750
Accrued investment income	-	-	-	86,354	-	86,354
Murabaha/ Murabaha deposits	851,625	-	851,625	82,035	-	82,035
Cash and cash equivalents	482,982	-	482,982	282,059	-	282,059
Total	3,092,025	-	3,092,025	3,105,424	-	3,105,424
LIABILITIES SHAREHOLDERS OPERATIONS						
Dividends payable	6,411	-	6,411	6,414	-	6,414
Accrued expenses and other liabilities	7,822	-	7,822	4,000	-	4,000
	14,233	-	14,233	10,414	-	10,414
Total liquidity gap	3,077,792	-	3,077,792	3,095,010	-	3,095,010

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

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

- Available for sale investments include investments in mutual funds and sukus and are held for cash management purposes and expected to be matured/ settled within 12 months from the balance sheet date.
- Accrued investment income is expected to be realized within 1 to 3 months from statement of financial position's date.
- Mudaraba/ Murabaha deposits classified as 'cash and cash equivalents' are deposits placed with high credit rating financial institutions with maturity of less than three months from the date of placement. Other mudaraba/ murabaha deposits are expected to be matured within six months from the date of placement.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims majorly pertain to property and casualty segment and are generally realized within three to six months based on settlement of balances with reinsurers.

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

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

(e) Operational Risk

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

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

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

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

32. CAPITAL MANAGEMENT

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

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

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

As at December 31, 2018 the Company's solvency level is less than the minimum solvency margin required by the Implementing Regulations of the Cooperative Insurance Companies Control Law. The Company expects to meet the solvency margin requirement in the future. The capital structure of the Company as at December 31, 2018 consists of paid-up share capital of SAR 1,250 million, legal reserves of SAR 1,000 million and accumulated losses of SAR 230.8 million (December 31, 2017: paid-up share capital of SAR 1,250 million, legal reserves of SAR 1,000 million and retained earnings of SAR 48.5 million.) in the statement of financial position.

33. REALIZED GAINS / (LOSS) ON FINANCIAL ASSETS, NET

SAR'000	2018	2017
INSURANCE OPERATIONS		
Realized (loss)/ gain on available-for-sale financial assets	(32,764)	13,255
Realized (loss)/ gain on financial assets, net	(32,764)	13,255
SHAREHOLDERS OPERATIONS		
Realized gain/ (loss) on available-for-sale financial assets	56,572	(1,008)
Realized gain/ (loss) on financial assets, net	56,572	(1,008)

34. CONTINGENT LIABILITIES

- As of December 31, 2018, the Company had contingencies related to outstanding letters of guarantee amounting to SAR 449 million (2017: SAR 103 million) issued in favor of GAZT related to zakat assessments raised for previous years (Note 20).
- As of December 31, 2018, outstanding letters of credit amounted to SAR 143 million (2017: SAR 189 million) in relation to performance bond obligation.
- The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. The Company based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

35. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year. These changes were made for better presentation of balances and transactions in the statement of financial information of the Company and does not have a material impact on the financial statements.

- Prepaid expenses and other assets amounting to SAR 7.6 million and SAR 11.2 million have been reclassified as "Intangible assets" and "Deferred excess of loss premiums" respectively.
- Reinsurance share of gross outstanding claims amounting to SAR 391.2 million has been reclassified as "Reinsurance share of incurred but not reported claims".
- Gross outstanding claims and reserves amounting to SAR 1.7 billion and SAR 137 million have been reclassified as "Incurred but not reported claims" and "Premium deficiency reserve" respectively.
- Claims payable, accrued expenses and other liabilities amounting to SAR 119 million has been reclassified as "End-of-service indemnities".

Further, refer note 2 for the changes in the primary statements.

36. DUE FROM SHAREHOLDERS/ DUE TO INSURANCE OPERATIONS

During the year shareholders have absorbed 100% deficit from insurance operations amounting to SAR 426.8 million resulting in due to insurance operation balance as at December 31, 2018 amounting to SAR 1,066 million.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial information have been approved by the Audit Committee on behalf of the Board of Directors, on Rajab 14, 1440H, corresponding to March 20, 2019.



OUR STRATEGY'S ENABLERS

DIGITIZATION

We are the first to apply digital technology to the insurance sector which opened new doors to our services and enabled our customers to manage their insurance matters efficiently and conveniently, in a fast and easy way.



The background is a deep blue gradient filled with abstract geometric patterns. These include various sized triangles, lines, and clusters of small white dots that resemble a network or a constellation. Some points are highlighted with a bright blue glow. The overall aesthetic is modern and technological.

OUR STRATEGY'S ENABLERS

HUMAN CAPITAL

Hiring, developing and retaining the best human talents while encouraging them to participate more effectively and benefiting from their accumulated experience to achieve our strategic objectives.



