

**ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

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

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Audit - Consultancy - Zakat & Tax

**Al-Bassam & Co.**  
**Allied Accountants**

(Member firm of PKF International)

Aldar Audit Bureau  
Abdullah Al Basri & Co



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**INDEPENDENT AUDITORS' REPORT ON AUDIT OF THE FINANCIAL STATEMENTS  
TO THE SHAREHOLDERS OF ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**Opinion**

We have audited the financial statements of Alinma Tokio Marine Company, a Saudi Joint Stock Company (the "Company"), which comprise of statement of financial position as at 31 December 2018 and the related statement of income, statement of comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, and the summary of significant accounting policies and other explanatory notes from 1 to 29.

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

**Key Audit Matters**

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

**INDEPENDENT AUDITORS' REPORT ON AUDIT OF THE FINANCIAL STATEMENTS  
 TO THE SHAREHOLDERS OF ALINMA TOKIO MARINE COMPANY  
 (A SAUDI JOINT STOCK COMPANY) – CONTINUED**

**Key Audit Matters (Continued)**

**Key audit matter**

***Valuation of ultimate claim liabilities arising from insurance contracts***

As at 31 December 2018, outstanding claims and claims incurred but not reported (IBNR) amounted to SR 97.7 million and SR 28.7 million, respectively as reported in Note 8.2 to the financial statements.

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

In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of methods 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 and 3 to the financial statements respectively. Liabilities for outstanding claims including IBNR and claims incurred, claims development table have been disclosed in note 8 and 28 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 25 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 and assessing their relationship with the Company.

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

In order to assess management's methodologies and assumptions, we were assisted by our actuary 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 actuary performed the following:

- Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought explanation from management for any significant differences;
- Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We assessed these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and
- Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.

**INDEPENDENT AUDITORS' REPORT ON AUDIT OF THE FINANCIAL STATEMENTS  
TO THE SHAREHOLDERS OF ALINMA TOKIO MARINE 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. The other information consists of the information included in the Company's 2018 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we 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 are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Regulations for Companies and the Company's By-Laws and for such internal controls as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless 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 ON AUDIT OF THE FINANCIAL STATEMENTS  
TO THE SHAREHOLDERS OF ALINMA TOKIO MARINE 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 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, as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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 ON AUDIT OF THE FINANCIAL STATEMENTS  
 TO THE SHAREHOLDERS OF ALINMA TOKIO MARINE 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



1 April 2019  
 25 Rajab 1440

ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

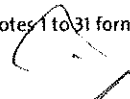
STATEMENT OF FINANCIAL POSITION  
As at 31 December


	Note	2018	2017
		SAR' 000	SAR' 000
<b>ASSETS</b>			
Cash and cash equivalents	4	52,710	107,863
Investments	5	51,798	183,497
Premiums and reinsurance receivables, net	7	96,325	126,390
Reinsurers' share of unearned premiums	8.1	39,641	30,297
Reinsurers' share of outstanding claims	8.2	62,992	128,954
Reinsurers' share of claims incurred but not reported	8.2	16,700	18,156
Reinsurers' share of other reserves	8.2	-	905
Deferred policy acquisition costs	9	8,613	7,529
Prepayments and other assets	10	7,026	14,746
Due from related parties	14	846	8
Murabaha deposits	6	165,998	-
Statutory deposit	11	45,000	45,000
Property and equipment	12	8,549	5,229
Intangible assets	13	3,696	1,882
Unit linked investments		18,768	8,400
<b>TOTAL ASSETS</b>		<b>578,662</b>	<b>678,856</b>
<b>LIABILITIES</b>			
Outstanding claims	8.2	97,703	142,455
Claims incurred but not reported	8.2	28,706	39,221
Other reserves	8.2	874	1,857
Premium deficiency reserves	8.3	2,075	-
Unearned premiums	8.1	80,827	76,138
Reinsurance balances payable		44,998	61,390
Unearned reinsurance commission		7,070	6,661
Accrued expenses and other liabilities	15	41,345	50,914
Due to related party	14	205	75
Zakat and income tax payable	16	5,586	5,024
Unit linked liabilities		18,768	8,400
Retirement benefit obligation	17	5,507	4,273
<b>TOTAL LIABILITIES</b>		<b>333,664</b>	<b>396,408</b>
<b>EQUITY</b>			
Issued, authorised and paid up share capital	18	300,000	300,000
Accumulated losses		(54,373)	(17,227)
Remeasurement of retirement benefit obligation	17	(629)	(325)
<b>TOTAL EQUITY</b>		<b>244,998</b>	<b>282,448</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>578,662</b>	<b>678,856</b>


CONTINGENCIES AND COMMITMENTS

24

The accompanying notes 1 to 31 form an integral part of these financial statements.

  
Director

  
Chief Financial Officer

  
Chief Executive Officer



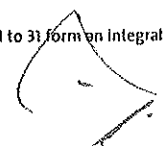
ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME

For the year ended 31 December

	Note	2018 SAR' 000	2017 SAR' 000
<b>REVENUES</b>			
Gross premiums written	8.1	353,591	296,723
Fee income from insurance contracts	8.1	75	98
Reinsurance premiums ceded			
- Local		(9,319)	(8,049)
- Foreign		(139,722)	(134,662)
Excess of loss expenses		(7,877)	(7,021)
Net premiums written		196,748	147,089
Changes in unearned premiums	20	(4,689)	(735)
Changes in reinsurers' share of unearned premiums	20	9,344	(10,132)
Net premiums earned		201,403	136,222
Reinsurance commission earned		22,904	24,781
Other underwriting income		2,188	3,884
Total revenues		226,495	164,887
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid		(199,214)	(195,681)
Surrenders		(993)	(133)
Reinsurers' share of claims paid		62,607	109,003
Net claims and other benefits paid		(137,600)	(86,811)
Changes in outstanding claims		44,752	(30,457)
Changes in reinsurers' share of outstanding claims		(65,962)	37,648
Changes in incurred but not reported claims		10,515	84,784
Changes in reinsurers' share of incurred but not reported claims		(1,456)	(85,293)
Changes in other reserves		983	2,976
Changes in reinsurers' share of other reserves		(905)	905
Changes in premium deficiency reserves		(2,075)	-
Net claims and other benefits incurred		(151,748)	(76,248)
Changes in unit linked reserves		(10,368)	(4,929)
Policy acquisition costs	9	(30,299)	(23,625)
Other underwriting expenses		(1,824)	(1,523)
Total underwriting costs and expenses		(194,239)	(106,325)
NET UNDERWRITING INCOME		32,256	58,562
<b>OTHER (EXPENSES) / INCOME</b>			
General and administrative expenses	21	(62,300)	(54,880)
Provision for doubtful receivables	21	(9,628)	(11,856)
Loss on disposal of property and equipment		(37)	-
Unrealized gain / (loss) on unit linked investments		512	(25)
Unrealized gain on investments	22	2,149	3,508
Realized gain on investments	22	5,302	1,372
Total other (expenses) / Income - net		(64,002)	(61,881)
Loss for the year		(31,746)	(3,319)
Appropriation to insurance operations		-	-
Total loss for the year attributable to the shareholders		(31,746)	(3,319)
Basic and diluted loss per share (SAR)	23	(1.06)	(0.11)

The accompanying notes 1 to 31 form an integral part of these financial statements.

  
Director

  
Chief Financial Officer

  
Chief Executive Officer


ALINMA TOKIO MARINE COMPANY  
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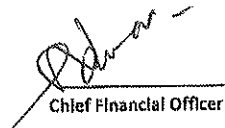
STATEMENT OF COMPREHENSIVE INCOME


For the year ended 31 December

	Note	2018 SAR' 000	2017 SAR' 000
Net loss for the year		(31,746)	(3,319)
Other comprehensive loss:			
Items that will not be reclassified to statement of income in subsequent years			
- Actuarial loss on remeasurement of retirement benefit obligations	17	(304)	(325)
Total comprehensive loss for the year		<u>(32,050)</u>	<u>(3,644)</u>
Total comprehensive loss for the year attributed to insurance operations		<u>(304)</u>	<u>(325)</u>
Total comprehensive loss for the year attributed to shareholders		<u>(31,746)</u>	<u>(3,319)</u>

The accompanying notes 1 to 31 form an integral part of these financial statements.

  
Director

  
Chief Financial Officer

  
Chief Executive Officer


ALINMA TOKIO MARINE COMPANY  
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STATEMENT OF CHANGES IN EQUITY

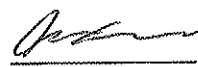
For the year ended 31 December

	Note	Share capital	Accumulated losses	Remeasurement of retirement benefit obligation	Total
		SAR'000	SAR'000	SAR'000	SAR'000
<b>2018</b>					
Balance as at 31 December 2017	18	300,000	(17,227)	(325)	282,448
Total comprehensive loss for the year		-	(31,746)	-	(31,746)
Actuarial loss on retirement benefit obligations		-	-	(304)	(304)
Zakat charge for the year	16	-	(3,782)	-	(3,782)
Additional charge for prior years	16	-	(1,778)	-	(1,778)
Reversal of income tax charge	16	-	160	-	160
Balance as at 31 December 2018		<u>300,000</u>	<u>(54,373)</u>	<u>(629)</u>	<u>244,998</u>
<b>2017</b>					
Balance as at 31 December 2016	18	450,000	(158,346)	-	291,654
Reduction in share capital / accumulated losses		(150,000)	150,000	-	-
Transaction cost relating to reduction in share capital			(403)	-	(403)
Total comprehensive loss for the year		-	(3,319)	-	(3,319)
Actuarial loss on retirement benefit obligations		-	-	(325)	(325)
Zakat charge for the year	16	-	(4,516)	-	(4,516)
Income tax charge for the year	16		(643)	-	(643)
Balance as at 31 December 2017		<u>300,000</u>	<u>(17,227)</u>	<u>(325)</u>	<u>282,448</u>

The accompanying notes 1 to 31 form an integral part of these financial statements.

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS

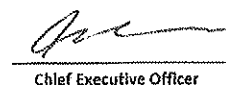
For the year ended 31 December

	Note	2018	2017
		SAR' 000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss for the year		(31,746)	(3,319)
Adjustments for non cash items:			
Depreciation and amortisation	12, 13	2,874	2,649
Provision for doubtful receivables	7	9,628	11,856
Loss on disposal of property and equipment		37	
Realized gain on investments held as FVSI	22	(2,039)	(273)
Unrealized gain on investment held as FVSI	22	(789)	(1,936)
Provision for retirement benefit obligations	17	1,458	1,398
		(20,577)	10,375
Changes in operating assets and liabilities:			
Premiums and reinsurance receivables		20,437	55,674
Reinsurers' share of unearned premiums		(9,344)	10,132
Reinsurers' share of outstanding claims		65,962	(37,648)
Reinsurers' share of claims incurred but not reported		1,456	27,916
Reinsurers' share of other reserves		905	(905)
Deferred policy acquisition costs		(1,084)	(2,091)
Prepayments and other assets		7,720	(8,228)
Due from related parties		(838)	(8)
Unit linked investments		(10,368)	(4,929)
Outstanding claims		(44,752)	30,457
Claims incurred but not reported		(10,515)	(27,407)
Other reserves		(983)	(2,976)
Premium deficiency reserves		2,075	-
Unearned premiums		4,689	735
Reinsurance balances payable		(16,392)	(21,228)
Unearned reinsurance commission		409	(342)
Accrued expenses and other liabilities		(9,569)	22,701
Due to related party		130	75
Unit linked liabilities		10,368	4,929
Cash (used in) / generated from operations		(10,271)	57,232
Retirement benefit obligations paid	17	(528)	(233)
Zakat and income tax paid	16	(4,838)	(4,335)
Net cash (used in) / generated from operating activities		(15,637)	52,664
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of murabaha deposits		(165,998)	-
Purchase of investments	5	(160,500)	(341,295)
Proceeds from disposal of investments	5	295,027	259,757
Purchase of property and equipment	12	(5,419)	(2,059)
Purchase of intangible assets	13	(2,628)	(1,111)
Proceeds from disposal of property and equipment		2	
Net cash used in investing activities		(39,516)	(84,708)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Transaction cost relating to reduction of Capital		-	(403)
Net cash used in financing activities		-	(403)
Net cash used in all activities		(55,153)	(32,447)
Cash and cash equivalents at the beginning of the year		107,863	140,310
Cash and cash equivalents at the end of the year	4	52,710	107,863
<b>Non cash transactions</b>			
Actuarial loss on retirement benefit obligations	17	304	525

The accompanying notes 1 to 31 form an integral part of these financial statements.

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**1 GENERAL**

Alinma Tokio Marine Company ("the Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per Ministry of Commerce and Industry's Resolution number 309/Q dated 19 Rajab 1433H (corresponding to 9 June 2012). The Commercial Registration number of the Company is 1010342527, dated 28 Rajab 1433H (corresponding to 18 June 2012). The Company is listed on the Saudi Arabian Stock Exchange ("Tadawul") since 24 June 2012. The Registered address of the Company's head office is as follows:

King Fahad Road  
P.O. Box 643  
Riyadh 11421  
Kingdom of Saudi Arabia.

The Company is licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree No. 25/M, dated 3 Jumada-Al Thani 1430H (corresponding to 27 June 2009), pursuant to the Council of Ministers' Resolution No. 140 dated 2 Jumada-Al Thani 1430H (corresponding to 26 June 2009).

The purpose of the Company is to transact in cooperative insurance operations and all related activities in accordance with its By Laws and applicable regulations in the Kingdom of Saudi Arabia.

**2 BASIS OF PREPARATION**

**2.1 Basis of presentation and measurement**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 3810000/4519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued on a quarterly basis through equity under retained earnings.

In accordance with Article 70 of the SAMA Implementing Regulations, as per the Articles of Association of the Company, the Company maintains separate accounts for both insurance operations and shareholders' operations. It distributes the net annual insurance surplus as set forth in the Company's Articles of Association and the insurance policy in terms of cooperative insurance. The customer (insurance policy) is valid and paid to date at the time of payment of the cooperative distribution amount.

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of investment held as FVSI. The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: Property and Equipment, Intangible Assets, Unit linked Investments, Statutory Deposit, Murabaha Deposits maturing over one year, Available for sale investments, Held to maturity investments and Retirement benefit obligations. All other financial statement line items would generally be classified as current.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**2 BASIS OF PREPARATION (Continued)**

**2.1 Basis of presentation and measurement (Continued)**

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and present same supplementary information in the financial statements (note 29). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented in Note 29 of the financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company-level financial statements in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances and transactions, 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.

**2.2 Functional and presentation currency**

The financial statements have been prepared in Saudi Arabian Riyals (SR), which is also the functional currency of the Company. All financial information presented in SR has been rounded off to the nearest thousand, unless otherwise stated.

**2.3 Fiscal year**

The Company follows a fiscal year ending December 31.

**2.4 Critical accounting judgement, 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.

NOTES TO THE FINANCIAL STATEMENTS  
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**2 BASIS OF PREPARATION (Continued)**

**2.4 Critical accounting judgement, estimates and assumptions (Continued)**

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

**2.4.1 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 also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

**2.4.2 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.

**2.4.3 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.

**2.4.4 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.

NOTES TO THE FINANCIAL STATEMENTS  
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**2 BASIS OF PREPARATION (Continued)**

**2.4 Critical accounting judgement, estimates and assumptions (Continued)**

**2.4.4 Fair value of financial instruments (Continued)**

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions.

**2.4.5 Useful lives of property and equipment**

The Company's management determines the estimated useful lives for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual values, useful lives and depreciation method annually. Future depreciation charge, if any shall be adjusted where the management believes the useful lives, residual values and depreciation method differ from previous estimates.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these Financial Statements are summarised below. These policies have been consistently applied to each of the financial years presented except for the adoption of the following new standards and other amendments to existing standards mentioned below which have had no significant financial impact on the financial statements of the Company on the current year or prior year and is expected to have no significant effect in future

**3.1 Standards adopted during the year**

**IFRS 2 Share-based payment**

Amendments to IFRS 2 – "Share-based Payment", applicable for the period beginning on or after 1 January 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled. The impact is not material for the Company.

**IFRS 15 Revenue from contracts with customers**

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



NOTES TO THE FINANCIAL STATEMENTS  
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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.2 Standards issued but not yet effective**

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

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

In July 2014, the IASB published IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

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

The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2022 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as FVPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.2 Standards issued but not yet effective (continued)**

**IFRS 16 Leases**

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

**IFRS 17 Insurance Contracts**

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

**3.3 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at cost. This comprises of cash in hand, bank balances and Murabaha deposits with an original maturity of three months or less.

**3.4 Cash flow statement**

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

**3.5 Impairment of financial assets**

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

Evidence of impairment may include:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

NOTES TO THE FINANCIAL STATEMENTS  
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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.5 Impairment of financial assets (Continued)**

- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
  - adverse changes in the payment status of issuers or debtors in the Company; or
  - national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

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

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

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

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

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

The determination of what is 'significant' or 'prolonged' requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% or more from original cost is considered significant as per the Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.5 Impairment of financial assets (Continued)**

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

**3.6 Premiums receivable**

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in "Other expenses / income - net" in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 7 fall under the scope of IFRS 4 "Insurance contracts". Receivables are also analyzed as per the ageing and accordingly provision is maintained on a systematic basis.

**3.7 Reinsurance**

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 3.15 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. An asset or liability is recorded in the statement of financial position - insurance operations' representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.8 Leases**

Leases where the lessor retains significant portion of all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the term of the lease. Lease incentives are recognized as an integral part of the total lease expense over the term of the

**3.9 Foreign currencies**

Transactions denominated in foreign currencies are recorded in Saudi Riyals (SR) at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to SR at the rate of exchange prevailing at the date of statement of financial position. Exchange differences are taken to the statements of insurance operations or statement of shareholders' operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate at the date of initial transaction and are not subsequently restated. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

**3.10 Provisions, accrued expenses and other liabilities**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**3.11 Investments**

**3.11.1 Available-for-sale investments (AFS)**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.11 Investments (Continued)**

**3.11.1 Available for sale investments (AFS) (Continued)**

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

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

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

**3.11.2 Held as Fair Value through Statement of Income**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.11 Investments (Continued)**

**3.11.2 Held as Fair Value thorough Statement of Income (Continued)**

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

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

**3.11.3 Held to maturity**

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

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

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

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

**3.12 Property and Equipment**

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

	Years
Leasehold improvements	5
Furniture and office equipment	5
Computer equipment	3-5

NOTES TO THE FINANCIAL STATEMENTS  
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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.12 Property and Equipment (Continued)**

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in "other (expenses) / income - net" in the statement of income.

**3.12.1 Capital work-in-progress**

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

**3.12.2 Intangible assets**

Intangible assets are shown at historical cost less accumulated amortisation. They have a finite useful life and are subsequently carried at cost less accumulated amortization and impairment losses. The Company amortises intangible assets with a limited useful life using straight-line method over three to five years.

**3.13 Impairment of non-financial assets**

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

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

**3.14 Retirement benefit obligation**

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

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to statement of income in subsequent periods.

Past service cost are recognised in statement of income on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognizes related restructuring costs



**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.14 Retirement benefit obligation (continued)**

Net special commission income is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income under general and administrative expenses:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non routine settlements
- Net special commission expense or income

**3.15 Transaction costs on capital reduction**

Transaction costs to raise or reduce share capital are incremental costs that are directly attributable to the issuance of share capital and are accounted for as a deduction from equity.

**3.16 Insurance contracts**

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk depends upon the probability of occurrence of an insurance event and the magnitude of its potential effect.

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 is significantly reduced subsequently unless all rights and liabilities are extinguished or expired.

**3.17 Liability adequacy test**

At each statement of financial position date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If such an assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of income and an unexpired risk provision is made.

**3.18 Zakat and income tax**

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

NOTES TO THE FINANCIAL STATEMENTS  
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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.19 Revenue recognition**

**3.19.1 Recognition of premium and commission revenue**

Premiums and commission are recorded in the statement of income based on straight line method over the insurance policy coverage period except for long term engineering policies. Unearned premiums are calculated on a straight line method over the insurance policy coverage except for:

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

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

Insurance policyholders are charged for policy administration services, surrenders and policy fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over future periods.

**3.20 Claims**

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

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

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

**3.21 Salvage and subrogation reimbursement**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.22 Deferred policy acquisition costs**

Commission paid to internal sales staff and incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are deferred and shown as an asset in statement of financial position. The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts to which they relate as premiums are earned and charged to statement of income.

**3.23 Offsetting**

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

**3.24 Trade date accounting**

All routine purchases and sales of financial assets are initially recognized / derecognized on the trade date (i.e. the date on which the Company becomes a party to the contractual provisions of the instrument). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

**3.25 De-recognition of financial instruments**

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

**3.26 Foreign currencies**

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

NOTES TO THE FINANCIAL STATEMENTS  
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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.27 Operating segments**

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

- Fire and property
- Marine
- General Accident
- Engineering
- Motor insurance.
- Protection and Savings
- Medical - coverage for health insurance.
- Shareholders' segment - reporting shareholder operations of the Company. Income earned from investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The surplus or loss from the insurance operations is allocated to this segment on an appropriate basis.

Operating segments have been approved by management in respect of the Company's activities, assets and liabilities and is based on current reporting to the Chief Executive Officer.

**3.28 Fair values**

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

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

**3.29 Surrenders and maturities**

Surrenders refer to the partial or full termination of the individual life insurance contract. Surrenders are accounted for on the basis of notifications received and are charged to statement of income in the period in which they are notified. Maturities refers to the amount given to the insured towards the end of the maturity period of the individual life contract.

Surrenders and maturities are calculated based on the terms and conditions of the respective life insurance contract.

NOTES TO THE FINANCIAL STATEMENTS  
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4 CASH AND CASH EQUIVALENTS

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Cash in hand	40	-	40	45	-	45
Cash at banks – current accounts	51,330	1,340	52,670	14,639	1,474	16,113
Short term murabah deposits	-	-	-	-	91,705	91,705
<b>Total</b>	<b>51,370</b>	<b>1,340</b>	<b>52,710</b>	<b>14,684</b>	<b>93,179</b>	<b>107,863</b>

Cash at bank includes an amount of SR 45.32 million (2017: SR 14.79 million) held with Alinma Bank, a related party.

5 INVESTMENTS

This represents investment in Najm for Insurance Services Company (classified as available for sale), equity shares, Shari'ah compliant mutual funds, discretionary portfolios and real estate fund (classified as investment at fair value through income statement "FVSI") and sukuk (classified as held to maturity investments).

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Available for sale investments	-	1,923	1,923	-	1,923	1,923
Investments at fair value through statement of income (FVSI)	411	36,490	36,901	46,436	121,427	167,863
Investments at held to maturity	-	12,974	12,974	-	13,711	13,711
<b>Total</b>	<b>411</b>	<b>51,387</b>	<b>51,798</b>	<b>46,436</b>	<b>137,061</b>	<b>183,497</b>

The movement during the year is as follows:

5.1 Available for sale investments

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Balance at the beginning and end	-	1,923	1,923	-	1,923	1,923

NOTES TO THE FINANCIAL STATEMENTS  
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5 INVESTMENTS (continued)

5.2 Investments at fair value through statement of income (FVSI)

	As at 31 December 2018			As at 31 December 2017		
	Insurance	Shareholders'	Total	Insurance	Shareholders'	Total
	operations	operations		operations	operations	
	SAR'000			SAR'000		
Balance at the beginning	46,436	121,427	167,863	-	83,379	83,379
Purchases	119,500	41,000	160,500	114,000	227,295	341,295
Disposals	(166,218)	(128,072)	(294,290)	(68,000)	(191,020)	(259,020)
Realised gain	692	1,347	2,039	39	234	273
Unrealised gain	1	788	789	397	1,539	1,936
Balance at the end	411	36,490	36,901	46,436	121,427	167,863

5.3 Investments at held to maturity

	As at 31 December 2018			As at 31 December 2017		
	Insurance	Shareholders'	Total	Insurance	Shareholders'	Total
	operations	operations		operations	operations	
	SAR'000			SAR'000		
Balance at the beginning	-	13,711	13,711	-	14,448	14,448
Redemptions	-	(737)	(737)	-	(737)	(737)
Balance at the end	-	12,974	12,974	-	13,711	13,711

Investments held to maturity have a tenure of ten years with quarterly partial redemptions, yielding an average profit rate of SIBOR (3M) + 2.125% per annum.

6 MURABAHA DEPOSITS

Murabaha deposits represents deposits with local and foreign banks that have investment grade credit ratings and have an original maturity of more than three months to 2 years from the date of acquisition, yielding an average profit rate of 3.65% per

7 PREMIUMS AND REINSURANCE RECEIVABLES - NET

	As at 31 December 2018			As at 31 December 2017		
	Insurance	Shareholders'	Total	Insurance	Shareholders'	Total
	operations	operations		operations	operations	
	SAR'000			SAR'000		
Policyholders	92,948	-	92,948	77,485	-	77,485
Related party (note 13)	5,010	-	5,010	6,567	-	6,567
Reinsurance receivables	25,258	-	25,258	59,601	-	59,601
	123,216	-	123,216	143,653	-	143,653
Provision for doubtful receivables	(26,891)	-	(26,891)	(17,263)	-	(17,263)
	96,325	-	96,325	126,390	-	126,390

NOTES TO THE FINANCIAL STATEMENTS  
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7 PREMIUMS AND REINSURANCE RECEIVABLES - NET (Continued)

These balances comprise amounts receivable from a number of individual and corporate customers as well as insurance companies and reinsurance companies. Arrangements with reinsurers normally require settlement within a mutually agreed period.

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

The five largest customers accounts for 66% (December 31, 2017: 54%) of the premiums receivable as at December 31, 2018.

The Company classifies balances as 'past due and impaired' on a case-to-case basis. An impairment adjustment is recorded in the statement of income. It is not the practice of the Company to obtain collateral over receivables.

Movement in the provision for doubtful receivables is as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
Balance at the beginning	17,263	5,407
Provided during the year	9,628	11,856
Balance at the end	26,891	17,263

The age analysis of net premiums and reinsurance receivables arising from insurance contracts is as follows:

- Policyholders' and reinsurers

	Neither past due nor impaired SR '000	Past due but not impaired				Past due and impaired SR '000	Total SR '000
		Up to 3 months SR '000	3 to 6 months SR '000	6 to 12 months SR '000	Above 12 months SR '000		
2018	10,785	43,913	26,211	19,233	18,065	(26,634)	91,573
2017	5,735	47,454	36,898	27,009	19,990	(16,958)	120,128

- Related party

	Neither past due nor impaired SR '000	Past due but not impaired				Past due and impaired SR '000	Total SR '000
		Up to 3 months SR '000	3 to 6 months SR '000	6 to 12 months SR '000	Above 12 months SR '000		
2018	2,272	1,384	1,187	91	76	(258)	4,752
2017	1,667	3,258	1,083	555	4	(305)	6,262

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**8 TECHNICAL RESERVES**

**8.1 MOVEMENT IN UNEARNED PREMIUMS**

	As at 31 December 2018			As at 31 December 2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	SAR'000			SAR'000		
Balance at the beginning	76,138	(30,297)	45,841	75,403	(40,429)	34,974
Premium written	353,591	(156,918)	196,673	296,723	(149,732)	146,991
Policy fee	75	-	75	98	-	98
Premium earned	(348,977)	147,574	(201,403)	(296,086)	159,864	(136,222)
Balance at the end	80,827	(39,641)	41,186	76,138	(30,297)	45,841

**8.2 NET OUTSTANDING CLAIMS AND RESERVES**

	As at 31 December 2018	As at 31 December 2017
	SAR'000	SAR'000
Outstanding claims	107,239	151,170
Less: Realizable value of salvage and subrogation	(9,536)	(8,715)
	97,703	142,455
Claims incurred but not reported	28,706	39,221
Other reserves	874	1,857
Premium deficiency reserves	2,075	-
	129,358	183,533
Less:		
Reinsurers' share of outstanding claims	(62,992)	(128,954)
Reinsurers' share of claims incurred but not reported	(16,700)	(18,156)
Reinsurers' share of other reserves	-	(905)
	(79,692)	(148,015)
<b>Net Outstanding claims and reserves</b>	<b>49,666</b>	<b>35,518</b>



NOTES TO THE FINANCIAL STATEMENTS  
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8 TECHNICAL RESERVES (Continued)

8.3 PREMIUM DEFICIENCY RESERVE

The Company has created a provision in respect of premium deficiency reserves ('PDR') for its medical and motor line of businesses amounting to SAR 0.8 million and SAR 1.3 million respectively. The PDR has been created with respect to additional reserve required to cover expected claims not initially built in the premium. The Company expected this provision based on the assumption that the unearned premiums will not be sufficient to provide for the expected claims and other attributable expenses related to the unexpired periods of policies in force at the date of statement of financial position.

9 MOVEMENT IN DEFERRED POLICY ACQUISITION COSTS

	As at 31 December 2018 SAR'000	As at 31 December 2017 SAR'000
Balance at the beginning	7,529	5,438
Incurred during the year	31,383	25,716
Amortized during the year	(30,299)	(23,625)
Balance at end	8,613	7,529

10 PREPAYMENTS AND OTHER ASSETS

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations SAR'000	Shareholders' operations SAR'000	Total SAR'000	Insurance operations SAR'000	Shareholders' operations SAR'000	Total SAR'000
Prepayments	1,461	154	1,615	1,111	121	7,898
Bank guarantees	2,284	-	2,284	1,184	-	1,184
Other receivables	1,767	-	1,767	4,092	-	4,092
Accrued income	-	1,360	1,360	-	1,572	1,572
	5,512	1,514	7,026	13,053	1,693	14,746

11 STATUTORY DEPOSIT

	31 December 2018 SAR' 000	31 December 2017 SAR' 000
Statutory deposit	45,000	45,000

In accordance with the Saudi Arabian Implementing Regulations issued by SAMA, the Company has deposited an amount equivalent to 15% (2017: 15%) of its paid up share capital in a bank account designated by SAMA. This is a restricted deposit and cannot be utilized in the operations of the Company.

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**12 PROPERTY AND EQUIPMENT**

	As at 31 December 2018				Total 2018	Total 2017
	Leasehold improvements	Computer Equipment	Furniture, fittings and office equipment	Capital work in progress		
	SAR'000					
<b>Cost:</b>						
Balance at the beginning	3,147	4,015	1,879	1,025	10,066	8,007
Additions	2,711	2,572	1,161	2,257	8,701	2,828
Disposals / transfer	(331)	-	(92)	(3,282)	(3,705)	(769)
Balance at the end	5,527	6,587	2,948	-	15,062	10,066
<b>Accumulated depreciation:</b>						
Balance at the beginning	1,708	2,016	1,113	-	4,837	3,235
Charge for the year	713	935	412	-	2,060	1,602
Depreciation on disposals	(296)	-	(88)	-	(384)	-
Balance at the end	2,125	2,951	1,437	-	6,513	4,837
<b>Net book value</b>						
31 December 2018	<b>3,402</b>	<b>3,636</b>	<b>1,511</b>	<b>-</b>	<b>8,549</b>	
31 December 2017	1,439	1,999	766	1,025	5,229	5,229

**13 INTANGIBLE ASSETS**

	Intangible assets	Capital work in progress	Total 2018	Total 2017
	SAR'000			
<b>Cost:</b>				
Balance at the beginning	8,143	1,159	9,302	8,191
Additions	2,378	1,967	4,345	1,258
Transfer		(1,717)	(1,717)	(147)
Balance at the end	10,521	1,409	11,930	9,302
<b>Accumulated depreciation:</b>				
Balance at the beginning	7,420	-	7,420	6,373
Charge for the year	814	-	814	1,047
Balance at the end	8,234	-	8,234	7,420
<b>Net book value</b>				
31 December 2018	<b>2,287</b>	<b>1,409</b>	<b>3,696</b>	
31 December 2017	723	1,159	1,882	1,882

NOTES TO THE FINANCIAL STATEMENTS  
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14 TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of business, the Company transacts with related parties. Transactions with related parties are carried out on an arm's length basis.

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. In addition to the notes 4 and 7, following are the details of major related party transactions during and the related balances at the end of the year:

Nature of transactions	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
<u>Shareholders:</u>						
Gross written premiums	29,477	-	29,477	24,246	-	24,246
Reinsurance premiums ceded	3,579	-	3,579	3,989	-	3,989
Claims paid - net of recoveries	24,876	-	24,876	24,189	-	24,189
Reinsurance commission	703	-	703	739	-	739
Reinsurance share of claims	147	-	147	23,414	-	23,414
General and administrative expenses	1,877	150	2,027	971	2,254	3,225
<u>Other Related parties:</u>						
Investments	14,471	19,614	34,085	5,115	5,140	10,255
Agency commission	1,807	-	1,807	993	-	993
General and administrative expenses	62	-	62	928	8	936

Closing Balances

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
<u>Shareholders:</u>						
Premium Receivable	5,010	-	5,010	6,567	-	6,567
Reinsurance premiums payable	5,230	-	5,230	3,897	-	3,897
Claims payable	64	-	64	339	-	339
Bank Balance	43,981	1,340	45,321	13,328	1,464	14,792
General and administrative expenses	(130)	(75)	(205)	-	(75)	(75)
<u>Other related parties:</u>						
Investments	18,768	36,490	55,258	8,400	54,894	63,294
Agency commission	257	-	257	465	-	465
General and administrative expenses	-	846	846	-	8	8

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**14 TRANSACTIONS WITH RELATED PARTIES**

Information relating to key management personnel:

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Short term benefits	4,282	-	4,282	5,057	-	5,057
Long term benefits	308	-	308	1,393	-	1,393

Short-term benefits include salaries and allowances whilst long term benefits include employees' retirement benefit obligation.

**Board and sub committees related**

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Directors' remuneration	-	1,569	1,569	-	1,610	1,610
Attendance fees	-	383	383	-	452	452

Board and sub-committees attendance fees represent allowance for attending board and sub-committee meetings.

**15 ACCRUED EXPENSES AND OTHER LIABILITIES**

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Accrued expenses	13,111	3,856	16,967	21,146	3,566	24,712
Brokers commission	10,878	-	10,878	8,564	-	8,564
Payable to policyholders	5,277	-	5,277	4,780	-	4,780
Payable to local and regulatory authorities	4,548	-	4,548	5,264	-	5,264
Other payables	3,675	-	3,675	7,594	-	7,594
	37,489	3,856	41,345	47,348	3,566	50,914

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16 ZAKAT AND INCOME TAX PAYABLE

**Zakat**

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

	For the year ended 31 December 2018 SAR'000	For the year ended 31 December 2017 SAR'000
Share capital	300,000	450,000
Reserves, opening provisions and other adjustments	21,562	7,957
Brought forward losses	(17,227)	(158,346)
Book value of long term assets	(71,533)	(65,196)
	232,802	234,415
Adjusted (loss) / income for the year	(20,494)	11,044
Zakat base	212,308	245,459
Saudi Shareholder's share of Zakat base @ 71.25%	151,269	174,890
Zakat due at 2.5%	3,782	4,372

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Zakat payable	-	3,808	3,808	-	4,398	4,398
Income tax payable	-	-	-	-	626	626
Additional charge for prior years	-	1,778	1,778	-	-	-
Zakat and Income tax payable	-	5,586	5,586	-	5,024	5,024

The difference between the accounting income and the adjusted net loss is mainly due to provisions which are not allowed in the calculation of adjustable net income. Local shareholding used for the Zakat calculation is 71.25%

The movement in Zakat provision is as follows:

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Balance at the beginning	-	4,398	4,398	-	4,217	4,217
Zakat charge	-	3,782	3,782	-	4,516	4,516
Zakat payment made	-	(4,372)	(4,372)	-	(4,335)	(4,335)
Balance at the end	-	3,808	3,808	-	4,398	4,398

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16 ZAKAT AND INCOME TAX PAYABLE (Continued)

Income tax:

Provision for income tax has been made at 20% of the adjusted net income attributable to the foreign shareholder of the Company. Foreign shareholder subject to income tax is 28.75%.

The movement in income tax provision is as follows:

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Balance at the beginning	-	626	626	-	(17)	(17)
(Reversal) of prior year charge	-	(160)	(160)	-	643	643
Income tax paid	-	(466)	(466)	-	-	-
Balance at the end	-	-	-	-	626	626

Status of Assessments

During 2017, the General Authority for Zakat and Tax (GAZT) has issued assessments for the years from 2012 to 2015, requiring an additional zakat and WHT liability amounting to SR 5.5 million and SR 2.9 million respectively. The Company has filed an appeal against the assessment of GAZT for the additional liability arising out of various disallowances for years from 2012 to 2015 with Preliminary Appeal Committee (PAC), further the Company has booked an additional zakat liability of SR 1.8 million. The Company has obtained limited certificates for the year from 2012 to 2017.

17 RETIREMENT BENEFIT OBLIGATION

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

The following tables summarise the components of retirement benefit obligation recognised in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

Principal actuarial assumption at:	31 December 2018	31 December 2017
Discount rate	4.00%	4.00%
Expected rate of salary increase	3.00%	3.00%

17.1 Amount recognised in the statement of financial position

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Present value of retirement benefits obligation	5,507	-	5,507	4,273	-	4,273
Fair value of retirement benefit obligation	5,507	-	5,507	4,273	-	4,273
Net liability at the end	5,507	-	5,507	4,273	-	4,273

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**17 RETIREMENT BENEFIT OBLIGATION (Continued)**

**17.2 Amount recognized in the statement of income**

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Current service cost	1,265	-	1,265	1,280	-	1,280
Commission rate cost	193	-	193	118	-	118
Benefit expense	528	-	528	(233)	-	(233)

**17.3 Reconciliation of present value of defined benefit obligation**

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Present value of retirement at the beginning	4,273	-	4,273	2,783	-	2,783
Current service cost	1,265	-	1,265	1,280	-	1,280
Commission rate cost	193	-	193	118	-	118
Actuarial loss on retirement benefit obligation	304	-	304	325	-	325
Benefits paid	(528)	-	(528)	(233)	-	(233)
Present value of retirement obligation at the end	5,507	-	5,507	4,273	-	4,273

**17.4 Movement in net liability recognised in statement of financial position:**

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Net liability at the beginning	4,273	-	4,273	2,783	-	2,783
Charge recognised in statement of income	1,458	-	1,458	1,398	-	1,398
Actuarial loss recognised in other comprehensive income	304	-	304	325	-	325
Retirement benefit obligation paid	(528)	-	(528)	(233)	-	(233)
Net liability at the end	5,507	-	5,507	4,273	-	4,273

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17 RETIREMENT BENEFIT OBLIGATION (Continued)

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

	31 December 2018	31 December 2017
Valuation discount rate		
- Increase by 1%	-9.44%	-9.33%
- Decrease by 1%	-11.21%	11.07%
Expected rate of increase in salary level across different age bands		
- Increase by 1%	11.71%	11.57%
- Decrease by 1%	-10.01%	-9.89%
Mortality rate		
- Increase by 10%	0%	0%
- Decrease by 10%	0%	0%
Employee turnover		
- Increase by 10%	-1.30%	-1.39%
- Decrease by 10%	1.37%	1.45%

18 ISSUED, AUTHORISED AND PAID UP SHARE CAPITAL

On 15th February 2017, the board of directors recommended to the shareholders to reduce the Company's share capital from 45 million share of SAR 10 each amounting to SAR 450 million to 30 million share of SAR 10 each amounting to SAR 300 million through writing off accumulated losses of SAR 150 million. Due to the capital reduction there is no effect on the Company's financial obligations. The proposed capital reduction was approved by the regulatory bodies and by its shareholders in the General Assembly held on 10 May, 2017. During the year ended 31 December, 2017 the Company incurred transaction costs of SR 403 thousands in respect of reduction in share capital, which was charged directly to Statement of changes in equity.

The issued, authorised and paid up share capital of the Company was SAR 300 million as at 31 December 2018 (31 December 2017: SAR 300 million) consisting of 30 million shares (31 December 2017: 30 million) of SAR 10 each.

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

	As at 31 December 2018			As at 31 December 2017		
	No. of shares	Value per share	Share Capital SAR	No. of shares	Value per share	Share Capital SAR
Alinma Bank	8,625,000	10	86,250,000	8,625,000	10	86,250,000
Tokio Marine & Nichido Fire Insurance	8,625,000	10	86,250,000	8,625,000	10	86,250,000
Others	12,750,000	10	127,500,000	12,750,000	10	127,500,000
	<b>30,000,000</b>	<b>10</b>	<b>300,000,000</b>	<b>30,000,000</b>	<b>10</b>	<b>300,000,000</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
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**19 CAPITAL MANAGEMENT**

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

The Company manages its capital to ensure that it is able to continue as a going concern and comply with the regulator's 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 up share capital, reserves and accumulated losses.

The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing 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 SR 100 million
- Premium Solvency Margin
- Claims Solvency Margin

The Company is in compliance with all the externally imposed Capital requirements with sound solvency margin. The Capital structure of the Company as at 31 December 2018 consists of paid up share Capital of SR 300 million (31 December 2017: SR 300 million) and accumulated losses of SAR 54.4 million (31 December 2017: SR 17.23 million) in the statement of financial position.

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

**20 NET EARNED PREMIUMS**

	<b>For the year ended 31 December 2018 SR'000</b>	<b>For the year ended 31 December 2017 SR'000</b>
Gross written premiums	353,591	296,723
Gross unearned premiums at the beginning	76,138	75,403
Gross unearned premiums at the end	(80,827)	(76,138)
Gross earned premiums	348,902	295,988
Fee income from insurance contracts	75	98
Reinsurance premiums ceded	(149,041)	(142,711)
Excess of loss expenses	(7,877)	(7,021)
	(156,918)	(149,732)
Reinsurers' share of unearned premiums at the beginning	(30,297)	(40,429)
Reinsurers' share of unearned premiums at the end	39,641	30,297
Reinsurance Premiums earned	(147,574)	(159,864)
Net earned premiums	201,403	136,222

**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS**  
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**21 GENERAL AND ADMINISTRATIVE EXPENSES**

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance	Shareholders'	Total	Insurance	Shareholders'	Total
	operations	operations		operations	operations	
	SAR'000			SAR'000		
Employees cost	43,567	-	43,567	36,656	-	36,656
Maintenance	6,399	-	6,399	5,485	-	5,485
Depreciation & amortisation	2,874	-	2,874	2,649	-	2,649
Rental	1,430	-	1,430	1,313	-	1,313
Legal and professional fees	689	1,740	2,429	1,439	2,036	3,475
Others	3,672	46	3,718	3,111	60	3,171
Directors' remuneration	-	1,569	1,569	-	1,679	1,679
Board and sub-committee attendance fee	-	383	383	-	452	452
	58,631	3,738	62,369	50,653	4,227	54,880

**22 INVESTMENT AND OTHER INCOME**

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
<b>Investments at fair value through income statement</b>						
- Realized gain during the year	692	1,347	2,039	39	234	273
- Unrealized gain during the year	1	788	789	397	1,539	1,936
	<b>693</b>	<b>2,135</b>	<b>2,828</b>	<b>436</b>	<b>1,773</b>	<b>2,209</b>
<b>Investments held to maturity</b>						
- Income on redemption of Sukuk	-	528	528	-	509	509
- Accrued income on Sukuk	-	66	66	-	61	61
- Income on Murabaha Deposit maturity	-	2,735	2,735	-	590	590
- Accrued income on Murabaha Deposit	-	1,294	1,294	-	1,511	1,511
	<b>-</b>	<b>4,623</b>	<b>4,623</b>	<b>-</b>	<b>2,671</b>	<b>2,671</b>

**23 BASIC AND DILUTED LOSS PER SHARE**

Loss per share has been calculated by dividing the net loss by the weighted average number of outstanding shares.

	For the year ended 31 December 2018	For the year ended 31 December 2017
Net loss (SR "000")	(31,746)	(3,319)
Weighted average number of ordinary shares ("000")	30,000	30,000
Loss per share SAR	(1.06)	(0.11)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**24 CONTINGENCIES AND COMMITMENT**

As at 31 December 2018 the Company's banker has issued letters of guarantee of SAR 2.08 million (2017: SAR 1.18 million) to various customers, motor agencies, workshops and health service providers as per the terms of their respective agreements which have been classified under prepayments and other assets in the statement of financial position. The Company has no capital commitments as at 31 December 2018 and 31 December 2017.

Following table lists the legal proceedings in the ordinary course of business that the Company is subject to.

	2018	2017
	SR'000	SR'000
Motor claims related compensation	666	-
Fire and Property claim related compensation	30,500	83,285

**25 SEGMENT REPORTING**

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

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

Segment information is presented in respect of the Company's business segments which are fire, marine, general accident, engineering, motor and protection and savings based on the Company's management and internal reporting structure.

Operating segments do not include shareholders' operations of the Company.

Segment assets do not include cash and bank balances, investments, premiums and reinsurance receivables, due from shareholders' operations, prepayments and other assets and fixed assets.

Segment liabilities do not include reinsurance balance payable, accrued expenses and other liabilities and retirement benefit obligation.

Segment results do not include general and administrative expenses.

The unallocated assets and liabilities are reported to the Chief Executive Officer on a cumulative basis and not reported under the related segment.

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

25 SEGMENT REPORTING (Continued)

	For the year ended 31 December 2018								
	Fire & property	Marine	General accident	Engineering	Motor	Protection and savings	Medical	Total Insurance Operations	Shareholders' operations
	SAR'000								
REVENUES									
Gross premiums written	72,672	34,983	32,210	10,131	143,248	48,101	10,246	353,591	-
Fee income from Insurance contracts	7	7	13	4	44	-	-	75	-
Reinsurance premiums ceded - Local	(3,322)	(3,027)	(1,705)	(1,265)	-	-	-	(9,319)	-
Reinsurance premiums ceded - Foreign	(66,123)	(30,121)	(23,225)	(7,461)	-	(12,792)	-	(139,722)	-
Excess of loss expenses	(1,104)	(989)	(1,830)	(338)	(3,616)	-	-	(7,877)	-
Net premiums written	2,130	853	5,463	1,071	141,676	35,309	10,246	196,748	-
Net change in unearned premiums	(273)	1,644	(490)	(279)	617	459	2,977	4,655	-
Net premiums earned	1,857	2,497	4,973	792	142,293	35,768	13,223	201,403	-
Reinsurance commission earned	11,836	5,495	3,797	1,733	6	37	-	22,904	-
Other underwriting income	-	-	-	-	2,188	-	-	2,188	-
Total insurance revenues	13,693	7,992	8,770	2,525	144,487	35,805	13,223	226,495	-
UNDERWRITING COSTS AND EXPENSES									
Net claims incurred	(658)	(924)	(2,029)	(95)	(119,264)	(12,800)	(15,978)	(151,748)	-
Changes in unit linked reserves	-	-	-	-	-	(10,368)	-	(10,368)	-
Policy acquisition costs	(7,387)	(2,650)	(2,496)	(730)	(13,061)	(2,697)	(1,278)	(30,299)	-
Other underwriting expenses	(347)	(160)	(153)	(44)	(725)	(241)	(154)	(1,824)	-
Total underwriting costs and expenses	(8,392)	(3,734)	(4,678)	(869)	(133,050)	(26,106)	(17,410)	(194,239)	-
NET UNDERWRITING INCOME / (LOSS)	5,301	4,258	4,092	1,656	11,437	9,699	(4,187)	32,256	-
OTHER OPERATING (EXPENSES)/ INCOME									-
General and administrative expenses								(58,631)	(3,669)
Provision for doubtful receivables								(9,628)	-
Loss on disposal of property and equipment								(37)	-
Unrealized gain on unit linked investments								512	-
Unrealized gain on investments								1	2,148
Realized gain on investments								692	4,610
Total other operating expenses								(67,091)	3,089
Net (deficit) / surplus								(34,835)	3,089
Appropriation to shareholders' operations									-
Appropriation to insurance operations									-
Net loss after appropriations to shareholders' operations									(31,746)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

25 SEGMENT REPORTING (Continued)

	For the year ended 31 December 2017									
	Fire & property	Marine	General accident	Engineering	Motor	Protection and savings	Medical	Total Insurance Operations	Shareholders' operations	Total
	SAR'000									
REVENUES										
Gross premiums written	66,528	48,458	19,132	8,759	115,047	30,848	7,951	296,723	-	296,723
Fee income from Insurance contracts	5	3	10	3	77	-	-	98	-	98
Reinsurance premiums ceded - Local	(3,021)	(2,518)	(1,252)	(1,014)	(244)	-	-	(8,049)	-	(8,049)
Reinsurance premiums ceded - Foreign	(60,524)	(43,124)	(11,859)	(6,747)	(241)	(12,167)	-	(134,662)	-	(134,662)
Excess of loss expenses	(762)	(1,161)	(1,340)	(379)	(3,379)	-	-	(7,021)	-	(7,021)
Net premiums written	2,226	1,658	4,691	622	111,260	18,681	7,951	147,089	-	147,089
Net change in unearned premiums	(501)	(221)	(839)	(69)	(3,660)	(2,465)	(3,112)	(10,867)	-	(10,867)
Net premiums earned	1,725	1,437	3,852	553	107,600	16,216	4,839	136,222	-	136,222
Reinsurance commission earned	10,867	8,472	3,658	1,668	116	-	-	24,781	-	24,781
Other underwriting income	-	-	-	-	3,884	-	-	3,884	-	3,884
Total insurance revenues	12,592	9,909	7,510	2,221	111,600	16,216	4,839	164,887	-	164,887
UNDERWRITING COSTS AND EXPENSES										
Net claims incurred	(688)	(1,287)	9	(26)	(65,650)	(3,378)	(5,228)	(76,248)	-	(76,248)
Changes in unit linked reserves	-	-	-	-	-	(4,929)	-	(4,929)	-	(4,929)
Policy acquisition costs	(5,367)	(2,585)	(1,788)	(742)	(11,968)	(943)	(232)	(23,625)	-	(23,625)
Other underwriting expenses	(322)	(235)	(93)	(42)	(558)	(154)	(119)	(1,523)	-	(1,523)
Total underwriting costs and expenses	(6,377)	(4,107)	(1,872)	(810)	(78,176)	(9,404)	(5,579)	(106,325)	-	(106,325)
NET UNDERWRITING INCOME / (LOSS)	6,215	5,802	5,638	1,411	33,424	6,812	(740)	58,562	-	58,562
OTHER OPERATING (EXPENSES)/ INCOME										
General and administrative expenses								(50,653)	(4,227)	(54,880)
Provision for doubtful receivables								(11,856)	-	(11,856)
Unrealized loss on unit linked investments								(25)	-	(25)
Unrealized gain on investments								397	3,111	3,508
Realized gain on investments								39	1,333	1,372
Total other operating expenses								(62,098)	217	(61,881)
Net deficit								(3,536)	217	(3,319)
Appropriation to shareholders' operations										-
Appropriation to insurance operations										-
Net loss after appropriations to shareholders' operations										(3,319)

NOTES TO THE FINANCIAL STATEMENTS  
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25 SEGMENT REPORTING (Continued)

As at 31 December 2018									
Fire & property	Marine	General accident	Engineering	Motor	Protection and savings	Medical	Total Insurance	Shareholders' operations	Total
SAR'000									
<b>ASSETS</b>									
Cash and cash equivalents	-	-	-	-	-	-	51,370	1,340	52,710
Investments	-	-	-	-	-	-	411	51,387	51,798
Reinsurers' share of outstanding claims	39,438	9,118	5,628	3,630	-	5,178	62,992	-	62,992
Reinsurers' share of claims IBNR	6,894	5,297	2,073	921	-	1,515	16,700	-	16,700
Reinsurers' share of unearned premiums	20,481	9,060	7,149	2,638	-	313	39,641	-	39,641
Deferred policy acquisition costs	2,392	1,098	823	437	3,459	243	8,613	-	8,613
Unit linked investments	-	-	-	-	-	18,768	18,768	-	18,768
Unallocated assets	-	-	-	-	-	-	125,023	213,358	338,381
<b>Total assets</b>							<b>323,518</b>	<b>266,085</b>	<b>589,603</b>

	As at 31 December 2018									
	Fire & property	Marine	General accident	Engineering	Motor	Protection and savings	Medical	Total Insurance	Shareholders' operations	Total
	SAR'000									
<b>LIABILITIES</b>										
Outstanding claims	40,127	10,395	7,453	3,767	25,425	8,695	1,841	97,703	-	97,703
Claims incurred but not reported	7,395	5,894	2,782	1,107	6,711	3,411	1,406	28,706	-	28,706
Other reserves	65	102	138	18	551	-	-	874	-	874
Premium deficiency reserves	-	-	-	-	1,265	-	810	2,075	-	2,075
Unearned premiums	21,705	8,268	10,044	3,386	32,588	2,352	2,484	80,827	-	80,827
Unearned reinsurance commission	4,091	1,366	976	637	-	-	-	7,070	-	7,070
Unit linked liabilities	-	-	-	-	-	18,768	-	18,768	-	18,768
Unallocated liabilities								87,495	266,085	353,580
Total liabilities								323,518	266,085	589,603

As at 31 December 2017									
Fire & property	Marine	General accident	Engineering	Motor	Protection and savings	Medical	Total Insurance	Shareholders' operations	Total
SAR'000									
<b>ASSETS</b>									
Cash and cash equivalents	-	-	-	-	-	-	14,684	93,179	107,863
Investments	-	-	-	-	-	-	46,436	137,061	183,497
Reinsurers' share of outstanding claims	86,751	28,197	4,444	1,771	2,963	4,828	128,954	-	128,954
Reinsurers' share of claims IBNR	5,229	5,892	2,009	1,857	-	3,169	18,156	-	18,156
Reinsurers' share of other reserves	-	-	-	905	-	-	905	-	905
Reinsurers' share of unearned premiums	14,444	10,260	3,063	2,450	32	48	30,297	-	30,297
Deferred policy acquisition costs	1,763	802	722	459	3,152	253	7,529	-	7,529
Unit linked investments	-	-	-	-	-	8,400	8,400	-	8,400
Unallocated assets	-	-	-	-	-	-	146,554	61,198	207,752
<b>Total assets</b>							<b>401,915</b>	<b>291,438</b>	<b>693,353</b>

As at 31 December 2017										
Fire & property	Marine	General accident	Engineering	Motor	Protection and savings	Medical	Total Insurance	Shareholders' operations	Total	
SAR'000										
LIABILITIES										
Outstanding claims	87,896	29,247	4,935	1,865	11,567	6,151	794	142,455	-	142,455
Claims incurred but not reported	5,561	6,440	2,640	1,985	11,271	4,347	6,977	39,221	-	39,221
Other reserves	57	318	43	1,078	361	-	-	1,857	-	1,857
Unearned premiums	15,395	11,113	5,467	2,919	33,237	2,545	5,462	76,138	-	76,138
Unearned reinsurance commission	3,181	1,820	853	801	6	-	-	6,661	-	6,661
Unit linked liabilities	-	-	-	-	-	8,400	-	8,400	-	8,400
Unallocated liabilities							127,183	291,438		418,621
Total liabilities							401,915	291,438		693,353

NOTES TO THE FINANCIAL STATEMENTS  
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26 RISK MANAGEMENT

**Insurance risk**

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 51% of total reinsurance assets at the reporting date.

**Frequency and severity of claims**

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 40.21 % of equity on a gross basis and 0.41% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 16.08 % of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims
<b>2018</b>				
Marine	10%	-2%	11%	4%
Fire and property	27%	3%	41%	2%
Motor	40%	79%	26%	73%
Engineering	4%	2%	4%	1%
Accident & Liability	13%	7%	7%	5%
Protection and savings	3%	5%	9%	10%
Medical	3%	6%	2%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

26 RISK MANAGEMENT (Continued)

Frequency and severity of claims (Continued)

	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims
<u>2017</u>				
Marine	15%	2%	21%	8%
Fire and property	20%	2%	62%	8%
Motor	44%	72%	8%	64%
Engineering	4%	1%	1%	1%
Accident & Liability	7%	5%	3%	3%
Protection and savings	3%	6%	4%	10%
Medical	7%	12%	1%	6%
Total	100%	100%	100%	100%

Concentration of insurance risk

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

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

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

Sources of uncertainty in estimation of future claim payments:

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



## 26 RISK MANAGEMENT (Continued)

### Concentration of insurance risk (Continued)

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

### Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. For details please refer note 3.

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

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

### Sensitivity analysis

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

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**26 RISK MANAGEMENT (Continued)**

**Sensitivity analysis (Continued)**

A hypothetical 10% change in the claim ratio and average claim cost, net of reinsurance, would impact net underwriting income as follows:

**Impact of change in claim ratio by + / - 10%**

	<b>2018</b>	<b>2017</b>
	<b>SAR'000</b>	<b>SAR'000</b>
Motor	<b>14,229</b>	10,758
Medical	<b>1,322</b>	484
Protection and savings	<b>3,577</b>	1,622
General	<b>1,012</b>	757

**Impact on average claim cost + / - 10%**

	<b>2018</b>	<b>2017</b>
	<b>SAR'000</b>	<b>SAR'000</b>
Motor	<b>2,543</b>	860
Medical	<b>184</b>	79
Protection and savings	<b>352</b>	132
General	<b>393</b>	279

**Reinsurance risk**

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

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

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

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

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

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

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**26 RISK MANAGEMENT (Continued)**

**Market Risk**

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

- The Company's risk management policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders which are in line with their expectations.

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

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

**Currency Risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Arabian Riyals and believes that the foreign currency risk is not significant.

**Commission Rate Risk**

The Company places deposits that are subject to commission rate risk, with the exception of restricted deposits which are required to be maintained in accordance with SAMA regulations on which the Company does not earn any commission. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates and by investing in floating rate instruments.

An increase or decrease of 100 basis points in interest yields would result in a change in the loss or gain for the year by SAR 1.17 million (2017: SAR 0.19 million).

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

	Commission bearing			Non-commission bearing	Total
	Less than 1 year	1 to 5 years	Over 5 years		
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
<b>Insurance operations</b>					
<b>2018</b>	-	-	-	19,179	19,179
<b>2017</b>	-	-	-	54,836	54,836

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26 RISK MANAGEMENT (Continued)

Commission Rate Risk (Continued)

	Commission bearing			Non-commission bearing	Total
	Less than 1 year	1 to 5 years	Over 5 years		
Shareholders' operations	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
2018	125,098	40,900	-	51,387	217,385
2017	91,705	-	-	137,061	228,766

Other Price Risk

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

The Company's investments amounting to SAR 55.6 million (2017: SAR 176.3 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

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

	Fair value change	Effect on Company's profit
		SAR'000
2018	+ / - 10 %	+/- 3,567
2017	+ / - 10%	+ / -17,626

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

Credit risk

Credit risk is the risk that arises with a possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position. The Company's credit risk exposure relating to customers and deposits is mainly concentrated in Saudi Arabia.

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**26 RISK MANAGEMENT (Continued)**

**Credit risk (Continued)**

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

	As at 31 December 2018			As at 31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Cash and cash equivalents	51,370	1,340	52,710	14,684	93,179	107,863
Premiums and reinsurance receivables, net	96,325	-	96,325	126,390	-	126,390
Reinsurers' share of outstanding claims	62,992	-	62,992	148,015	-	148,015
Due from reinsurers	24,133	-	24,133	55,259	-	55,259
Investments net of equity investments	19,179	51,388	70,567	54,836	137,061	191,897
Due from related parties	-	846	846	-	8	8
Murabaha Deposits	-	165,998	165,998	-	-	-
Statutory deposit	-	45,000	45,000	-	45,000	45,000
	<b>253,999</b>	<b>264,572</b>	<b>518,571</b>	<b>399,184</b>	<b>275,248</b>	<b>674,432</b>

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the management's best estimate. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade satisfactory or past due but not impaired.

	Non investment grade 2018			
	Investment grade	Satisfactory	Past due but not impaired	Total
	SAR'000	SAR'000	SAR'000	SAR'000
Insurance operations' financial assets				
Cash and cash equivalents	51,370	-	-	51,370
Investments	-	411	-	411
Premiums and reinsurance receivable, net	-	13,057	83,268	96,325
Reinsurers' share of outstanding claims	-	62,992	-	62,992
<b>31 December 2018</b>	<b>51,370</b>	<b>76,460</b>	<b>83,268</b>	<b>211,098</b>
	Non investment grade 2017			
	Investment grade	Satisfactory	Past due but not impaired	Total
	SAR'000	SAR'000	SAR'000	SAR'000
Cash and cash equivalents	14,684	-	-	14,684
Investments	-	54,836	-	54,836
Premiums and reinsurance receivable, net	-	7,402	118,988	126,390
Reinsurers' share of outstanding claims	-	128,954	-	128,954
<b>31 December 2017</b>	<b>14,684</b>	<b>191,192</b>	<b>118,988</b>	<b>324,864</b>

NOTES TO THE FINANCIAL STATEMENTS  
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26 RISK MANAGEMENT (Continued)

Credit risk (Continued)

Shareholders' operations' financial assets	Non investment grade 2018			
	Investment grade	Satisfactory	Past due but not impaired	Total
	SAR'000	SAR'000	SAR'000	SAR'000
Cash and cash equivalents	1,340	-	-	1,340
Investments	-	51,387	-	51,387
Due from related parties	-	846	-	846
Murabaha Deposits	-	165,998	-	165,998
Statutory deposit	-	45,000	-	45,000
31 December 2018	1,340	263,231	-	264,571

	Non investment grade 2017			
	Investment grade	Satisfactory	Past due but not impaired	Total
	SAR'000	SAR'000	SAR'000	SAR'000
Cash and cash equivalents	93,179	-	-	93,179
Investments	-	137,061	-	137,061
Statutory deposit	-	45,000	-	45,000
Due from related parties	-	8	-	8
31 December 2017	93,179	182,069	-	275,248

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is not broadly diversified however, transactions are entered into with credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations and commitments associated with financial liabilities. Liquidity requirements are monitored on a timely basis and manages liquidity risk by maintaining maturities of financial assets and financial liabilities and investing in liquid financial assets.

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**26 RISK MANAGEMENT (Continued)**

**Liquidity risk (Continued)**

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

	As at 31 December 2018			As at 31 December 2017		
	Less than	More than	Total	Less than	More than one	Total
	one year	one year		one year	year	
	SAR'000			SAR'000		
<b>Insurance operations' assets</b>						
Cash and cash equivalents	51,370	-	51,370	14,684	-	14,684
Investments	411	-	411	46,436	-	46,436
Premiums and reinsurance receivables, net	96,325	-	96,325	126,390	-	126,390
Reinsurers' share of unearned premiums	39,641	-	39,641	30,297	-	30,297
Reinsurers' share of outstanding claims	62,992	-	62,992	128,954	-	128,954
Reinsurers' share of claims incurred but not reported	16,700	-	16,700	18,156	-	18,156
Reinsurers' share of other reserves	-	-	-	905	-	905
Deferred policy acquisition costs	8,613	-	8,613	7,529	-	7,529
Prepayments and other assets	5,512	-	5,512	13,053	-	13,053
Due from shareholders' operations	10,941	-	10,941	-	-	-
Property and equipment	-	8,549	8,549	-	5,229	5,229
Intangible assets	-	3,696	3,696	-	1,882	1,882
Unit linked investments	-	18,768	18,768	-	8,400	8,400
	292,505	31,013	323,518	386,404	15,511	401,915

	As at 31 December 2018			As at 31 December 2017		
	Less than	More than	Total	Less than	More than one	Total
	one year	one year		one year	year	
	SAR'000			SAR'000		
<b>Shareholders' assets</b>						
Cash and cash equivalents	1,340	-	1,340	93,179	-	93,179
Investments	51,387	-	51,387	137,061	-	137,061
Prepayments and other assets	1,514	-	1,514	1,693	-	1,693
Due from insurance operations	-	-	-	14,497	-	14,497
Due from a related party	846	-	846	8	-	8
Murabaha Deposit	125,098	40,900	165,998	-	-	-
Statutory Deposit	-	45,000	45,000	-	45,000	45,000
	180,185	85,900	266,085	246,438	45,000	291,438

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26 RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

	As at 31 December 2018			As at 31 December 2017		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
	SAR'000			SAR'000		
<b>Insurance operations' liabilities</b>						
Outstanding claims	97,703	-	97,703	142,455	-	142,455
Claims incurred but not reported	28,706	-	28,706	39,221	-	39,221
Other reserves	874	-	874	1,857	-	1,857
Premium deficiency reserves	2,075	-	2,075	-	-	-
Unearned reinsurance commission	7,070	-	7,070	6,661	-	6,661
Unearned premiums	80,827	-	80,827	76,138	-	76,138
Reinsurance balances payable	44,998	-	44,998	61,390	-	61,390
Accrued expenses and other liabilities	37,489	-	37,489	47,348	-	47,348
Due to related party	130	-	130	-	-	-
Retirement benefit obligation	5,507	-	5,507	4,273	-	4,273
Unit linked liabilities	-	18,768	18,768	-	8,400	8,400
Due to shareholders' operations	-	-	-	14,497	-	14,497
Remeasurement of retirement benefit obligation	-	(629)	(629)	-	(325)	(325)
	<b>305,379</b>	<b>18,139</b>	<b>323,518</b>	<b>393,840</b>	<b>8,075</b>	<b>401,915</b>
	As at 31 December 2018			As at 31 December 2017		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
	SAR'000			SAR'000		
<b>Shareholders' liabilities</b>						
Accrued expenses and other liabilities	3,856	-	3,856	3,566	-	3,566
Due to related party	75	-	75	75	-	75
Zakat and income tax payable	5,586	-	5,586	5,024	-	5,024
Due to insurance operations	10,941	-	10,941	-	-	-
	<b>20,458</b>	<b>-</b>	<b>20,458</b>	<b>8,665</b>	<b>-</b>	<b>8,665</b>
<b>Total Liquidity Gap</b>	<b>284,921</b>	<b>18,139</b>	<b>303,060</b>	<b>385,175</b>	<b>8,075</b>	<b>393,250</b>

To manage the liquidity risk arising from above financial liabilities, the Company holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active market except for unquoted equity instruments. These assets can be readily sold to provide additional liquidity when needed.

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

- Murabaha deposits are expected to be matured/ settled within 11 months to 2 years from the statement of financial position date.
- Accrued investment income classified under prepayments and other asset is expected to be realized within 2 to 11 months from statement of financial position's date.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims majorly pertain to fire and property, marine, general accident, engineering, and protection and savings businesses and are generally realized within 3 to 6 months based on settlement of balances with reinsurers.



**NOTES TO THE FINANCIAL STATEMENTS**  
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**26 RISK MANAGEMENT (Continued)**

**Liquidity risk (Continued)**

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

- Reinsurers' balances payable are settled on a net basis as per terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to settle within 3 months in accordance with statutory timelines for payment. All other policies due to the inherent nature are generally settled within 12 months from the date of receipt of loss adjustor report.

The claims payable, accrued expenses and other liabilities are expected to settle within 12 months from the year end date.

**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

**Regulatory framework risk**

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

NOTES TO THE FINANCIAL STATEMENTS  
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27 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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. Underlying the definition of fair value there is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of operations or undertake a transaction on adverse terms. The Company's financial assets consist of cash and cash equivalents, premiums and reinsurance receivables, Murabaha deposits, reinsurance share of unearned premium, deferred policy acquisition cost, reinsurance share of outstanding claims, reinsurance share of incurred but not reported claims, reinsurance share of other reserves, investments and its financial liabilities consist of reinsurance balance payables, unearned premium, unearned commission income, outstanding claims, incurred but not reported claims, other reserves, premium deficiency reserve. The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position date.

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Shareholders' operations

	As at 31 December 2018			Total
	Level 1	Level 2	Level 3	
	SAR'000			
<b>Available for sale investments</b>				
- Investments in unquoted equity	-	-	1,923	1,923
<b>Investments at fair value through statement of income</b>				
- Investments in discretionary portfolios	21,255	-	-	21,255
- Investments in real estate fund	-	10,104	5,131	15,235
<b>Investments at held to maturity</b>				
- Sukuks	-	12,974	-	12,974
<b>Total</b>	<b>21,255</b>	<b>23,078</b>	<b>7,054</b>	<b>51,387</b>

	As at 31 December 2017			Total
	Level 1	Level 2	Level 3	
	SAR'000			
<b>Available for sale investments</b>				
- Investments in unquoted equity	-	-	1,923	1,923
<b>Investments at fair value through statement of income</b>				
- Investments in equity shares	265	-	-	265
- Investments in mutual funds	75,658	-	-	75,658
- Investments in discretionary portfolios	29,581	-	-	29,581
- Investments in real estate funds	15,923	-	-	15,923
<b>Investments at held to maturity</b>				
- Sukuks	-	13,711	-	13,711
<b>Total</b>	<b>121,427</b>	<b>13,711</b>	<b>1,923</b>	<b>137,061</b>

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**Transfer between levels**

The following table presents the transfer between levels for the year ended 31 December 2018

Shareholders' operations	As at 31 December 2018			Total
	Level 1	Level 2	Level 3	
	SAR'000			
<b>Transfer between level 1 and level 2</b>				
Units in real estate fund	(10,780)	10,780	-	-
<b>Transfer between level 1 and level 3</b>				
Units in real estate fund	(5,140)	-	5,140	-

The units in the real estate funds were transferred to level 2 and level 3 due to unavailability of quoted prices.

**Insurance operations**

	As at 31 December 2018			Total
	Level 1	Level 2	Level 3	
	SAR'000			
<b>Investments at fair value through statement of income</b>				
- Investments in mutual funds	411	-	-	411
<b>Total</b>	<b>411</b>	<b>-</b>	<b>-</b>	<b>411</b>

	As at 31 December 2017			Total
	Level 1	Level 2	Level 3	
	SAR'000			
<b>Investments at fair value through statement of income</b>				
- Investments in mutual funds	46,436	-	-	46,436
<b>Total</b>	<b>46,436</b>	<b>-</b>	<b>-</b>	<b>46,436</b>

**28 CLAIMS DEVELOPMENT TABLE**

The following table reflects the net incurred claims including both the net claims notified and incurred but not reported claims for each accident year at each financial position date together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims. The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company will transfer much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

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**28 CLAIMS DEVELOPMENT TABLE (Continued)**

Claims triangulation analysis by accident years for the last five years on gross outstanding claims and IBNR basis is set out below:

<b>2018</b>						
<b>Accident year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>
Estimate of ultimate claims cost						
At the end of accident year	37,511	84,123	133,183	95,272	194,156	544,245
One year later	11,781	48,032	95,797	115,052	-	270,662
Two years later	5,653	1,768	11,172	-	-	18,593
Three years later	682	1,863	-	-	-	2,545
Four years later	688	-	-	-	-	688
Current estimate of cumulative net claims	56,315	135,786	240,152	210,324	194,156	836,733
Cumulative payments to date	(55,755)	(135,417)	(234,198)	(167,109)	(117,845)	(710,324)
Gross liability recognised in the statement of financial position	560	369	5,954	43,215	76,311	126,409
<b>2017</b>						
<b>Accident year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>
Estimate of ultimate claims cost						
At the end of accident year	54,865	37,511	84,123	133,183	253,482	563,164
One year later	7,365	11,781	48,032	116,192	-	183,370
Two years later	2,041	5,653	3,543	-	-	11,237
Three years later	315	2,580	-	-	-	2,895
Four years later	907	-	-	-	-	907
Current estimate of cumulative net claims	65,493	57,525	135,698	249,375	253,482	761,573
Cumulative payments to date	(64,945)	(55,628)	(133,923)	(228,980)	(96,421)	(579,897)
Gross liability recognised in the statement of financial position	548	1,897	1,775	20,395	157,061	181,676

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

28 CLAIMS DEVELOPMENT TABLE (Continued)

Claims triangulation analysis by accident years for the last five years on net outstanding claims and IBNR basis is set out below:

2018

Accident year	2014 SAR'000	2015 SAR'000	2016 SAR'000	2017 SAR'000	2018 SAR'000	Total SAR'000
Estimate of ultimate claims cost						
At the end of accident year	19,572	22,352	53,361	64,814	145,904	306,003
One year later	6,017	10,842	18,875	29,758	-	65,492
Two years later	3,851	637	3,795	-	-	8,283
Three years later	354	1,227	-	-	-	1,581
Four years later	133	-	-	-	-	133
Current estimate of cumulative net claims	29,927	35,058	76,031	94,572	145,904	381,492
Cumulative payments to date	(29,885)	(35,108)	(75,635)	(94,479)	(99,668)	(334,775)
Net liability recognised in the statement of financial position	42	(50)	396	93	46,236	46,717

2017

Accident year	2013 SAR'000	2014 SAR'000	2015 SAR'000	2016 SAR'000	2017 SAR'000	Total SAR'000
Estimate of ultimate claims cost						
At the end of accident year	6,590	24,368	27,568	66,015	93,432	217,973
One year later	1,713	4,845	5,288	11,744	-	23,590
Two years later	62	604	1,857	-	-	2,523
Three years later	34	616	-	-	-	650
Four years later	85	-	-	-	-	85
Current estimate of cumulative net claims	8,484	30,433	34,713	77,759	93,432	244,821
Cumulative payments to date	(8,431)	(29,794)	(33,832)	(72,235)	(65,963)	(210,255)
Net liability recognised in the statement of financial position	53	639	881	5,524	27,469	34,566

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

29 SUPPLEMENTARY INFORMATION

29.1 Statement of financial position

		As at 31 December 2018			As at 31 December 2017		
	Note	Insurance operations	Shareholders' operations	Total	insurance operations	Shareholders' operations	Total
		SAR'000			SAR'000		
<b>ASSETS</b>							
Cash and cash equivalents	4	51,370	1,340	52,710	14,684	93,179	107,863
Investments	5	411	51,387	51,798	46,436	137,061	183,497
Premiums and reinsurance receivables, net	7	96,325	-	96,325	126,390	-	126,390
Reinsurers' share of unearned premiums	8.2	39,641	-	39,641	30,297	-	30,297
Reinsurers' share of outstanding claims	8.1	62,992	-	62,992	128,954	-	128,954
Reinsurers' share of claims incurred but not reported	8.1	16,700	-	16,700	18,156	-	18,156
Reinsurers' share of other reserves	8.1	-	-	-	905	-	905
Deferred policy acquisition costs		8,613	-	8,613	7,529	-	7,529
Prepayments and other assets		5,512	1,514	7,026	13,053	1,693	14,746
Due from insurance operations		-	-	-	-	14,497	14,497
Due from shareholders' operations		10,941	-	10,941	-	-	-
Due from related parties	14	-	846	846	-	8	8
Murabaha deposits	6	-	165,998	165,998	-	-	-
Statutory deposit	11	-	45,000	45,000	-	45,000	45,000
Property and equipment		8,549	-	8,549	5,229	-	5,229
Intangible assets		3,696	-	3,696	1,882	-	1,882
Unit linked investments		18,768	-	18,768	8,400	-	8,400
<b>TOTAL ASSETS</b>		<b>323,518</b>	<b>266,085</b>	<b>589,603</b>	<b>401,915</b>	<b>291,438</b>	<b>693,353</b>
<b>LIABILITIES</b>							
Outstanding claims	8.1	97,703	-	97,703	142,455	-	142,455
Claims incurred but not reported	8.1	28,706	-	28,706	39,221	-	39,221
Other reserves	8.1	874	-	874	1,857	-	1,857
Premium deficiency reserves		2,075	-	2,075	-	-	-
Unearned premiums	8.2	80,827	-	80,827	76,138	-	76,138
Reinsurance balances payable		44,998	-	44,998	61,390	-	61,390
Unearned reinsurance commission		7,070	-	7,070	6,661	-	6,661
Accrued expenses and other liabilities		37,489	3,856	41,345	47,348	3,566	50,914
Due to related party	14	130	75	205	-	75	75
Zakat and income tax payable	16	-	5,586	5,586	-	5,024	5,024
Unit linked liabilities		18,768	-	18,768	8,400	-	8,400
Retirement benefit obligation	17	5,507	-	5,507	4,273	-	4,273
Due to shareholder's operations		-	-	-	14,497	-	14,497
Due to insurance operations		-	10,941	10,941	-	-	-
Remeasurement of retirement benefit obligation	17	(629)	-	(629)	(325)	-	(325)
<b>TOTAL LIABILITIES</b>		<b>323,518</b>	<b>20,458</b>	<b>343,976</b>	<b>401,915</b>	<b>8,665</b>	<b>410,580</b>
<b>EQUITY</b>							
Share capital	18	-	300,000	300,000	-	300,000	300,000
Accumulated losses		-	(54,373)	(54,373)	-	(17,227)	(17,227)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>-</b>	<b>245,627</b>	<b>245,627</b>	<b>-</b>	<b>282,773</b>	<b>282,773</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>323,518</b>	<b>266,085</b>	<b>589,603</b>	<b>401,915</b>	<b>291,438</b>	<b>693,353</b>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

29 SUPPLEMENTARY INFORMATION (continued)

29.2 Statement of income

		2018			2017		
	Note	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
		SAR'000			SAR'000		
<b>REVENUES</b>							
Gross premiums written	8.1	353,591	-	353,591	296,723	-	296,723
Fee income from insurance contracts	8.1	75	-	75	98	-	98
Reinsurance premiums ceded							
- Local		(9,319)	-	(9,319)	(8,049)	-	(8,049)
- Foreign		(139,722)	-	(139,722)	(134,662)	-	(134,662)
Excess of loss expenses		(7,877)	-	(7,877)	(7,021)	-	(7,021)
<b>Net premiums written</b>		<b>196,748</b>	<b>-</b>	<b>196,748</b>	<b>147,089</b>	<b>-</b>	<b>147,089</b>
Changes in unearned premiums	20	(4,689)	-	(4,689)	(735)	-	(735)
Changes in reinsurers' share of unearned premiums	20	9,344	-	9,344	(10,132)	-	(10,132)
<b>Net premiums earned</b>		<b>201,403</b>	<b>-</b>	<b>201,403</b>	<b>136,222</b>	<b>-</b>	<b>136,222</b>
Reinsurance commission earned		22,904	-	22,904	24,781	-	24,781
Other underwriting income		2,188	-	2,188	3,884	-	3,884
<b>Total Revenues</b>		<b>226,495</b>	<b>-</b>	<b>226,495</b>	<b>164,887</b>	<b>-</b>	<b>164,887</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>							
Gross claims paid		(199,214)	-	(199,214)	(195,681)	-	(195,681)
Surrenders		(993)	-	(993)	(133)	-	(133)
Reinsurers' share of claims paid		62,607	-	62,607	109,003	-	109,003
<b>Net claims paid</b>		<b>(137,600)</b>	<b>-</b>	<b>(137,600)</b>	<b>(86,811)</b>	<b>-</b>	<b>(86,811)</b>
Changes in outstanding claims	8.2	44,752	-	44,752	(30,457)	-	(30,457)
Changes in reinsurers' share of outstanding claims	8.2	(65,962)	-	(65,962)	37,648	-	37,648
Changes in incurred but not reported claims	8.2	10,515	-	10,515	84,784	-	84,784
Changes in reinsurers' share of incurred but not reported claims	8.2	(1,456)	-	(1,456)	(85,293)	-	(85,293)
Changes in other reserves	8.2	983	-	983	2,976	-	2,976
Changes in reinsurers' share of other reserves	8.2	(905)	-	(905)	905	-	905
Changes in premium deficiency reserves	8.2	(2,075)	-	(2,075)	-	-	-
<b>Net claims incurred</b>		<b>(151,748)</b>	<b>-</b>	<b>(151,748)</b>	<b>(76,248)</b>	<b>-</b>	<b>(76,248)</b>
Changes in unit linked reserves		(10,368)	-	(10,368)	(4,929)	-	(4,929)
Policy acquisition costs		(30,299)	-	(30,299)	(23,625)	-	(23,625)
Other underwriting expenses		(1,824)	-	(1,824)	(1,523)	-	(1,523)
<b>Total underwriting costs and expenses</b>		<b>(194,239)</b>	<b>-</b>	<b>(194,239)</b>	<b>(106,325)</b>	<b>-</b>	<b>(106,325)</b>
<b>NET UNDERWRITING INCOME</b>		<b>32,256</b>	<b>-</b>	<b>32,256</b>	<b>58,562</b>	<b>-</b>	<b>58,562</b>
<b>OPERATING (EXPENSES) / INCOME</b>							
General and administrative expenses	21	(58,631)	(3,669)	(62,300)	(50,653)	(4,227)	(54,880)
Provision for doubtful receivables	21	(9,628)	-	(9,628)	(11,856)	-	(11,856)
Loss on disposal of property and equipment		(37)	-	(37)	-	-	-
Unrealized gain / (loss) on unit linked investments		512	-	512	(25)	-	(25)
Unrealized gain on investments	22	1	2,148	2,149	397	3,111	3,508
Realized gain on investments	22	692	4,610	5,302	39	1,333	1,372
<b>Total operating (expenses)/ income net</b>		<b>(67,091)</b>	<b>3,089</b>	<b>(64,002)</b>	<b>(62,098)</b>	<b>217</b>	<b>(61,881)</b>
<b>Net deficit from insurance operations</b>		<b>(34,835)</b>	<b>3,089</b>	<b>(31,746)</b>	<b>(3,536)</b>	<b>217</b>	<b>(3,319)</b>
Shareholders' absorption of deficit / (Surplus)		34,835	(34,835)	-	3,536	(3,536)	-
<b>Total loss for the period attributable to the shareholders</b>		<b>-</b>	<b>(31,746)</b>	<b>(31,746)</b>	<b>-</b>	<b>(3,319)</b>	<b>(3,319)</b>
<b>Loss per share (SR) - restated</b>				<b>(1.06)</b>			<b>(0.11)</b>

**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS**  
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**29 SUPPLEMENTARY INFORMATION (continued)**

**29.3 Statement of comprehensive income**

Note	2018			2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
	SAR'000			SAR'000		
Net (loss) / Profit for the period	(34,835)	3,089	(31,746)	(3,536)	217	(3,319)
<b>Other comprehensive loss:</b>						
Items that will not be reclassified to statement of income in subsequent periods:						
- Actuarial loss on retirement benefit obligation 17	(304)	-	(304)	(325)	-	(325)
<b>Total comprehensive loss for the period</b>	<b>(35,139)</b>	<b>3,089</b>	<b>(32,050)</b>	<b>(3,861)</b>	<b>217</b>	<b>(3,644)</b>



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

29 SUPPLEMENTARY INFORMATION (continued)

29.4 Statement of cash flows

	Note	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
		SAR'000			SAR'000		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Net loss for the year		-	(31,746)	(31,746)		(3,319)	(3,319)
Adjustments for non cash items:							
Shareholders' operations appropriations		-	-	-	-	-	-
Depreciation of property and equipment	12, 13	2,874	-	2,874	2,649	-	2,649
Provision for doubtful receivables		9,628	-	9,628	11,856	-	11,856
Loss on disposal of property and equipment		37	-	37	-	-	-
Realized gain on FVTIS	22	(692)	(1,347)	(2,039)	(39)	(234)	(273)
Unrealized gain on FVTIS	22	(1)	(788)	(789)	(397)	(1,539)	(1,936)
Provision for retirement benefit obligation		1,458	-	1,458	1,398	-	1,398
		13,304	(33,881)	(20,577)	15,467	(5,092)	10,375
Changes in operating assets and liabilities:							
Premiums and reinsurance receivables		20,437	-	20,437	55,674	-	55,674
Reinsurers' share of unearned premiums		(9,344)	-	(9,344)	10,132	-	10,132
Reinsurers' share of outstanding claims		65,962	-	65,962	(37,648)	-	(37,648)
Reinsurers' share of claims incurred but not reported		1,456	-	1,456	27,916	-	27,916
Reinsurers' share of other reserves		905	-	905	(905)	-	(905)
Deferred policy acquisition costs		(1,084)	-	(1,084)	(2,091)	-	(2,091)
Prepayments and other assets		7,541	179	7,720	(8,125)	(103)	(8,228)
Due from related parties		-	(838)	(838)	-	(8)	(8)
Due to / (from) insurance operations		-	25,438	25,438	-	2,834	2,834
Unit linked investments		(10,368)	-	(10,368)	(4,929)	-	(4,929)
Outstanding claims		(44,752)	-	(44,752)	30,457	-	30,457
Claims incurred but not reported		(10,515)	-	(10,515)	(27,407)	-	(27,407)
Other reserves		(983)	-	(983)	(2,976)	-	(2,976)
Premium deficiency reserves		2,075	-	2,075	-	-	-
Unearned premiums		4,689	-	4,689	735	-	735
Reinsurance balances payable		(16,392)	-	(16,392)	(21,228)	-	(21,228)
Unearned reinsurance commission		409	-	409	(342)	-	(342)
Accrued expenses and other liabilities		(9,859)	290	(9,569)	22,879	(178)	22,701
Due to related party		130	-	130	75	-	75
Unit linked liabilities		10,368	-	10,368	4,929	-	4,929
Due to / (from) shareholders' operations		(25,438)	-	(25,438)	(2,834)	-	(2,834)
Cash (used in) / generated from operations		(1,459)	(8,812)	(10,271)	59,779	(2,547)	57,232
Retirement benefit obligation paid		(528)	-	(528)	(233)	-	(233)
Zakat and income tax paid		-	(4,838)	(4,838)	-	(4,335)	(4,335)
<b>Net cash (used in) / generated from operating activities</b>		<b>(1,987)</b>	<b>(13,650)</b>	<b>(15,637)</b>	<b>59,546</b>	<b>(6,882)</b>	<b>52,664</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Purchase of murabaha deposits	5	-	(165,998)	(165,998)	-	-	-
Purchase of investments	5	(119,500)	(41,000)	(160,500)	(114,000)	(227,295)	(341,295)
Proceeds from disposal of investments		166,218	128,809	295,027	68,000	191,757	259,757
Purchase of property and equipment		(5,419)	-	(5,419)	(2,059)	-	(2,059)
Purchase of intangible assets		(2,628)	-	(2,628)	(1,111)	-	(1,111)
Proceeds from disposal of property and equipment		2	-	2	-	-	-
<b>Net cash generated from / (used in) investing activities</b>		<b>38,673</b>	<b>(78,189)</b>	<b>(39,516)</b>	<b>(49,170)</b>	<b>(35,538)</b>	<b>(84,708)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Transaction cost relating to reduction of Capital		-	-	-	-	(403)	(403)
<b>Net cash generated from / (used in) financing activities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(403)</b>	<b>(403)</b>
<b>Net change in cash and cash equivalents</b>		<b>36,686</b>	<b>(91,839)</b>	<b>(55,153)</b>	<b>10,376</b>	<b>(42,823)</b>	<b>(32,447)</b>
Cash and cash equivalents at the beginning of the period		14,684	93,179	107,863	4,308	136,002	140,310
<b>Cash and cash equivalents at the end of the period</b>		<b>51,370</b>	<b>1,340</b>	<b>52,710</b>	<b>14,684</b>	<b>93,179</b>	<b>107,863</b>

30 COMPARATIVE FIGURES

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

31 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors of the Company on Jumada II 22, 1440H corresponding to 27 February 2019G.