
**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2018

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2018

INDEX	PAGE
Independent auditors' report	1 - 6
Statement of financial position	7
Statement of income	8
Statement of comprehensive income	9
Statement of changes in shareholders' equity	10
Statement of cash flows	11
Notes to the financial statements	12 - 52

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

Opinion

We have audited the financial statements of Buruj Cooperative Insurance Company, (the "Company"), which comprise of statement of financial position as at 31 December 2018 and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 30.

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 the results of its operations 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 financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY) – CONTINUED**

Key Audit Matters (Continued)

Key audit matter

Valuation of ultimate claim liabilities arising from insurance contracts

As presented under note 9(a) at 31 December 2018, claims incurred but not reported (IBNR) and outstanding claims amounted to SR 103,871,697 and SR 159,089,829 respectively.

The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs.

In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of methods. Are used by the actuary to determine these technical reserves. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

We considered this as a key audit matter since use of management assumptions and judgments could result in material over / understatement of the Company's profitability.

The Company's policies for claims related estimates and judgments and accounting policies are disclosed in notes 2 to the financial statements. Liabilities for outstanding claims including IBNR, claims incurred and claims development table have been disclosed in note 9(a) and 10 respectively to the financial statements. The Company's approach to claim related risk management has been disclosed in note 26 to the financial statements. Segment wise disclosure of claim related liabilities and expense have been given in note 27 to the financial statements.

How our audit addressed the key audit matter

We understood and evaluated key controls around the claims handling and technical reserve setting processes of the Company including completeness and accuracy of claims data used in the actuarial reserving process.

We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences.

In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR by comparing it to accounting records.

In order to assess management's methodologies and assumptions, we were assisted by our actuaries to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the Company's actuarial report, our actuaries performed the following:

- evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods;
- assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We assess these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and
- reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY) – CONTINUED**

Key Audit Matters (Continued)

Key audit matter

Impairment of available for sale investments

As described in note 12, as at 31 December 2018, the Company had available-for-sale investments of SR 174.5 million carried at fair value. These investments are mainly in funds, shares and quoted fixed income securities.

For assessing the impairment of the above mentioned investments, management monitors volatility of the net assets value "NAV"/ market value thereof and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost thereof at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value thereof has been below its original cost at initial recognition.

We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the financial statements.

Refer to the Company's disclosures about above mentioned key audit matter included in note 2 and 12 of the financial statements.

How our audit addressed the key audit matter

We assessed the design and implementation and tested the operating effectiveness of the sample of controls over management's processes for identifying significant or prolonged decline in the fair value of available-for-sale investments.

We have carried out the following audit procedures on a sample basis:

- assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments;
- evaluated the basis for determining the costs and fair value of investments;
- tested the costs and valuations; and
- considered the NAV/ market value and fluctuation/ movement during the holding period to determine if the investment meets the significant or prolonged criteria.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY) – CONTINUED**

Other information included in the Company's 2018 Annual Report

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

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

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

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

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

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

In preparing the financial statements, the 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

**INDEPENDENT AUDITORS' REPORT
 TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
 (A SAUDI JOINT STOCK COMPANY) – CONTINUED**

Auditors' responsibilities for the audit of the financial statements

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

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.

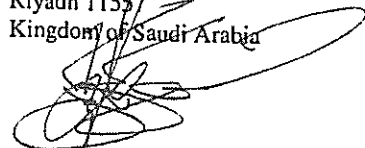
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**INDEPENDENT AUDITORS' REPORT
 TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
 (A SAUDI JOINT STOCK COMPANY) – CONTINUED**

Auditors' responsibilities for the audit of the financial statements (Continued)

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

Al-Bassam & Co.
(Allied Accountants)
 P.O. Box 69658
 Riyadh 11557
 Kingdom of Saudi Arabia



Ibrahim A. Al-Bassam
 Certified Public Accountant
 Registration No. 337



Aldar Audit Bureau
(Abdullah Al Basri & Co)
 P. O. Box 2195
 Riyadh 11451
 Kingdom of Saudi Arabia



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



20 March 2019
 13 Rajab 1440

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

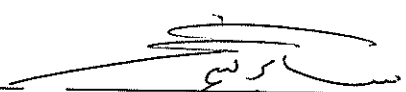
STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 SAR	2017 SAR
ASSETS			
Cash and cash equivalents	5	223,534,759	238,876,530
Time deposits	6	368,123,651	413,190,826
Premiums and reinsurers' receivable, net	8	37,828,171	39,876,887
Reinsurers' share of unearned premiums	9(b)	9,826,524	10,763,509
Reinsurers' share of outstanding claims	9(a)	58,536,727	76,882,260
Reinsurers' share of claims incurred but not reported	9(a)	23,638,303	24,577,916
Deferred policy acquisition costs	9(d)	9,251,289	15,907,131
Investments	12	184,452,148	169,478,726
Prepaid expenses and other assets	7	18,446,097	17,556,315
Property, equipment and intangible assets, net	11	4,420,141	3,302,164
Investment in associate	13	570,292	1,220,388
Statutory deposit	20	25,000,000	25,000,000
Statutory deposit investment returns	20	837,567	527,829
TOTAL ASSETS		964,465,669	1,037,160,481
LIABILITIES			
Policyholders and accounts payables	15	26,652,095	30,301,115
Reinsurers' balances payable		3,438,376	2,833,089
Accrued expenses and other liabilities	16	24,605,744	32,969,174
Unearned premiums	9(b)	134,815,114	203,643,613
Unearned reinsurance commission	9(c)	1,593,290	1,713,540
Outstanding claims	9(a)	159,089,829	185,196,009
Claims incurred but not reported	9(a)	103,871,697	129,048,469
Premium deficiency reserve	9(a)	4,273,324	-
Other technical reserves	9(a)	7,444,867	12,332,859
End-of-service benefits	17	11,496,527	8,912,564
Zakat payable	25	29,839,668	25,840,869
Statutory deposit investment returns	20	837,567	527,829
TOTAL LIABILITIES		507,958,098	633,319,130
INSURANCE OPERATIONS' SURPLUS			
Accumulated surplus		7,326,695	10,221,968
Fair value reserve loss on available for sale investments		(1,006,041)	(1,454,347)
Accumulated actuarial loss on end-of-service benefits	17	(3,357,799)	(1,902,786)
TOTAL LIABILITIES & INSURANCE OPERATIONS' SURPLUS		510,920,953	640,183,965
SHAREHOLDERS' EQUITY			
Share capital	21	250,000,000	250,000,000
Statutory reserve	22	48,707,396	34,224,026
Retained earnings		151,762,026	105,742,042
Fair value reserve gain on available for sale investments		3,075,294	7,010,448
TOTAL SHAREHOLDERS' EQUITY		453,544,716	396,976,516
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		964,465,669	1,037,160,481



Yasser Naghi
Chairman



Samer Kanj
Chief Executive Officer



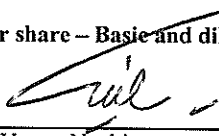
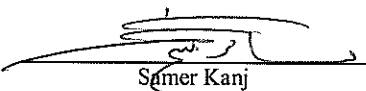
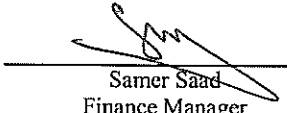
Samer Saad
Finance Manager

The accompanying notes 1 to 30 form an integral part of these financial statements.

**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

STATEMENT OF INCOME

For the year ended 31 December 2018

	Notes	2018 SAR	2017 SAR
REVENUES			
Gross written premiums	9(b)	319,997,982	511,508,751
Reinsurance premiums ceded			
- Local		(2,647,339)	(6,615,782)
- Foreign		(26,191,224)	(21,777,781)
Excess of loss premiums			
- Local		(1,868,497)	(1,706,283)
- Foreign		(14,725,902)	(17,299,455)
Net premiums written		274,565,020	464,109,450
Changes in unearned premiums, net		67,891,514	(1,890,005)
Net premiums earned	9(b)	342,456,534	462,219,445
Reinsurance commissions	9(c)	7,445,607	8,011,446
Policy fees and other underwriting income		7,868,755	17,721,056
TOTAL REVENUES		357,770,896	487,951,947
UNDERWRITING COSTS			
Gross claims paid		(240,048,036)	(251,324,368)
Reinsurers' share of claims paid		23,053,984	18,213,493
Net claims paid		(216,994,052)	(233,110,875)
Changes in outstanding claims, net		7,760,647	(16,622,167)
Changes in claims incurred but not reported, net		24,237,159	(24,780,900)
Net claims incurred		(184,996,246)	(274,513,942)
Changes in premium deficiency reserve		(4,273,324)	-
Changes in other technical reserves		4,887,992	(3,601,434)
Policy acquisition costs	9(d)	(29,999,421)	(44,144,575)
Inspection and supervision fees		(2,706,053)	(4,418,783)
Third party administrator fees		(5,986,096)	(9,452,175)
Other underwriting expenses		(2,472,623)	(1,840,792)
TOTAL UNDERWRITING COSTS		(225,545,771)	(337,971,701)
NET UNDERWRITING SURPLUS		132,225,125	149,980,246
OTHER OPERATING (EXPENSES)/INCOME			
Allowance for doubtful debts	8(b)	(3,575,255)	(121,048)
General and administrative expenses	18	(70,215,725)	(58,284,636)
Commission income on time deposits and investments	5,6	17,101,592	13,649,831
Dividend income		4,370,188	5,128,534
Realized gain on investments		842,884	650,217
Impairment of available for sale investments		(620,545)	(4,206,494)
Share of (loss)/gain of associate	13	(650,096)	778,906
Other income		265,379	394,850
TOTAL OTHER OPERATING (EXPENSES)/INCOME		(52,481,578)	(42,009,840)
Total income for the year		79,743,547	107,970,406
Income attributed to the insurance operations		7,326,695	10,221,967
Income for the year attributable to the shareholders		72,416,852	97,748,439
Earnings per share – Basic and diluted	23	2.90	3.91
 Yasser Naghi Chairman  Samer Kanj Chief Executive Officer  Samer Saad Finance Manager			


The accompanying notes 1 to 30 form an integral part of these financial statements.

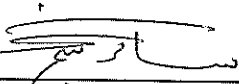
BURUJ COOPERATIVE INSURANCE COMPANY
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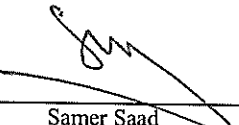
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 SAR	2017 SAR
Total income for the year	79,743,547	107,970,406
Other comprehensive (loss)/income		
<i>Items that will be reclassified to statements of income in subsequent years</i>		
Available for sale investments:		
- Net amounts transferred to statement of income	(842,884)	(650,217)
- Net change in fair value	(2,643,964)	8,643,817
	(3,486,848)	7,993,600
<i>Items that will not be reclassified to statements of income in subsequent years</i>		
Actuarial loss on end-of-service benefit	(1,455,013)	(1,902,786)
<u>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</u>	74,801,686	114,061,220
Total comprehensive income attributed to the insurance operations	6,319,988	9,175,472
Total comprehensive income for the year attributable to the shareholders	68,481,698	104,885,748


Yasser Naghi
Chairman


Samer Kanj
Chief Executive Officer


Samer Saad
Finance Manager

The accompanying notes 1 to 30 form an integral part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2018

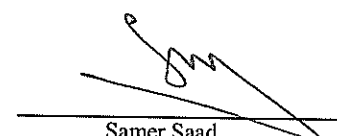
	Share Capital SAR	Statutory Reserve SAR	Retained earnings SAR	Fair value reserve gain/(loss) on available for sale investments SAR	Total SAR
2018					
Balance as at 1 January 2018	250,000,000	34,224,026	105,742,042	7,010,448	396,976,516
Net income for the year attributable to shareholders	-	-	72,416,852	-	72,416,852
Changes in fair value of available for sale investments	-	-	-	(3,935,154)	(3,935,154)
Total comprehensive income for the year attributable to shareholders	-	-	72,416,852	(3,935,154)	68,481,698
Transfer to statutory reserve	-	14,483,370	(14,483,370)	-	-
Zakat for the year	-	-	(11,913,498)	-	(11,913,498)
Balance as at 31 December 2018	250,000,000	48,707,396	151,762,026	3,075,294	453,544,716
2017					
Balance as at 1 January 2017	250,000,000	14,674,338	50,517,990	(126,861)	315,065,467
Net income for the year attributable to shareholders	-	-	97,748,439	-	97,748,439
Changes in fair value of available for sale investments	-	-	-	7,137,309	7,137,309
Total comprehensive income for the year attributable to shareholders	-	-	97,748,439	7,137,309	104,885,748
Dividends distributed	-	-	(12,500,000)	-	(12,500,000)
Transfer to statutory reserve	-	19,549,688	(19,549,688)	-	-
Zakat for the year	-	-	(10,474,699)	-	(10,474,699)
Balance as at 31 December 2017	250,000,000	34,224,026	105,742,042	7,010,448	396,976,516



Yasser Naghi
Chairman



Samer Kanj
Chief Executive Officer



Samer Saad
Finance Manager

The accompanying notes 1 to 30 form an integral part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
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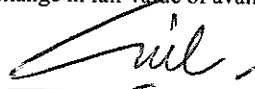
STATEMENT CASH FLOWS

For the year ended 31 December 2017

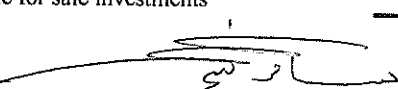
	Note	2018 SAR	2017 SAR
CASH FLOWS FROM OPERATING ACTIVITIES			
Total income for the year		79,743,547	107,970,406
<i>Adjustments for non-cash items:</i>			
Depreciation of property and equipment	11	1,290,392	1,022,708
Allowance for doubtful debts		3,575,255	7,486
Provision for end-of-service indemnities	17	1,799,502	1,959,823
Realized gain from investments		(842,884)	(650,217)
Impairment of available for sale investment		620,545	4,206,494
Share of loss/(profit) of associate		650,096	(778,906)
(Gain)/loss on disposal of property and equipment		(51,925)	29,881
<i>Changes in operating assets and liabilities:</i>			
Premiums and reinsurers' receivable		(1,526,539)	(1,668,777)
Reinsurers' share of unearned premiums		936,985	2,247,749
Reinsurers' share of outstanding claims		18,345,533	10,069,477
Reinsurers' share of claims incurred but not reported		939,613	(10,935,112)
Deferred policy acquisition costs		6,655,842	205,903
Prepaid expenses and other assets		(889,782)	728,645
Policyholders and accounts payables		(3,649,020)	18,785,033
Reinsurers' balances payable		605,287	(2,849,320)
Accrued expenses and other liabilities		(8,363,430)	10,642,889
Unearned premiums		(68,828,499)	(357,744)
Unearned reinsurance commission		(120,250)	(40,141)
Outstanding claims		(26,106,180)	6,552,690
Claims incurred but not reported		(25,176,772)	35,716,012
Premium deficiency reserve		4,273,324	-
Other technical reserves		(4,887,992)	3,601,434
End-of-service indemnities paid	17	(21,007,352)	186,466,413
Insurance surplus paid		(670,552)	(597,098)
Zakat paid		(10,221,968)	(14,339,519)
		(7,914,699)	(5,125,940)
Net cash (used in)/generated from operating activities		(39,814,571)	166,403,856
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposals/(additions) in time deposits		45,067,175	(205,722,644)
Additions in investments	12(ii)	(63,467,860)	(91,296,909)
Proceeds from available for sale investments	12(ii)	45,229,929	70,487,160
Additions in property and equipment	11	(2,421,794)	(1,906,294)
Proceeds from disposal of property and equipment		65,350	-
Net cash generated from /(used in) investing activities		24,472,800	(228,438,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	(12,500,000)
Net cash used in financing activities		-	(12,500,000)
Net change in cash and cash equivalents		(15,341,771)	(74,534,831)
Cash and cash equivalents, beginning of the year		238,876,530	313,411,361
Cash and cash equivalents, end of the year	5	223,534,759	238,876,530

Non-cash transactions:

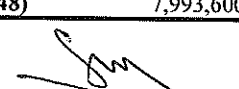
Change in fair value of available for sale investments	(3,486,848)	7,993,600
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Yasser Naghi
Chairman



Samer Kanj
Chief Executive Officer



Samer Saad
Finance Manager

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

1 GENERAL

Buruj Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010280606 dated 10 Safar 1431H, corresponding to 26 January 2010. The registered office address of the Company is P.O. Box 51855, Riyadh 11553, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed on the Tadawul (the Saudi Arabian Stock Market) on 15 February 2010.

The Company was licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree numbered 72/M dated 28 Shawal 1429H (corresponding to 29 October 2008), pursuant to Council of Ministers resolution numbered 313 dated 27 Shawal 1429H (corresponding to 28 October 2008). On 10 Muharram 1431H (corresponding to 27 December 2009), the Ministry of Commerce and Industry issued a resolution declaring the incorporation of the Company.

On 15 Jumada Thani 1431H (corresponding to 29 May 2010), the Saudi Arabian Monetary Authority ("SAMA") issued a formal approval to transact insurance business.

The Company launched its insurance operations on 1 July 2010 after receipt of an authorisation from SAMA to commence insurance operations as product approval and related formalities were completed.

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

2 BASIS OF PREPARATION

(a) Basis of presentation and measurement

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by the Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax, which requires adoption of 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 separately quarter basis through shareholders equity under retained earnings.

The financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of available for sale investments and investment in associates which is accounted for under the equity method and employees' end of service benefits at present value.

As required by Saudi Arabian insurance regulations, the Company maintains separate books of accounts for Insurance and Shareholders' Operations and present the financial statement accordingly (Note 29). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts.

The statement of financial position, statement of income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented in Note 28 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.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

2 BASIS OF PREPARATION (continued)

(b) Basis of presentation and measurement (continued)

In preparing the Company-level financial statements in compliance with IFRSs, 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.

(c) Functional and presentational currency

The functional and presentation currency of the Company is Saudi Riyals.

(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.

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 analysing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

ii) Impairment of financial assets

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

2 BASIS OF PREPARATION (continued)

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

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

3 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE OR ADOPTED

The 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.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

However, on 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9) amending IFRS 9 to include the new general hedge accounting model. In its February 2014 meeting, the IASB decided that IFRS 9 would be mandatorily effective for annual reporting periods beginning on or after 1 January 2018 with an optional temporary exception to defer the application of IFRS 9 till 1 January 2022 for companies whose activities are predominantly connected with insurance. In line with other insurance companies in the Kingdom of Saudi Arabia, the Company deferred the application of IFRS 9 till 1 January 2022 to match with the adoption of IFRS 17.

IFRS 17 Insurance Contracts

The IASB issued IFRS 17 in May 2017. IFRS 17 will be mandatorily effective for annual reporting periods beginning on or after 1 January 2022. Once effective, IFRS 17 replaces IFRS 4 Insurance Contracts that was issued in 2005. The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. The Company is in the process of assessing the impact of IFRS 17.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

3 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE OR ADOPTED (continued)

IFRS 16 Leases

IFRS 16 is 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.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Product classification

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

Premiums earned and commission income

Premiums are taken into income and recorded in the statement of income, over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

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

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Premiums and reinsurance balances receivable

Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premiums 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 the statement of income. Premiums receivable are derecognised when the derecognition criteria for financial assets have been met.

Any difference between the provisions at the end of reporting period and settlements and provisions in the following year is included in the statement of income.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to the statement of income, in the period in which they are incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at the reporting 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 ("IBNR") at the reporting date. The ultimate liability may be in excess of or less than the amount provided. The Company also relies primarily on the IBNR reserves as ultimately set out by the Company's actuary.

Any difference between the provisions at reporting date and settlements and provisions in the following year is included in the statement income for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date

Fair value measurement

The Company measures financial instruments, such as investments in available for sale or derivatives if any, and non-financial assets, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 14. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as set out above. The Company's management determines the policies and procedures for both recurring fair value measurement, such as available for sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation, if any.

External valuers are involved for valuation of significant assets, such as available for sale financial assets if any, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by investment committee after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The investment committee decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case. At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The investment committee, in conjunction with the Company's external valuers, also compares at each reporting date, changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the investment committee and the Company's external valuers present the valuation results to the audit committee and the Company's independent auditors. This includes a discussion of the major assumptions used in the valuations.

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.

Unearned commission income

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

Deferred policy acquisition costs

Commissions paid are deferred and amortised over the terms of the insurance contracts to which they relate as premiums are earned. For marine and engineering, such costs are deferred on the same basis as premiums are earned. Amortisation is recorded in the statement of income.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value an impairment loss is recognised in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting period.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance

Reinsurance contracts are contracts entered into by the Company with reinsurers under which the Company is compensated for losses on insurance contracts issued.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers on settlement of claims and other receivables such as profit commissions, if any, and reinsurers' share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognised consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

At each reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount.

Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment, if any is recognised in the statement of income.

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

Property and equipment

Property and equipment are measured at cost less accumulated depreciation. Depreciation is charged to the statement of income operations on a straight line basis over the estimated useful lives of the assets. The carrying values of property and equipment are reviewed to determine any impairment when events 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. Expenditure for repairs and maintenance is charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Accounts payable and accruals

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

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Special commission income

Special commission income is recognised on an effective yield basis.

Statutory deposit

Statutory deposit represents 10% of the paid up capital of the Company which is maintained with a bank designated by SAMA in accordance with The Cooperative Insurance Companies Control Law for insurance companies. This statutory deposit cannot be withdrawn without the consent of SAMA.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and at banks and time deposits with original maturities of less than three months from the date of the acquisition.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statutory reserve

In accordance with its by-laws, the Company allocates 20% of its net income of each year to the statutory reserve until it has built up a reserve equal to the share capital.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the rates of exchange ruling at the reporting date. All differences are taken to the statement of income.

Offsetting

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

Trade date accounting

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

Impairment and uncollectibility of financial assets

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

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

Segmental reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incur expenses and about which discrete financial information is available that is evaluated regularly by the chief executive officer who the chief is operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organised into business units based on products and services and has five reportable operating segments as follows:

- Motor insurance which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Medical products which provide health care cover to policyholders.
- Property which provides coverage against fire, and any other insurance included under this class of insurance.
- Marine products which provide cover for unpredictable events during sea voyage and inland transit with solutions against unfortunate events incidences during travel and transit.
- Others which include Engineering products and General Accident and liability which provides coverage against unfortunate events with respect to activities undertaken during construction projects, accidental death to individual and group of persons under Personal Accident Insurance and insures the interest of employers under Fidelity Guarantee and affords cover for loss or damage under Money and certain public liability insurances.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Segmental reporting (continued)

Income earned from time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The deficit or surplus from the insurance operations' is allocated to this segment on an appropriate basis. Segment performance is evaluated based on income or loss which, in certain respects, is measured differently from income or loss in the financial statements.

Transfer pricing for intersegment transactions between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company. As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by operating segment only.

Investments

All investments are initially recognised at their fair value, including acquisition charges associated with the investment, excluding those held at fair value through income statement. For investments that are traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without any deduction for transaction costs.

Available for sale investments ("AFS")

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

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under fair value reserve gain/ (loss) on available for sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement income. Where the Company holds more than one investment in the same security they are deemed to be disposed of on a 'first in first out' basis. Interest earned whilst holding AFS financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding AFS investments are recognised in the statement of statement of income when the right of payment has been established. The losses arising from impairment of such investments are recognised in the statement of income.

Held to maturity investments ("HTM")

Held to maturity investments are non-derivative financial assets which have fixed or determinable payments that the Company has the positive intention and ability to hold to maturity and are initially measured at amortised cost adjusted by the amount of amortisation of premium or accretion of discount using the effective interest method. Any permanent decline in value of HTM investments is recognised in the statement of income. Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Company's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the longer-term nature of these investments.

Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies of an investee entity. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements of the Company include the Company's share of the profit or loss and other comprehensive income, until the date on which significant influence ceases. Unrealised profits and losses resulting from transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate. The reporting dates of the associate are identical to the Company's reporting dates and their accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

5 CASH AND CASH EQUIVALENTS

	2018		2017	
	Insurance operations SAR	Shareholders' operations SAR	Insurance operations SAR	Shareholders' operations SAR
Bank balances and cash	104,211,856	18,873,381	129,470,790	28,655,320
Deposits maturing within 3 months from the acquisition date	37,357,794	63,091,728	65,000,000	15,750,420
	141,569,650	81,965,109	194,470,790	44,405,740

Deposits are maintained with financial institutions and have a maturity of three months or less from the date of acquisition. These earn commission income at an average rate of 2.55% per annum (2017: 2.13% per annum).

Both bank balances and deposits are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology.

The carrying amounts disclosed above reasonably approximate their fair values at the reporting date.

6 TIME DEPOSITS

Time deposits are placed with local banks and financial institutions with an original maturity of more than three months from the date of acquisition and earned special commission income at an average rate of 3.80% per annum (2017: 2.79% per annum).

The carrying amounts of the time deposits reasonably approximate their fair values at the reporting date.

7 PREPAID EXPENSES AND OTHER ASSETS

	2018		2017	
	Insurance operations SAR	Shareholders' operations SAR	Insurance operations SAR	Shareholders' operations SAR
Insurance syndicate receivable	5,652,736	-	4,921,924	-
Accrued commission income	4,794,112	1,794,609	3,352,192	1,333,959
Deferred third party administrator fees	1,741,723	-	3,448,970	-
Advances paid to suppliers	1,397,869	-	1,498,757	-
Prepaid rent	1,213,399	-	1,118,006	-
Others	917,614	934,035	912,531	969,976
	15,717,453	2,728,644	15,252,380	2,303,935

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

8 PREMIUMS AND REINSURERS' RECEIVABLE, NET

(a) Premiums and reinsurers' receivables comprised of the following:

	2018 SAR	2017 SAR
Premiums receivable	49,900,132	44,855,075
Less: Allowance for doubtful debts	(18,829,813)	(17,351,691)
	<u>31,070,319</u>	<u>27,503,384</u>
Reinsurers' receivable	9,372,733	12,891,251
Less: Allowance for doubtful debts	(2,614,881)	(517,748)
	<u>6,757,852</u>	<u>12,373,503</u>
Total premiums and reinsurers' receivable, net	<u>37,828,171</u>	<u>39,876,887</u>

(b) The movement in allowance for doubtful policyholders' and reinsurance balances for the year is set out below:

	Policyholders SAR	Reinsurers' SAR	Total SAR
2018			
Beginning balance	17,351,691	517,748	17,869,439
Charge for the year	1,478,122	2,097,133	3,575,255
Closing balance	<u>18,829,813</u>	<u>2,614,881</u>	<u>21,444,694</u>
2017			
Beginning balance	17,100,342	761,611	17,861,953
Charge (reversal) for the year	251,349	(130,301)	121,048
Written-off	-	(113,562)	(113,562)
Closing balance	<u>17,351,691</u>	<u>517,748</u>	<u>17,869,439</u>

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

	Total SAR	Neither past due nor impaired SAR	<i>Past due but not impaired</i>		
			91 to 180 days SAR	181 to 365 days SAR	More than 365 days SAR
2018					
Policyholders'	<u>31,070,319</u>	<u>13,679,950</u>	<u>7,658,754</u>	<u>9,731,615</u>	<u>-</u>
Reinsurers	<u>6,757,852</u>	<u>4,019,548</u>	<u>1,658,986</u>	<u>424,859</u>	<u>654,459</u>
2017					
Policyholders'	<u>27,503,384</u>	<u>9,637,618</u>	<u>7,939,050</u>	<u>9,926,716</u>	<u>-</u>
Reinsurers	<u>12,373,503</u>	<u>9,309,304</u>	<u>2,652,457</u>	<u>294,639</u>	<u>117,103</u>

Balances due from reinsurers are with counterparties who have investment grade credit ratings which is equivalent to AA+ to BBB under Standard and Poor's rating methodology.

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

9 TECHNICAL RESERVES

(a) NET OUTSTANDING CLAIMS AND RESERVES

	2018 SAR	2017 SAR
Gross outstanding claims	159,089,829	185,196,009
Less: Realizable value of salvage and subrogation	-	-
	159,089,829	185,196,009
Claims incurred but not reported	103,871,697	129,048,469
Premium deficiency reserve	4,273,324	-
Other technical reserves *	7,444,867	12,332,859
	274,679,717	326,577,337
Less:		
Reinsurers' share of outstanding claims	(58,536,727)	(76,882,260)
Reinsurers' share of claims incurred but not reported	(23,638,303)	(24,577,916)
	(82,175,030)	(101,460,176)
Net outstanding claims and other reserves	192,504,687	225,117,161

* Other technical reserves comprise of the following:

	2018 SAR	2017 SAR
Unallocated loss adjustment expense provision	2,784,912	-
Catastrophe reserve	2,468,820	2,597,409
Reinsurance accrual reserve	2,191,135	4,748,972
Data deficiency reserve	-	4,986,478
	7,444,867	12,332,859

(b) MOVEMENT IN UNEARNED PREMIUMS

	2018			2017		
	Gross SAR	Reinsurance SAR	Net SAR	Gross SAR	Reinsurance SAR	Net SAR
Beginning balance	203,643,613	(10,763,509)	192,880,104	204,001,357	(13,011,258)	190,990,099
Premiums written during the year	319,997,982	(45,432,962)	274,565,020	511,508,751	(47,399,301)	464,109,450
Premiums earned during the year	(388,826,481)	46,369,947	(342,456,534)	(511,866,495)	49,647,050	(462,219,445)
Closing balance	134,815,114	(9,826,524)	124,988,590	203,643,613	(10,763,509)	192,880,104

(c) UNEARNED REINSURANCE COMMISSION

	2018 SAR	2017 SAR
Beginning balance	1,713,540	1,753,681
Reinsurance commission received during the year	7,325,357	7,971,305
Reinsurance commission earned during the year	(7,445,607)	(8,011,446)
Closing balance	1,593,290	1,713,540

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

(d) MOVEMENT IN DEFERRED POLICY ACQUISITION COSTS

	2018 SAR	2017 SAR
Beginning balance	15,907,131	16,113,034
Paid during the year	23,343,579	43,938,672
Amortised during the year	(29,999,421)	(44,144,575)
Closing balance	9,251,289	15,907,131

10 CLAIMS DEVELOPMENT TABLE

Claims triangulation analysis by accident year

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date. In setting claims provisions the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus.

**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2018

10 CLAIMS DEVELOPMENT TABLE (continued)

GROSS

2018

Accident year	31 December 2013 and earlier	31 December 2014	31 December 2015	31 December 2016	31 December 2017	31 December 2018	Total
	SAR	SAR	SAR	SAR	SAR	SAR	SAR
Estimate of cumulative claims:							
At end of accident year	154,955,171	222,925,179	348,139,465	262,477,634	323,484,785	268,242,289	-
One year later	141,478,033	221,574,214	311,066,696	238,101,886	282,270,228	-	-
Two years later	148,710,230	216,300,364	306,455,600	217,787,080	-	-	-
Three years later	148,662,634	218,149,751	301,664,797	-	-	-	-
Four years later	147,927,573	214,511,810	-	-	-	-	-
Five years later	144,436,585	-	-	-	-	-	-
Current estimate of cumulative claims incurred	144,436,585	214,511,810	301,664,797	217,787,080	282,270,228	268,242,289	1,428,912,789
Cumulative payments to date	(129,799,645)	(197,807,879)	(251,706,330)	(187,770,336)	(234,140,512)	(164,726,561)	(1,165,951,263)
Total cumulative gross claim reserves recognised in statement of financial position	14,636,940	16,703,931	49,958,467	30,016,744	48,129,716	103,515,728	262,961,526

NET (after considering effect of reinsurance)

2018

Accident year	31 December 2013 and earlier	31 December 2014	31 December 2015	31 December 2016	31 December 2017	31 December 2018	Total
	SAR	SAR	SAR	SAR	SAR	SAR	SAR
Estimate of cumulative claims:							
At end of accident year	120,085,398	190,270,352	247,768,390	230,423,840	294,398,521	249,529,105	-
One year later	113,722,642	197,179,277	226,934,157	202,841,835	256,929,714	-	-
Two years later	120,220,720	194,813,568	230,491,592	193,358,693	-	-	-
Three years later	121,358,724	198,103,650	224,933,416	-	-	-	-
Four years later	122,889,044	194,420,029	-	-	-	-	-
Five years later	121,598,313	-	-	-	-	-	-
Current estimate of cumulative claims incurred	121,598,313	194,420,029	224,933,416	193,358,693	256,929,714	249,529,105	1,240,769,270
Cumulative payments to date	(112,879,664)	(185,530,723)	(206,366,240)	(174,436,169)	(220,630,327)	(160,139,651)	(1,059,982,774)
Total cumulative net claim reserves recognised in statement of financial position	8,718,649	8,889,306	18,567,176	18,922,524	36,299,387	89,389,454	180,786,496

The accompanying notes 1 to 30 form part of these financial statements.

**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2018

10 CLAIMS DEVELOPMENT TABLE (continued)

GROSS

2017

Accident year	2017						Total
	31 December 2012 and earlier	31 December 2013	31 December 2014	31 December 2015	31 December 2016	31 December 2017	
	SAR	SAR	SAR	SAR	SAR	SAR	SAR
Estimate of cumulative claims:							
At end of accident year	139,961,586	154,955,171	222,925,179	348,139,465	262,477,634	330,756,483	-
One year later	138,929,703	141,478,033	221,574,214	311,066,696	238,101,886	-	-
Two years later	140,808,597	148,710,230	216,300,364	306,455,600	-	-	-
Three years later	142,830,072	148,662,634	218,149,751	-	-	-	-
Four years later	142,741,866	147,927,573	-	-	-	-	-
Five years later	148,744,024	-	-	-	-	-	-
Current estimate of cumulative claims incurred	148,744,024	147,927,573	218,149,751	306,455,600	238,101,886	330,756,483	1,390,135,317
Cumulative payments to date	(142,739,867)	(137,010,161)	(195,743,964)	(244,525,462)	(174,610,315)	(181,261,070)	(1,075,890,839)
Total cumulative gross claim reserves recognised in statement of financial position	6,004,157	10,917,412	22,405,787	61,930,138	63,491,571	149,495,413	314,244,478
NET (after considering effect of reinsurance)							

2017

Accident year	2017						Total
	31 December 2012 and earlier	31 December 2013	31 December 2014	31 December 2015	31 December 2016	31 December 2017	
	SAR	SAR	SAR	SAR	SAR	SAR	SAR
Estimate of cumulative claims:							
At end of accident year	118,882,521	120,085,398	190,270,352	247,768,390	230,423,840	301,670,219	-
One year later	116,898,249	113,722,642	197,179,277	226,934,157	202,841,835	-	-
Two years later	120,285,227	120,220,720	194,813,568	230,491,592	-	-	-
Three years later	122,468,205	121,358,724	198,103,650	-	-	-	-
Four years later	123,202,129	122,889,044	-	-	-	-	-
Five years later	125,847,756	-	-	-	-	-	-
Current estimate of cumulative claims incurred	125,847,756	122,889,044	198,103,650	230,491,592	202,841,835	301,670,219	1,181,844,096
Cumulative payments to date	(123,200,125)	(115,604,861)	(183,905,884)	(204,112,071)	(168,897,121)	(173,339,732)	(969,059,794)
Total cumulative net claim reserves recognised in statement of financial position	2,647,631	7,284,183	14,197,766	26,379,521	33,944,714	128,330,487	212,784,302

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

11 PROPERTY AND EQUIPMENT, NET

The estimated useful lives of property and equipment for the calculation of depreciation are as follows:

Leasehold improvements	6-7 years	Furniture, fixtures and office equipment	6-10 years
Computer equipment and intangibles	4 years	Motor vehicles	4 years

	Leasehold improvements SAR	Furniture, fixtures and office equipment SAR	Computer equipment and intangibles SAR	Motor vehicles SAR	Total 2018 SAR	Total 2017 SAR
Cost:						
Beginning balance	2,253,605	2,457,106	7,878,916	1,239,502	13,829,129	13,397,103
Additions	151,512	570,440	1,699,842	-	2,421,794	1,906,294
Disposals	-	(7,435)	-	(340,000)	(347,435)	(1,474,268)
	<u>2,405,117</u>	<u>3,020,111</u>	<u>9,578,758</u>	<u>899,502</u>	<u>15,903,488</u>	<u>13,829,129</u>
Accumulated depreciation:						
Beginning balance	1,939,524	1,488,268	6,490,340	608,833	10,526,965	10,948,645
Charge for the year	90,630	273,047	750,104	176,611	1,290,392	1,022,708
Disposals	-	(3,790)	-	(330,220)	(334,010)	(1,444,388)
	<u>2,030,154</u>	<u>1,757,525</u>	<u>7,240,444</u>	<u>455,224</u>	<u>11,483,347</u>	<u>10,526,965</u>
Net book value:						
December 31, 2018	<u>374,963</u>	<u>1,262,586</u>	<u>2,338,314</u>	<u>444,278</u>	<u>4,420,141</u>	
December 31, 2017	<u>314,081</u>	<u>968,838</u>	<u>1,388,576</u>	<u>630,669</u>		<u>3,302,164</u>

12 INVESTMENTS

(i) Investments are classified as follows:

	2018		2017	
	Insurance Operations SAR	Shareholders' Operations SAR	Insurance Operations SAR	Shareholders' Operations SAR
Available for sale "AFS"	31,161,180	143,290,968	41,401,450	118,077,276
Held to maturity "HTM"	-	10,000,000	-	10,000,000
Total	<u>31,161,180</u>	<u>153,290,968</u>	<u>41,401,450</u>	<u>128,077,276</u>

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

12 INVESTMENTS (continued)

(a) Available for sale investments ("AFS") comprises the following:

	2018		2017	
	Insurance Operations SAR	Shareholders' Operations SAR	Insurance Operations SAR	Shareholders' Operations SAR
Quoted local "DPM" equity securities	22,524,280	-	21,134,185	-
Units in local investment funds - (NAV)*	8,636,900	62,710,386	20,267,265	55,985,663
Quoted fixed income securities	-	66,181,234	-	60,168,535
Units in quoted local real estate funds	-	12,476,270	-	-
Unquoted local equity investment **	-	1,923,078	-	1,923,078
Total available for sale investments	31,161,180	143,290,968	41,401,450	118,077,276

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

** This represents the share in Najm for Insurance Services Company.

(b) Held to maturity ("HTM") comprises of domestic unquoted floating rate securities as follows:

	2018		2017	
	Insurance Operations SAR	Shareholders' Operations SAR	Insurance Operations SAR	Shareholders' Operations SAR
Sukuk "Almarai" – September 2022	-	5,000,000	-	5,000,000
Sukuk "Sipchem" – June 2021	-	5,000,000	-	5,000,000
Total held to maturity investments	-	10,000,000	-	10,000,000

The fair value of the "HTM" investments as at 31 December 2018 was not different from its carrying value. There were no movement in held to maturity investments during the year.

(ii) The movement during the year in the investments is as follows:

	2018		2017	
	Insurance Operations SAR	Shareholders' Operations SAR	Insurance Operations SAR	Shareholders' Operations SAR
Opening balance	41,401,450	128,077,276	42,692,814	101,538,840
Purchases	12,623,508	50,844,352	33,647,942	57,648,967
Disposals	(23,582,613)	(21,647,316)	(33,360,120)	(37,127,040)
Impairment	(620,545)	-	(4,206,494)	-
	29,821,800	157,274,312	38,774,142	122,060,767
Changes in fair value of investments	1,339,380	(3,983,344)	2,627,308	6,016,509
Closing balance	31,161,180	153,290,968	41,401,450	128,077,276

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

12 INVESTMENTS (continued)

(iii) The analysis of total investments (insurance and shareholders' operations) by counterparties is as follows:

	2018	2017
	SAR	SAR
Government and quasi government	36,291,065	35,767,439
Banks and financial institutions	28,071,807	22,395,052
Corporates and investment funds	120,089,276	111,316,235
Total	184,452,148	169,478,726

(iv) The credit quality of total investments (insurance and shareholders' operations) is as follows:

	2018	2017
	SAR	SAR
Investment grade	60,847,102	56,433,697
Non-investment grade	12,759,456	7,328,539
Unrated	110,845,590	105,716,490
Total	184,452,148	169,478,726

13 INVESTMENT IN ASSOCIATE

	2018	2017
	SAR	SAR
Balance, January 1	1,220,388	441,482
Share of (loss)/profit	(650,096)	778,906
Balance, December 31	570,292	1,220,388

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

Gulf Warranties Insurance Services (Limited liability Company)

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit/(Loss)	% Interest
				SAR		
September 30, 2018*	Saudi Arabia	5,010,203	3,580,870	533,016	(686,855)	40%
December 31, 2017*	Saudi Arabia	5,633,831	3,517,643	446,690	(832,671)	40%

* Based on latest available management accounts.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

14 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 between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the financial statements.

Determination of fair value and fair value hierarchy

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

- Level 1 - quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;
- Level 2 – quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3 - valuation techniques for which any significant input is not based on observable market data.

2018	Level 1 SAR	Level 2 SAR	Level 3 SAR	Total SAR
Available for sale				
- Equities	22,524,280	-	1,923,078	24,447,358
- Fixed income securities	66,181,234	-	-	66,181,234
- Investment and real estate funds	12,476,270	71,347,286	-	83,823,556
Held to maturity	-	-	10,000,000	10,000,000
	101,181,784	71,347,286	11,923,078	184,452,148

2017

Available for sale				
- Equities	21,134,185	-	1,923,078	23,057,263
- Fixed income securities	60,168,535	-	-	60,168,535
- Investment and real estate funds	20,931,345	55,321,583	-	76,252,928
Held to maturity	-	-	10,000,000	10,000,000
	102,234,065	55,321,583	11,923,078	169,478,726

Transfers between levels

The following table presents the transfers between levels for the year ended December 31, 2018:

2018	Level 1 SAR	Level 2 SAR	Level 3 SAR
Transfers between Levels 1 and 2:			
Units in real estate funds	12,476,270	(12,476,270)	-

The units in real estate funds were transferred into Level 1 because quoted prices existed, however this was not available as at 31 December 2017.

During the year ended 31 December 2018, there were no transfers into or out of Level 3 fair value measurements.

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

15 POLICYHOLDERS AND ACCOUNTS PAYABLES

	2018 SAR	2017 SAR
Payable to policyholders	17,151,358	14,387,592
Brokers and salesmen commissions payable	7,091,966	6,880,952
Other insurance payables	2,408,771	9,032,571
	26,652,095	30,301,115

16 ACCRUED EXPENSES AND OTHER LIABILITIES

	2018		2017	
	Insurance Operations SAR	Shareholders ' Operations SAR	Insurance Operations SAR	Shareholders' Operations SAR
Excess of loss premiums and reinsurance commissions adjustments accruals	4,306,922	-	13,182,823	-
Third party claims payables	7,734,742	-	8,117,979	-
Employees' related accruals and payables	5,687,458	-	7,321,009	-
Board of directors and committee's remuneration fees and expenses	-	1,869,829	-	1,841,571
Others	4,418,274	588,519	1,972,350	533,442
	22,147,396	2,458,348	30,594,161	2,375,013

17 EMPLOYEES' END OF SERVICE BENEFITS

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labour 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 amount recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

Amount recognised in the statement of financial position	2018 SAR	2017 SAR
Present value of end of service benefits	11,496,527	8,912,564
Fair value of plan assets	-	-
Net liability at end of the year	11,496,527	8,912,564
Benefit expense (recognised in statement of income)	2018 SAR	2017 SAR
Current service costs	1,373,537	1,692,773
Commission rate costs	425,965	267,050
Benefit expense (recognised in profit or loss)	1,799,502	1,959,823
Reconciliation of present value of end of service benefits	2018 SAR	2017 SAR
End of service benefits at beginning of the year	8,912,564	5,647,053
Current service costs	1,373,537	1,692,773
Commission rate costs	425,965	267,050
Actuarial loss from experience adjustments	1,455,013	1,902,786
Benefits paid during the year	(670,552)	(597,098)
Present value of end of service benefits at end of the year	11,496,527	8,912,564

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

17 EMPLOYEES' END OF SERVICE BENEFITS (continued)

	2018 SAR	2017 SAR
Reconciliation of net liability in the statement of financial position		
Opening balance	8,912,564	5,647,053
Charge to statement of income	1,799,502	1,959,823
Charge to statement of other comprehensive income	1,455,013	1,902,786
Payment of benefits during the year	(670,552)	(597,098)
Closing balance	<u>11,496,527</u>	<u>8,912,564</u>
Principal actuarial assumption	2018	2017
Valuation discount rate	4.60%	4.50%
Expected rate of increase in salary level across different age bands	7.00%	6.73%

The impact of changes in sensitivities on present value of end of service benefits liability is as follows:

	End of service benefits liability	
	2018 SAR	2017 SAR
Central Assumptions	11,496,527	8,912,564
Valuation discount rate		
• Increase by 0.50%	11,079,984	8,654,279
• Decrease by 0.50%	11,941,368	9,185,690
Expected rate of increase in salary level across different age bands		
• Increase by 0.50%	11,928,734	9,172,812
• Decrease by 0.50%	11,087,449	8,663,992
Employee turnover		
• Increase by 10%	11,297,433	8,738,138
• Decrease by 10%	11,714,733	9,122,503
Mortality rate		
• Increase by 50%	11,481,226	8,907,099
• Decrease by 50%	11,512,029	8,918,061

18 GENERAL AND ADMINISTRATIVE EXPENSES

	2018		2017	
	Insurance operations SAR	Shareholders' operations SAR	Insurance operations SAR	Shareholders' operations SAR
Employees' salaries and all staff related costs	49,455,810	-	42,245,120	-
Office rent	4,147,318	-	4,119,150	-
Legal and professional fees	3,483,170	-	3,412,942	-
Utilities and telecommunications	1,423,701	-	1,633,776	-
Information technology expenses	1,317,394	-	676,531	-
Depreciation	1,290,392	-	1,022,708	-
Stationery and office supplies	826,138	-	658,774	-
Withholding taxes	499,767	-	354,906	-
Board of Directors and committees remuneration fees and expenses	-	1,919,102	-	1,791,384
Listing fees	-	366,800	-	343,699
Others	5,073,531	412,602	1,602,680	422,966
	<u>67,517,221</u>	<u>2,698,504</u>	<u>55,726,587</u>	<u>2,558,049</u>

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

19 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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:

<i>Related party</i>	<i>Nature of transactions</i>	Transactions for the year ended		Balance as at	
		31 December 2018 SAR	31 December 2017 SAR	31 December 2018 SAR	31 December 2017 SAR
Major Shareholders	Insurance premium written	4,521,242	5,622,648	6,576,370	12,500,723
	Claims paid	1,125,477	1,991,718	-	-
	Reinsurance premium ceded	3,030,451	3,001,002	(315,200)	(1,164,406)
Board of Directors and committees' members	Remuneration fees, allowances and other expense	1,919,102	1,791,384	(1,869,829)	(1,841,571)
	Insurance premium written	14,184,625	14,095,794	5,126,350	4,315,317
	Claims paid	8,784,037	10,045,928	-	-
	Insurance brokerage contracts	2,156,076	2,219,406	(1,363,461)	(1,556,714)
Associate	General and administrative expenses paid on behalf of the associate	-	-	844,638	844,638

Balances in respect of the above transactions with related parties are included in the relevant accounts in the statements of financial position and statement of income.

Compensation of key management personnel

Key management personnel of the Company include five top executives including the Chief Executive Officer and Finance Manager. The summary of compensation of key management personnel for the year is as follows:

	2018 SAR	2017 SAR
Short term benefits	5,824,390	5,478,917
End of service benefits	382,189	424,340
	6,206,579	5,903,257

**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2018

20 STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid up capital of the Company which is maintained with local bank designated by SAMA in accordance with the Cooperative Insurance Companies Control Law for insurance companies. This statutory deposit cannot be withdrawn without the consent of SAMA.

Accrued interest on the statutory deposit amounting to SR 837,567 (31 December 2017: SR 527,829) has been presented in the statement of financial position.

21 SHARE CAPITAL

The authorized, issued and paid up share capital of the Company was SAR 250 Million at December 31, 2018 (December 31, 2017: SAR 250 Million) consisting of 25 million shares (December 31, 2017: 25 million shares) of SAR 10 each.

The Company's Board of Directors recommended on June 4, 2018 to the Extraordinary General Assembly Meeting to increase share capital of the Company by issuing 5 million bonus shares. The Company obtained the Capital Market Authority approval on August 9, 2018. The Extraordinary General Assembly held on January 14, 2019 approved the issuance of 5 million bonus shares amounting to SAR 50 Million and thus the share capital increased to SAR 300 Million consisting of 30 million shares of SAR 10 each.

The shareholders of the Company are subject 100% to Zakat.

22 STATUTORY RESERVE

In accordance with the Company's By-laws and in compliance with Article 70 (2) of the Insurance Implementing Regulations of SAMA, the Company allocates 20% of net shareholders' income each year to the statutory reserve until this reserve equals to 100% of the paid capital. The statutory reserve is not available for distribution to shareholders until liquidation of the Company.

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year have been calculated by dividing the net income for the year by the number of issued and outstanding shares at the year end of 25 million shares.

24 CONTINGENCIES AND COMMITMENTS

a) Legal proceedings and regulations

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

b) Operating lease commitments

The minimum future lease payments for the use of the Company's premises total SR 3,097,050 payable during 2019 (2018: SR 3,996,260).

**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2018

25 ZAKAT

The movement in provision during the year is set out below:

	2018 SAR	2017 SAR
At the beginning of the year	25,840,869	20,492,110
Provided during the year	11,913,498	10,474,699
Payments during the year	(7,914,699)	(5,125,940)
At the end of the year	<u>29,839,668</u>	<u>25,840,869</u>

The provision for the year is based on the following:

	2018 SAR	2017 SAR
Shareholders' equity	389,966,068	315,192,328
Dividends distributed	-	(12,500,000)
Book value of long term assets	(31,913,511)	(6,445,630)
Provisions	<u>26,111,451</u>	<u>22,911,908</u>
	384,164,008	319,158,606
Adjusted income for the year	<u>80,446,834</u>	<u>99,829,309</u>
Zakat base	<u>464,610,842</u>	<u>418,987,915</u>

Status of assessments

The Company has filed zakat returns with the General Authority of Zakat and Tax ("GAZT") for the years from 2010 to 2017.

On review of the zakat return by GAZT for the long period ended 31 December 2010, a demand of SAR 2,256,659 was raised by the GAZT. The Company paid this demand and filed an appeal with GAZT. During 2014, GAZT revised its assessment of the zakat return for the long period ended 31 December 2010 after taking into consideration the effect of portfolio transfer and raised an additional demand of SAR 64,738. The Company paid this demand. The final assessment has not yet been carried out by the GAZT.

On review of the zakat return by the GAZT for the year 2011, a demand of SAR 2,378,604 has been raised by the GAZT. The Company paid this demand and filed an appeal with GAZT. On February 2019 GAZT revised its assessment of the zakat return to SAR 2,053,604 after taken into consideration the deduction of statutory deposit based on the decision of the Appeal Committee.

On review of the zakat return by the GAZT for the year 2012, a demand of SAR 1,979,521 has been raised by the GAZT. The Company paid this demand and filed an appeal with GAZT. The final assessments have not yet been carried out by the GAZT.

On review of the zakat return by the GAZT for the years 2013 and 2014 a demand of SAR 2,885,577 and SAR 2,885,577 respectively, have been raised by the GAZT. However, the Company has filed appeals with the GAZT. These appeals are in progress. The final assessments have not yet been carried out by the GAZT.

No assessments have been received out yet from the GAZT for the years 2015, 2016 and 2017.

**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2018

26 RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board of Directors. The Company is exposed to insurance, reinsurance, commission rate, credit, liquidity and currency risks.

Risk management structure

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

Board of Directors

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

Senior management

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

Risk Management and Audit committees

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

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

a) Insurance risk

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

Frequency and severity of claims

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

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims. The Company also has risk management procedures to control cost of claims. The Company has reinsurance excess of loss cover to limit the losses for any individual claim to SAR 1,000,000 (2017: SAR 750,000).

Property

For property insurance contracts the main risks are fire and business interruption. The Company only underwrites policies for properties containing fire detection equipment. These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. Besides treaty and facultative reinsurance arrangements, the Company has reinsurance excess of loss cover to limit losses for any individual claim to SAR 500,000 (2017: SAR 500,000).

**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2018

26 RISK MANAGEMENT (continued)

a) Insurance risk (continued)

General accident and liability

For general accident contracts, the various insurance covers provided by the Company can be broadly classified under Personal Accident (excluding illness), Fidelity Guarantee, and Cash in Transit, Cash in Premises, Cash in Safe, Public Liability, Workmen's Compensation, Medical Malpractice and the like. These insurances afford protection for business enterprises towards loss or damage to person, property and interest giving cover per collusion accumulation as well. Besides treaty and facultative reinsurance arrangements, the Company has reinsurance excess of loss cover to limit losses for any individual claim to SAR 500,000 (2017: SAR 500,000).

Marine

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. Besides treaty and facultative reinsurance arrangements, the Company has reinsurance excess of loss cover to limit losses for any individual claim to SAR 500,000 (2017: SAR 500,000).

Engineering

For engineering the main risks is loss or damage to buildings and civil work under construction like erection for plant or equipment and their related testing and commissioning. Engineering policies extend beyond annual periods in respect of tenure. The Company mitigates such risks by recognition of lower earned premiums during the first year of long-term policies and reinsures significant risks by undertaking treaty, facultative as well as excess of loss reinsurance arrangements.

The underwriting policy is to ensure that construction all risks are comprehensive in terms of documentation of specific coverage and the risks are well diversified. Engineering all risks cover normally plant and machinery erection and is usually extended beyond erection to include testing and commissioning. Besides treaty and facultative reinsurance arrangements, the Company has reinsurance excess of loss cover to limit losses for any individual claim to SAR 500,000 (2017: SAR 500,000).

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. A hypothetical 10% change in the net claims ratio would impact income by approximately SAR 18.5 million (2017: SAR 27.8 million) annually in aggregate.

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. 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.

**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2018

26 RISK MANAGEMENT (continued)

b) Reinsurance risk (continued)

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

- The Company only enters into insurance and reinsurance contracts with 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 from insurance and reinsurance contracts are monitored on an on-going basis in order to reduce the Company's exposure to bad debts.
- The Company deals with only those reinsurers who have a credit rating of not less than BBB. These credit ratings are monitored on a yearly basis.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company investment portfolio is managed by the management in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks and financial institutions having strong financial positions and credit ratings.

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

	2018		2017	
	Insurance' operations	Shareholders' operations	Insurance' operations	Shareholders' operations
Assets				
Cash and cash equivalents	141,569,650	81,965,109	194,470,790	44,405,740
Time deposits	315,872,791	52,250,860	333,373,598	79,817,228
Premiums and reinsurers' receivable, net	37,828,171	-	39,876,887	-
Investments	31,161,180	153,290,968	41,401,450	128,077,276
Reinsurers' share of outstanding claims	58,536,727	-	76,882,260	-
Statutory deposit	-	25,837,567	-	25,527,829
Other assets	10,446,848	2,639,247	8,274,115	1,333,959
	<u>595,415,367</u>	<u>315,983,751</u>	<u>694,279,100</u>	<u>279,162,032</u>

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

26 RISK MANAGEMENT (continued)

d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations and commitment associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and the Company manages this risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Company's assets in highly liquid financial assets.

Maturity table

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

	2018					
	Insurance operations			Shareholders' operations		
	Less than one year SAR	More than one year SAR	Total SAR	Less than one year SAR	More than one year SAR	Total SAR
ASSETS						
Statutory deposit	-	-	-	-	25,837,567	25,837,567
Prepaid expenses and other assets	10,064,717	5,652,736	15,717,453	2,728,644	-	2,728,644
Reinsurers' share of outstanding claims	58,536,727	-	58,536,727	-	-	-
Premiums and reinsurance balances receivable, net	37,828,171	-	37,828,171	-	-	-
Due from insurance operations	-	-	-	170,036,859	-	170,036,859
Available for sale investments	31,161,180	-	31,161,180	141,367,890	1,923,078	143,290,968
Time deposits	315,872,791	-	315,872,791	52,250,860	-	52,250,860
Cash and cash equivalents	141,569,650	-	141,569,650	81,965,109	-	81,965,109
TOTAL ASSETS	595,033,236	5,652,736	600,685,972	448,349,362	27,760,645	476,110,007
	2018					
	Insurance operations			Shareholders' operations		
	Less than one year SAR	More than one year SAR	Total SAR	Less than one year SAR	More than one year SAR	Total SAR
LIABILITIES						
Outstanding claims	159,089,829	-	159,089,829	-	-	-
End-of-service benefits	-	11,496,527	11,496,527	-	-	-
Policyholders and accounts payables	26,652,095	-	26,652,095	-	-	-
Reinsurers' balances payable	3,438,376	-	3,438,376	-	-	-
Zakat payable	-	-	-	29,839,668	-	29,839,668
Accrued expenses and other liabilities	22,147,396	-	22,147,396	2,458,348	-	2,458,348
Due to shareholders' operations	170,036,859	-	170,036,859	-	-	-
Statutory deposit investment returns	-	-	-	837,567	-	837,567
TOTAL LIABILITIES	381,364,555	11,496,527	392,861,082	33,135,583	-	33,135,583

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

26 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

	2017					
	Insurance operations			Shareholders' operations		
	Less than one year SAR	More than one year SAR	Total SAR	Less than one year SAR	More than one year SAR	Total SAR
ASSETS						
Statutory deposit	-	-	-	-	25,527,829	25,527,829
Prepaid expenses and other assets	10,330,456	4,921,924	15,252,380	2,303,935	-	2,303,935
Reinsurers' share of outstanding claims	101,460,176	-	101,460,176	-	-	-
Premiums and reinsurers' receivable, net	39,876,887	-	39,876,887	-	-	-
Due from insurance operations	-	-	-	144,367,831	-	144,367,831
Available for sale investments	41,401,450	-	41,401,450	116,154,198	1,923,078	118,077,276
Time deposits	333,373,598	-	333,373,598	79,817,228	-	79,817,228
Cash and cash equivalents	194,470,790	-	194,470,790	44,405,740	-	44,405,740
TOTAL ASSETS	720,913,357	4,921,924	725,835,281	387,048,932	27,450,907	414,499,839
	2017					
	Insurance operations			Shareholders' operations		
	Less than one year SAR	More than one year SAR	Total SAR	Less than one year SAR	More than one year SAR	Total SAR
LIABILITIES						
Outstanding claims	314,244,478	-	314,244,478	-	-	-
End-of-service benefits	-	8,912,564	8,912,564	-	-	-
Policyholders and accounts payables	30,301,115	-	30,301,115	-	-	-
Reinsurers' balances payable	2,833,089	-	2,833,089	-	-	-
Zakat payable	-	-	-	25,840,869	-	25,840,869
Accrued expenses and other liabilities	30,594,161	-	30,594,161	2,375,013	-	2,375,013
Due to shareholders' operations	144,367,831	-	144,367,831	-	-	-
Statutory deposit investment returns	-	-	-	527,829	-	527,829
TOTAL LIABILITIES	522,340,674	8,912,564	531,253,238	28,743,711	-	28,743,711

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

e) Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to special commission rate risk on its cash and cash equivalents. The sensitivity of the income is the effect of assumed changes in special commission rates, with all other variables held constant, on the Company's income for one year, based on the floating rate financial assets held at 31 December 2018. The Company had a floating rate HTM investment of SAR 10,000,000 as at 31 December 2018 (2017: SAR 10,000,000) and the impact of any commission rate changes on the net income of this investment is not expected to be significant.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

26 RISK MANAGEMENT (continued)

f) 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 Dollars. Management monitors the fluctuations in currency exchange rates and acts accordingly and believes that the foreign currency risk is not significant.

g) Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from 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 has investments in quoted 'sukuks', fixed rate bonds and locally quoted equities and investment funds (see note 12a), which have been classified under 'available for sale' investments. The Company limits its market price risks by closely monitoring developments in markets in which such investments are quoted. A 5% change in the market price of these quoted investments, with all other variables held constant, would change the 'other comprehensive income' and consequently 'shareholders' equity (for investments held under shareholders' operations) by SAR 5.44 million (2017: SAR 3.51 million) and insurance operations' surplus (for investments held under insurance operations) by SAR 1.13 million (2017: SAR 1.66 million).

h) Capital management

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

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

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

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

- Minimum Capital Requirement of SAR 100 million
- Premium Solvency Margin
- Claims Solvency Margin

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

**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2018

26 RISK MANAGEMENT (continued)

i) 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 behaviour. 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.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

27 OPERATING SEGMENTS

Consistent with the Company's internal reporting process, insurance operating segments have been approved by Management in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include general and administrative expenses, allowance for doubtful debts, income on term deposits and investments, gain or loss on property, plant and equipment and investments. Accordingly, they are included in unallocated expenses or income.

Segment assets do not include insurance operations' property and equipment, investments, prepayments and other assets, premiums and reinsurance balances receivable, cash and cash equivalents and time deposits. Accordingly they are included in unallocated assets. Segment liabilities do not include insurance operations' due to shareholders operations, employees' end-of-service benefits, and reinsurance and insurance balances payable, accrued expenses and other liabilities and insurance operations' surplus. Accordingly they are included in unallocated liabilities.

For the year ended December 31, 2018	Motor SAR	Medical SAR	Property & Casualty SAR	Total SAR
<u>REVENUES</u>				
Gross written premiums	190,943,386	87,886,625	41,167,971	319,997,982
Reinsurance premiums ceded				
- Local	-	-	(2,647,339)	(2,647,339)
- Foreign	-	-	(26,191,224)	(26,191,224)
Excess of loss premiums				
- Local	(949,252)	(546,194)	(373,051)	(1,868,497)
- Foreign	(5,407,679)	(6,686,214)	(2,632,009)	(14,725,902)
Net premiums written	184,586,455	80,654,217	9,324,348	274,565,020
Change in unearned premiums, net	33,476,915	32,489,612	1,924,987	67,891,514
Net premiums earned	218,063,370	113,143,829	11,249,335	342,456,534
Reinsurance commissions	-	-	7,445,607	7,445,607
Policy fees and other underwriting income	7,596,712	-	272,043	7,868,755
<u>TOTAL REVENUES</u>	225,660,082	113,143,829	18,966,985	357,770,896
<u>UNDERWRITING COSTS</u>				
Gross claims paid	(145,295,410)	(84,235,084)	(10,517,542)	(240,048,036)
Reinsurers' share of claims paid	6,022,567	8,619,092	8,412,325	23,053,984
Net claims paid	(139,272,843)	(75,615,992)	(2,105,217)	(216,994,052)
Changes in outstanding claims, net	(770,469)	8,644,694	(113,578)	7,760,647
Changes in claims incurred but not reported, net	3,459,010	20,602,133	176,016	24,237,159
Net claims incurred	(136,584,302)	(46,369,165)	(2,042,779)	(184,996,246)
Changes in premium deficiency reserve	-	(2,356,730)	(1,916,594)	(4,273,324)
Changes in other technical reserves	4,920,610	884,751	(917,369)	4,887,992
Policy acquisition costs	(15,421,271)	(11,737,157)	(2,840,993)	(29,999,421)
Inspection and supervision fees	(950,204)	(1,315,568)	(440,281)	(2,706,053)
Third party administrator fees	-	(5,986,096)	-	(5,986,096)
Other underwriting expenses	(753,171)	(1,683,652)	(35,800)	(2,472,623)
<u>TOTAL UNDERWRITING COSTS</u>	(148,788,338)	(68,563,617)	(8,193,816)	(225,545,771)
NET UNDERWRITING SURPLUS	76,871,744	44,580,212	10,773,169	132,225,125
Unallocated other operating expenses				(71,092,476)
Unallocated investment and other income				12,134,303
SURPLUS FROM INSURANCE OPERATIONS				73,266,952

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2018

27 OPERATING SEGMENTS (continued)

For the year ended December 31, 2017	Motor SAR	Medical SAR	Property & Casualty SAR	Total SAR
REVENUES				
Gross written premiums	276,899,240	190,284,636	44,324,875	511,508,751
Reinsurance premiums ceded				
- Local	-	-	(6,615,782)	(6,615,782)
- Foreign	-	-	(21,777,781)	(21,777,781)
Excess of loss premiums				
- Local	(1,302,098)	-	(404,185)	(1,706,283)
- Foreign	(7,566,228)	(7,532,312)	(2,200,915)	(17,299,455)
Net premiums written	268,030,914	182,752,324	13,326,212	464,109,450
Change in unearned premiums, net	339,648	(1,246,201)	(983,452)	(1,890,005)
Net premiums earned	268,370,562	181,506,123	12,342,760	462,219,445
Reinsurance commissions	-	-	8,011,446	8,011,446
Policy fees and other underwriting income	17,396,126	-	324,930	17,721,056
TOTAL REVENUES	285,766,688	181,506,123	20,679,136	487,951,947
UNDERWRITING COSTS				
Gross claims paid	(172,634,222)	(68,135,823)	(10,554,323)	(251,324,368)
Reinsurers' share of claims paid	4,678,977	6,025,849	7,508,667	18,213,493
Net claims paid	(167,955,245)	(62,109,974)	(3,045,656)	(233,110,875)
Changes in outstanding claims, net	(9,588,297)	(5,594,373)	(1,439,497)	(16,622,167)
Changes in claims incurred but not reported, net	7,464,875	(29,499,332)	(2,746,443)	(24,780,900)
Net claims incurred	(170,078,667)	(97,203,679)	(7,231,596)	(274,513,942)
Changes in other technical reserves	(1,769,355)	(1,559,132)	(272,947)	(3,601,434)
Policy acquisition costs	(21,737,723)	(19,255,206)	(3,151,646)	(44,144,575)
Inspection and supervision fees	(1,377,989)	(2,854,269)	(186,525)	(4,418,783)
Third party administrator fees	-	(9,452,175)	-	(9,452,175)
Other underwriting expenses	(1,004,873)	(826,054)	(9,865)	(1,840,792)
TOTAL UNDERWRITING COSTS	(195,968,607)	(131,150,515)	(10,852,579)	(337,971,701)
NET UNDERWRITING SURPLUS	89,798,081	50,355,608	9,826,557	149,980,246
Unallocated other operating expenses				(55,847,635)
Unallocated investment and other income				8,087,064
SURPLUS FROM INSURANCE OPERATIONS				102,219,675

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

27 OPERATING SEGMENTS (continued)

As at December 31, 2018	Motor SAR	Medical SAR	Property & Casualty SAR	Total Insurance Operations SAR
Assets				
Reinsurers' share of unearned premiums	-	-	9,826,524	9,826,524
Reinsurers' share of outstanding claims	12,440,967	1,607,603	44,488,157	58,536,727
Reinsurers' share of claims incurred but not reported	2,360,268	-	21,278,035	23,638,303
Deferred policy acquisition costs	4,507,509	3,534,996	1,208,784	9,251,289
Total Segment assets	19,308,744	5,142,599	76,801,500	101,252,843
Unallocated assets				546,569,386
Total insurance operations assets				647,822,229
LIABILITIES				
Unearned premiums	80,882,679	36,489,514	17,442,921	134,815,114
Unearned reinsurance commission	-	-	1,593,290	1,593,290
Outstanding claims	85,633,830	15,331,724	58,124,275	159,089,829
Claims incurred but not reported	58,877,018	18,454,672	26,540,007	103,871,697
Premium deficiency reserve	-	2,356,730	1,916,594	4,273,324
Other technical reserves	1,466,584	791,692	5,186,591	7,444,867
Total Segment liabilities	226,860,111	73,424,332	110,803,678	411,088,121
Unallocated liabilities				236,734,108
Total insurance operations liabilities				647,822,229
 As at December 31, 2017	 Motor SAR	 Medical SAR	 Property & Casualty SAR	 Total Insurance Operations SAR
Assets				
Reinsurers' share of unearned premiums	-	-	10,763,509	10,763,509
Reinsurers' share of outstanding claims	11,445,435	3,109,863	62,326,962	76,882,260
Reinsurers' share of claims incurred but not reported	7,392,748	45,354	17,139,814	24,577,916
Deferred policy acquisition costs	7,615,946	6,721,244	1,569,941	15,907,131
Total Segment assets	26,454,129	9,876,461	91,800,226	128,130,816
Unallocated assets				627,677,269
Total insurance operations assets				755,808,085
LIABILITIES				
Unearned premiums	114,359,594	68,979,126	20,304,893	203,643,613
Unearned reinsurance commission	-	-	1,713,540	1,713,540
Outstanding claims	83,867,829	25,478,678	75,849,502	185,196,009
Claims incurred but not reported	67,368,508	39,102,159	22,577,802	129,048,469
Other technical reserves	6,387,194	1,676,443	4,269,222	12,332,859
Total Segment liabilities	271,983,125	135,236,406	124,714,959	531,934,490
Unallocated liabilities				223,873,595
Total insurance operations liabilities				755,808,085

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

28 SUPPLEMENTARY INFORMATION

Statement of Financial Position

As at December 31, 2018

	Insurance operations	Shareholders' operations	Total
ASSETS			
Cash and cash equivalents	141,569,650	81,965,109	223,534,759
Time deposits	315,872,791	52,250,860	368,123,651
Premiums and reinsurers' receivable, net	37,828,171	-	37,828,171
Reinsurers' share of unearned premiums	9,826,524	-	9,826,524
Reinsurers' share of outstanding claims	58,536,727	-	58,536,727
Reinsurers' share of claims incurred but not reported	23,638,303	-	23,638,303
Deferred policy acquisition costs	9,251,289	-	9,251,289
Investments	31,161,180	153,290,968	184,452,148
Due from insurance operations	-	170,036,859	170,036,859
Prepaid expenses and other assets	15,717,453	2,728,644	18,446,097
Property and equipment, net	4,420,141	-	4,420,141
Investment in associate	-	570,292	570,292
Statutory deposit	-	25,000,000	25,000,000
Statutory deposit investment returns	-	837,567	837,567
TOTAL ASSETS	647,822,229	486,680,299	1,134,502,528
LIABILITIES			
Policyholders and accounts payables	26,652,095	-	26,652,095
Reinsurers' balances payable	3,438,376	-	3,438,376
Accrued expenses and other liabilities	22,147,396	2,458,348	24,605,744
Unearned premiums	134,815,114	-	134,815,114
Unearned reinsurance commission	1,593,290	-	1,593,290
Outstanding claims	159,089,829	-	159,089,829
Claims incurred but not reported	103,871,697	-	103,871,697
Premium deficiency reserve	4,273,324	-	4,273,324
Other technical reserves	7,444,867	-	7,444,867
Due to shareholders' operations	170,036,859	-	170,036,859
End-of-service benefits	11,496,527	-	11,496,527
Zakat payable	-	29,839,668	29,839,668
Statutory deposit investment returns	-	837,567	837,567
TOTAL LIABILITIES	644,859,374	33,135,583	677,994,957
INSURANCE OPERATIONS' SURPLUS			
Accumulated surplus	7,326,695	-	7,326,695
Fair value reserve loss on available for sale investments	(1,006,041)	-	(1,006,041)
Accumulated actuarial loss on end-of-service benefits	(3,357,799)	-	(3,357,799)
TOTAL LIABILITIES & INSURANCE OPERATIONS' SURPLUS	647,822,229	33,135,583	680,957,812
SHAREHOLDERS' EQUITY			
Share capital	-	250,000,000	250,000,000
Statutory reserve	-	48,707,396	48,707,396
Retained earnings	-	151,762,026	151,762,026
Fair value reserve gain on available for sale investments	-	3,075,294	3,075,294
TOTAL SHAREHOLDERS' EQUITY	-	453,544,716	453,544,716
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	647,822,229	486,680,299	1,134,502,528

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

28 SUPPLEMENTARY INFORMATION (continued)

Statement of Financial Position

As at December 31, 2017

	Insurance operations	Shareholders' operations	Total
ASSETS			
Cash and cash equivalents	194,470,790	44,405,740	238,876,530
Time deposits	333,373,598	79,817,228	413,190,826
Premiums and reinsurers' receivable, net	39,876,887	-	39,876,887
Reinsurers' share of unearned premiums	10,763,509	-	10,763,509
Reinsurers' share of outstanding claims	76,882,260	-	76,882,260
Reinsurers' share of claims incurred but not reported	24,577,916	-	24,577,916
Deferred policy acquisition costs	15,907,131	-	15,907,131
Investments	41,401,450	128,077,276	169,478,726
Due from insurance operations	-	144,367,831	144,367,831
Prepaid expenses and other assets	15,252,380	2,303,935	17,556,315
Property and equipment, net	3,302,164	-	3,302,164
Investment in associate	-	1,220,388	1,220,388
Statutory deposit	-	25,000,000	25,000,000
Statutory deposit investment returns	-	527,829	527,829
TOTAL ASSETS	755,808,085	425,720,227	1,181,528,312
LIABILITIES			
Policyholders and accounts payables	30,301,115	-	30,301,115
Reinsurers' balances payable	2,833,089	-	2,833,089
Accrued expenses and other liabilities	30,594,161	2,375,013	32,969,174
Unearned premiums	203,643,613	-	203,643,613
Unearned reinsurance commission	1,713,540	-	1,713,540
Outstanding claims	185,196,009	-	185,196,009
Claims incurred but not reported	129,048,469	-	129,048,469
Other technical reserves	12,332,859	-	12,332,859
Due to shareholders' operations	144,367,831	-	144,367,831
End-of-service benefits	8,912,564	-	8,912,564
Zakat payable	-	25,840,869	25,840,869
Statutory deposit investment returns	-	527,829	527,829
TOTAL LIABILITIES	748,943,250	28,743,711	777,686,961
INSURANCE OPERATIONS' SURPLUS			
Accumulated surplus	10,221,968	-	10,221,968
Fair value reserve loss on available for sale investments	(1,454,347)	-	(1,454,347)
Accumulated actuarial loss on end-of-service benefits	(1,902,786)	-	(1,902,786)
TOTAL LIABILITIES & INSURANCE OPERATIONS' SURPLUS	755,808,085	28,743,711	784,551,796
SHAREHOLDERS' EQUITY			
Share capital	-	250,000,000	250,000,000
Statutory reserve	-	34,224,026	34,224,026
Retained earnings	-	105,742,042	105,742,042
Fair value reserve gain on available for sale investments	-	7,010,448	7,010,448
TOTAL SHAREHOLDERS' EQUITY	-	396,976,516	396,976,516
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	755,808,085	425,720,227	1,181,528,312

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

28 SUPPLEMENTARY INFORMATION (continued)

Statement of Income	2018			2017		
	Insurance Operations SAR	Shareholders' Operations SAR	Total SAR	Insurance Operations SAR	Shareholders' Operations SAR	Total SAR
REVENUES						
Gross written premiums	319,997,982	-	319,997,982	511,508,751	-	511,508,751
Reinsurance premiums ceded	(28,838,563)	-	(28,838,563)	(28,393,563)	-	(28,393,563)
Excess of loss premiums	(16,594,399)	-	(16,594,399)	(19,005,738)	-	(19,005,738)
Net premiums written	274,565,020	-	274,565,020	464,109,450	-	464,109,450
Changes in unearned premiums, net	67,891,514	-	67,891,514	(1,890,005)	-	(1,890,005)
Net premiums earned	342,456,534	-	342,456,534	462,219,445	-	462,219,445
Reinsurance commissions	7,445,607	-	7,445,607	8,011,446	-	8,011,446
Policy fees and other underwriting income	7,868,755	-	7,868,755	17,721,056	-	17,721,056
TOTAL REVENUES	357,770,896	-	357,770,896	487,951,947	-	487,951,947
UNDERWRITING COSTS						
Gross claims paid	(240,048,036)	-	(240,048,036)	(251,324,368)	-	(251,324,368)
Reinsurers' share of claims paid	23,053,984	-	23,053,984	18,213,493	-	18,213,493
Net claims paid	(216,994,052)	-	(216,994,052)	(233,110,875)	-	(233,110,875)
Changes in outstanding claims, net	7,760,647	-	7,760,647	(16,622,167)	-	(16,622,167)
Changes in claims incurred but not reported, net	24,237,159	-	24,237,159	(24,780,900)	-	(24,780,900)
Net claims incurred	(184,996,246)	-	(184,996,246)	(274,513,942)	-	(274,513,942)
Changes in premiums deficiency reserve	(4,273,324)	-	(4,273,324)	-	-	-
Changes in other technical reserves	4,887,992	-	4,887,992	(3,601,434)	-	(3,601,434)
Policy acquisition costs	(29,999,421)	-	(29,999,421)	(44,144,575)	-	(44,144,575)
Inspection and supervision fees	(2,706,053)	-	(2,706,053)	(4,418,783)	-	(4,418,783)
Third party administrator fees	(5,986,096)	-	(5,986,096)	(9,452,175)	-	(9,452,175)
Other underwriting expenses	(2,472,623)	-	(2,472,623)	(1,840,792)	-	(1,840,792)
TOTAL UNDERWRITING COSTS	(225,545,771)	-	(225,545,771)	(337,971,701)	-	(337,971,701)
NET UNDERWRITING SURPLUS	132,225,125	-	132,225,125	149,980,246	-	149,980,246
OTHER OPERATING (EXPENSES)/INCOME						
Allowance for doubtful debts	(3,575,255)	-	(3,575,255)	(121,048)	-	(121,048)
General and administrative expenses	(67,517,221)	(2,698,504)	(70,215,725)	(55,726,587)	(2,558,049)	(58,284,636)
Commission income on deposits and investments	10,450,969	6,650,623	17,101,592	9,129,157	4,520,674	13,649,831
Dividend income	1,147,426	3,222,762	4,370,188	998,534	4,130,000	5,128,534
Realized gain/(loss) on investments	891,074	(48,190)	842,884	1,771,017	(1,120,800)	650,217
Impairment of available for sale investments	(620,545)	-	(620,545)	(4,206,494)	-	(4,206,494)
Share of (loss)/profit of associate	-	(650,096)	(650,096)	-	778,906	778,906
Other income	265,379	-	265,379	394,850	-	394,850
TOTAL OTHER OPERATING (EXPENSES)/INCOME	(58,958,173)	6,476,595	(52,481,578)	(47,760,571)	5,750,731	(42,009,840)
Total surplus for the year	73,266,952	6,476,595	79,743,547	102,219,675	5,750,731	107,970,406
Surplus transferred to shareholders' operations	(65,940,257)	65,940,257	-	(91,997,708)	91,997,708	-
Net income	7,326,695	72,416,852	79,743,547	10,221,967	97,748,439	107,970,406

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

28 SUPPLEMENTARY INFORMATION (continued)

Statement of Comprehensive Income	2018			2017		
	Insurance Operations SAR	Shareholders' Operations SAR	Total SAR	Insurance Operations SAR	Shareholders' Operations SAR	Total
Income for the year	7,326,695	72,416,852	79,743,547	10,221,967	97,748,439	107,970,406
Other comprehensive income/(loss)						
Items that will be reclassified to statements of income in subsequent years						
Available for sale investments:						
- Net amounts transferred to statement of income	(891,074)	48,190	(842,884)	(1,771,017)	1,120,800	(650,217)
- Net change in fair value	1,339,380	(3,983,344)	(2,643,964)	2,627,308	6,016,509	8,643,817
	448,306	(3,935,154)	(3,486,848)	856,291	7,137,309	7,993,600
Items that will not be reclassified to statements of income in subsequent years						
Actuarial loss on end-of-service benefits	(1,455,013)	-	(1,455,013)	(1,902,786)	-	(1,902,786)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,319,988	68,481,698	74,801,686	9,175,472	104,885,748	114,061,220

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

28 SUPPLEMENTARY INFORMATION (continued)

Statement of Cash Flows

	2018		
	Insurance Operations	Shareholders' Operations	Total
	SAR	SAR	SAR
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year	7,326,695	72,416,852	79,743,547
<i>Adjustments for non-cash items:</i>			
Surplus attributable to the shareholders	65,940,257	(65,940,257)	-
Depreciation of property and equipment	1,290,392	-	1,290,392
Allowance for doubtful debts	3,575,255	-	3,575,255
Provision for end-of-service indemnities	1,799,502	-	1,799,502
Realized (gain)/loss from investments	(891,074)	48,190	(842,884)
Impairment of available for sale investments	620,545	-	620,545
Share of loss of associate	-	650,096	650,096
Gain on disposal of property and equipment	(51,925)	-	(51,925)
<i>Changes in operating assets and liabilities:</i>			
Premiums and reinsurers' receivable	(1,526,539)	-	(1,526,539)
Reinsurers' share of unearned premiums	936,985	-	936,985
Reinsurers' share of outstanding claims	18,345,533	-	18,345,533
Reinsurers' share of claims incurred but not reported	939,613	-	939,613
Deferred policy acquisition costs	6,655,842	-	6,655,842
Prepaid expenses and other assets	(465,073)	(424,709)	(889,782)
Policyholders and accounts payables	(3,649,020)	-	(3,649,020)
Reinsurers' balances payable	605,287	-	605,287
Accrued expenses and other liabilities	(8,446,765)	83,335	(8,363,430)
Unearned premiums	(68,828,499)	-	(68,828,499)
Unearned reinsurance commission	(120,250)	-	(120,250)
Outstanding claims	(26,106,180)	-	(26,106,180)
Claims incurred but not reported	(25,176,772)	-	(25,176,772)
Premium deficiency reserve	4,273,324	-	4,273,324
Other technical reserves	(4,887,992)	-	(4,887,992)
	(27,840,859)	6,833,507	(21,007,352)
End-of-service indemnities paid	(670,552)	-	(670,552)
Insurance surplus paid	(10,221,968)	-	(10,221,968)
Zakat paid	-	(7,914,699)	(7,914,699)
Net cash used in operating activities	(38,733,379)	(1,081,192)	(39,814,571)
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposals in time deposits	17,500,807	27,566,368	45,067,175
Additions in investments	(12,623,508)	(50,844,352)	(63,467,860)
Proceeds from available for sale investments	23,582,613	21,647,316	45,229,929
Additions in property and equipment	(2,421,794)	-	(2,421,794)
Proceeds from disposal of property and equipment	65,350	-	65,350
Net cash generated from (used in) investing activities	26,103,468	(1,630,668)	24,472,800
CASH FLOWS FROM FINANCING ACTIVITIES			
Due to shareholders' operations	(40,271,229)	40,271,229	-
Net cash (used in)/generated from financing activities	(40,271,229)	40,271,229	-
Net change in cash and cash equivalents	(52,901,140)	37,559,369	(15,341,771)
Cash and cash equivalents, beginning of the year	194,470,790	44,405,740	238,876,530
Cash and cash equivalents, end of the year	141,569,650	81,965,109	223,534,759
Non-cash transactions:			
Change in fair value of available for sale investments	448,306	(3,935,154)	(3,486,848)

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

28 SUPPLEMENTARY INFORMATION (continued)

Statement of Cash Flows

	2017		
	Insurance operations	Shareholders' operations	Total
	SAR	SAR	SAR
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year	10,221,967	97,748,439	107,970,406
<i>Adjustments for non-cash items:</i>			
Surplus attributable to the shareholders	91,997,708	(91,997,708)	-
Depreciation of property and equipment	1,022,708	-	1,022,708
Allowance for doubtful debts	7,486	-	7,486
Provision for end-of-service indemnities	1,959,823	-	1,959,823
Realized (gain)/loss from investments	(1,771,017)	1,120,800	(650,217)
Impairment of available for sale investments	4,206,494	-	4,206,494
Share of profit of associate	-	(778,906)	(778,906)
Loss on disposal of property and equipment	29,881	-	29,881
<i>Changes in operating assets and liabilities:</i>			
Premiums and reinsurers' receivable	(1,668,777)	-	(1,668,777)
Reinsurers' share of unearned premiums	2,247,749	-	2,247,749
Reinsurers' share of outstanding claims	10,069,477	-	10,069,477
Reinsurers' share of claims incurred but not reported	(10,935,112)	-	(10,935,112)
Deferred policy acquisition costs	205,903	-	205,903
Prepaid expenses and other assets	1,481,574	(752,929)	728,645
Policyholders and accounts payables	18,785,033	-	18,785,033
Reinsurers' balances payable	(2,849,320)	-	(2,849,320)
Accrued expenses and other liabilities	11,576,306	(933,417)	10,642,889
Unearned premiums	(357,744)	-	(357,744)
Unearned reinsurance commission	(40,141)	-	(40,141)
Outstanding claims	6,552,690	-	6,552,690
Claims incurred but not reported	35,716,012	-	35,716,012
Other technical reserves	3,601,434	-	3,601,434
	182,060,134	4,406,279	186,466,413
End-of-service indemnities paid	(597,098)	-	(597,098)
Insurance surplus paid	(14,339,519)	-	(14,339,519)
Zakat paid	-	(5,125,940)	(5,125,940)
Net cash generated from (used in) operating activities	167,123,517	(719,661)	166,403,856
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions in time deposits	(125,905,416)	(79,817,228)	(205,722,644)
Additions in investments	(33,647,942)	(57,648,967)	(91,296,909)
Proceeds from available for sale investments	33,360,120	37,127,040	70,487,160
Additions in property and equipment	(1,906,294)	-	(1,906,294)
Net cash used in investing activities	(128,099,532)	(100,339,155)	(228,438,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	-	(12,500,000)	(12,500,000)
Due to shareholders' operations	(54,443,927)	54,443,927	-
Net cash (used in)/generated from financing activities	(54,443,927)	41,943,927	(12,500,000)
Net change in cash and cash equivalents	(15,419,942)	(59,114,889)	(74,534,831)
Cash and cash equivalents, beginning of the year	209,890,732	103,520,629	313,411,361
Cash and cash equivalents, end of the year	194,470,790	44,405,740	238,876,530
<i>Non-cash transactions:</i>			
Change in fair value of available for sale investments	856,291	7,137,309	7,993,600

The accompanying notes 1 to 30 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2018

29 COMPARATIVE FIGURES

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

30 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 4 March, 2019 (corresponding to 27 Jumada Al-Thani 1440H).