

**Allianz Saudi Fransi Cooperative
Insurance Company
(A Saudi Joint Stock Company)**

**AUDITED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' AUDIT REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2017

INDEX	PAGES
INDEPENDENT AUDITORS' AUDIT REPORT	1-5
STATEMENT OF FINANCIAL POSITION	6-7
STATEMENT OF INCOME - INSURANCE OPERATIONS	8
STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS	9
STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS	10
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS	11
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	12
STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS	13
STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS	14
NOTES TO THE FINANCIAL STATEMENTS	15- 55



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Certified Public Accountants



Aldar Audit Bureau
Abdullah A. -Basri & Co.

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Independent Auditors' Report
To the Shareholders of Allianz Saudi Fransi Cooperative Insurance Company
(A Saudi Joint Stock Company)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Allianz Saudi Fransi Cooperative Insurance Company** (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statement of income -- insurance and shareholders' operations, the statement of comprehensive income -- insurance and shareholders' operations, statement of changes in shareholders' equity and statements of cash flows -- insurance and shareholders' operations for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

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

Key Audit Matters

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



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Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
<p><u>Outstanding claims</u></p> <p>The Company as at 31 December 2017, has outstanding claims including claims incurred but not reported (IBNR) amounting to SR 434,541,367 as reported in Note 16 of the financial statements.</p> <p>The valuation of outstanding claims is the key judgmental area for management given the level of subjectivity inherent in estimating the impact of claim events that have occurred for which the ultimate outcome remains uncertain.</p> <p>The Company uses a range of actuarial methodologies to estimate these claims. This require significant judgments relating to factors and assumptions such as inflation, claims development pattern and regulatory requirements.</p> <p>Due to significance of amount involved and the exercise of significant judgment by management in the process for determination of outstanding claims, we have determined it to be a key audit matter.</p> <p><i>Refer to notes 5 which discloses the estimated liability arising from claims under insurance contracts and note 4 which discloses accounting policies for claims.</i></p>	<p>We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes for claims processing and payment, including controls over the completeness and accuracy of the claim estimates recorded.</p> <p>We performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves.</p> <p>Using actuarial specialists we performed re-projections on claims incurred but not reported relating to selected operating segments, where we compared our re-projected claims incurred but not reported to those booked by management, and sought to understand any significant differences. For the remaining operating segments, we assessed the reasonableness of methodologies and assumptions used by the management against recognized actuarial practices and industry standards to identify and evaluate any anomalies.</p> <p>We evaluated the completeness and accuracy of data used by management in their calculation of outstanding claims; and evaluated the results of liability adequacy test.</p>



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Independent Auditors' Report

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Other Information

The management of the Company are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



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Independent Auditors' Report
To the Shareholders of Allianz Saudi Fransi Cooperative Insurance Company
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Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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

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

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

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



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Independent Auditors' Report

**To the Shareholders of Allianz Saudi Fransi Cooperative Insurance Company
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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.

KPMG Al Fozan & Partners
Certified Public Accountants
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

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

Abdullah Hamad Al Fozan
Certified Public Accountant
License No. 348



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



11 Rajab 1439H
28 March 2018

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	6	107,246,209	77,221,164
Prepayments and other assets	7	18,732,552	11,981,291
Reinsurance balances receivable	8(a)	72,541,695	74,105,195
Premiums receivable	9	362,511,115	412,043,857
Available for sale investments	10(a)	109,424,116	60,141,396
Unit linked investments	11	573,716,396	592,651,654
Deferred policy acquisition costs	12	23,866,281	22,089,024
Reinsurers' share of unearned premiums	19	180,184,370	236,460,497
Reinsurers' share of outstanding claims	16	282,723,283	267,460,349
Property and equipment	13	3,635,196	2,389,375
TOTAL INSURANCE OPERATIONS' ASSETS		1,734,581,213	1,756,543,802
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	6	26,084,656	16,272,417
Prepayments and other assets	7	8,153,653	2,172,085
Due from insurance operations	20	18,926,058	18,772,461
Available for sale investments	10(b)	199,625,304	180,253,582
Statutory deposit	14	20,000,000	20,000,000
Returns on investment of statutory deposit	14	817,056	679,569
TOTAL SHAREHOLDERS' ASSETS		273,606,727	238,150,114
TOTAL INSURANCE OPERATIONS AND SHAREHOLDERS' ASSETS		2,008,187,940	1,994,693,916



Xavier Denys
Chief Executive Officer



Alwaleed Abdulrazak Al Dryaan
Chairman



Mohammed Koubar
Chief Financial Officer

The accompanying notes 1 to 35 form an integral part of these financial statements.

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Accrued expenses and other liabilities	15	64,595,012	41,732,085
Reinsurance balances payable	8(b)	181,657,278	218,754,741
Due to shareholders' operations	20	18,926,058	18,772,461
Outstanding claims	16	434,541,367	386,130,152
Premiums deficiency reserves	30	10,717,152	6,077,722
Additional premium reserve	30	1,317,438	-
Unit linked liabilities	17	573,051,956	593,706,572
Unearned commission income	18	10,813,751	11,951,608
Unearned premiums	19	415,612,645	459,257,288
Employees' end of service benefits	21	15,457,826	12,828,431
TOTAL INSURANCE OPERATIONS' LIABILITIES		1,726,690,483	1,749,211,060
INSURANCE OPERATIONS' SURPLUS			
Accumulated surplus		9,582,216	7,736,872
Fair value reserve for available for sale investments	10(a)	(926,182)	(404,130)
Actuarial reserve for employee benefits	21	(765,304)	-
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		1,734,581,213	1,756,543,802
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	15	268,366	50,365
Deferred return on investment of statutory deposit	14	817,056	679,569
Zakat and income tax payable	22(c)	21,416,946	16,065,894
TOTAL SHAREHOLDERS' LIABILITIES		22,502,368	16,795,828
SHAREHOLDERS' EQUITY			
Share capital	23	200,000,000	200,000,000
Share premium		22,711,315	22,711,315
Statutory reserve	24	6,983,645	-
Retained earnings / accumulated losses		19,902,207	(448,379)
Fair value reserve for available for sale investments	10(b)	1,507,192	(908,650)
TOTAL SHAREHOLDERS' EQUITY		251,104,359	221,354,286
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		273,606,727	238,150,114
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY		2,008,187,940	1,994,693,916

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Chairman

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Chief Financial Officer

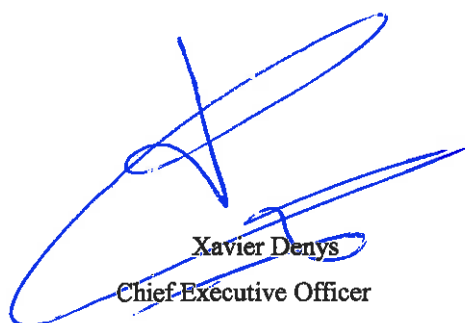
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Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

STATEMENT OF INCOME - INSURANCE OPERATIONS

For the year ended 31 December 2017

	Notes	2017 SR	2016 SR
Gross written premiums	25	925,536,707	836,272,030
Reinsurance premiums ceded	25	(274,685,644)	(277,831,399)
Net written premiums		650,851,063	558,440,631
Changes in unearned premiums	25	43,644,643	(36,671,363)
Change in reinsurance share of unearned premiums	25	(56,276,127)	(21,779,894)
Net change in unearned premiums	25	(12,631,484)	(58,451,257)
Net premiums earned	25	638,219,579	499,989,374
Commission earned	18	25,718,192	17,539,744
Unrealized gain on unit linked investments		16,571,858	14,597,069
Other income		6,371,272	7,995,488
Total revenues		686,880,901	540,121,675
Gross claims paid	16	(604,011,274)	(462,230,844)
Reinsurance share of claims paid	16	138,429,094	132,015,478
Net claims paid		(465,582,180)	(330,215,366)
Changes in gross outstanding claims		(48,411,215)	61,798,813
Changes in reinsurance share of outstanding claims		15,262,934	(108,047,585)
Changes in net outstanding claims		(33,148,281)	(46,248,772)
Net claims incurred		(498,730,461)	(376,464,138)
Change in premium deficiency reserves		(4,639,430)	(6,077,722)
Changes in additional premium reserve		(1,317,438)	-
Change in unit linked liabilities	17	20,654,616	(855,080)
Commission expenses	12	(57,871,819)	(48,919,227)
Inspection and supervision fees		(6,091,164)	(5,424,965)
General and administrative expenses	26	(105,381,209)	(75,860,157)
Total claims and expenses		(653,376,905)	(513,601,289)
Net surplus for the year		33,503,996	26,520,386
Net surplus transferred to statement of income - shareholders' operations		(30,153,597)	(23,868,347)
Net insurance operations' surplus after shareholders' appropriation for the year		3,350,399	2,652,039


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Chief Executive Officer


Alwaleed Abdulrazak Al Dryaan
Chairman


Mohammed Koubar
Chief Financial Officer

The accompanying notes 1 to 35 form an integral part of these financial statements.

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS

For the year ended 31 December 2017

	<u>Notes</u>	<u>2017 SR</u>	<u>2016 SR</u>
Net insurance operations surplus after shareholders' appropriation for the year		3,350,399	2,652,039
<i>Other comprehensive income that will not be reclassified subsequently to the statement of income – insurance operations when conditions are met</i>			
Re-measurement of defined benefit liability – employee benefits		(765,304)	-
<i>Other comprehensive income to be reclassified subsequently to the interim statement of income – insurance operations when conditions are met in future</i>			
Fair value change in available for sale investments	10(a)	(522,052)	1,952,208
Transferred to realised loss on available for sale investments disposal	10(a)	283,306	-
Total comprehensive income from insurance operations for the year		2,346,349	4,604,247


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Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
Special commission income		5,641,167	3,582,903
Realised gain on available for sale investments		-	111,559
Total revenues		5,641,167	3,694,462
Net surplus transferred from statement of income - insurance operations		30,153,597	23,868,347
General and administrative expenses	26	(876,537)	(3,133,262)
Net income for the year		34,918,227	24,429,547
Basic and diluted earnings per share	29	1.75	1.22


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Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)


STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
Net income for the year		34,918,227	24,429,547
<i>Other comprehensive income to be reclassified subsequently to the statement of income- shareholders' operations when conditions are met</i>			
Fair value change in available for sale investments	10(b)	2,415,842	1,476,105
Transferred to realized gain on disposal of available for sale investments in the statement of income – shareholders' operations		-	(111,559)
Total comprehensive income from shareholder's operations for the year		37,334,069	25,794,093



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Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

	Share capital SR	Share premium SR	Statutory Reserve SR	(Accumulated losses) / Retained earnings SR	Fair value reserve for available for sale investments SR	Total SR
Balance as at 1 January 2017	200,000,000	22,711,315	-	(448,379)	(908,650)	221,354,286
Net income for the year	-	-	-	34,918,227	-	34,918,227
Other comprehensive income:						
- Fair value change in available for sale investments	-	-	-	-	2,415,842	2,415,842
Total comprehensive income for the period	-	-	-	34,918,227	2,415,842	37,334,069
Transfers to statutory reserve	-	-	6,983,645	(6,983,645)	-	-
Zakat charge for the period (Note 22)	-	-	-	(4,294,733)	-	(4,294,733)
Income Tax charge for the year (Note 22)	-	-	-	(3,289,263)	-	(3,289,263)
Balance as at 31 December 2017	200,000,000	22,711,315	6,983,645	19,902,207	1,507,192	251,104,359
Balance as at 1 January 2016	200,000,000	22,711,315	-	(19,514,783)	(2,273,196)	200,923,336
Net income for the year	-	-	-	24,429,547	-	24,429,547
Other comprehensive income:						
- Fair value change in available for sale investments	-	-	-	-	1,476,105	1,476,105
Transferred to statement of income of shareholders' operations	-	-	-	-	(111,559)	(111,559)
Total comprehensive income for the year	-	-	-	24,429,547	1,364,546	25,794,093
Transfers to statutory reserve	-	-	-	-	-	-
Zakat charge for the period (Note 22)	-	-	-	(3,509,169)	-	(3,509,169)
Income Tax charge for the year (Note 22)	-	-	-	(1,853,974)	-	(1,853,974)
Balance as at 31 December 2016	200,000,000	22,711,315	-	(448,379)	(908,650)	221,354,286

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Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS

For the year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
OPERATING ACTIVITIES			
Net insurance operations' surplus after shareholders' appropriation		3,350,399	2,652,039
Adjustments for:			
Investment premium amortization	10(a)	688,909	1,114,727
Depreciation	13	715,542	747,369
Employees' end of service benefits	21	3,232,920	2,234,651
Provision / (reversal) for doubtful reinsurance receivables	8	1,555,413	(1,000,000)
Provision / (reversal) for doubtful receivables	9	9,439,366	(1,846,722)
Realized loss on sale of available for sale investments	10(a)	283,306	-
Unrealized gains on unit linked investments		(16,571,858)	(14,597,069)
Shareholders' appropriation from insurance operations' surplus		30,153,597	23,868,347
Operating cash inflows surplus before changes in operating assets and liabilities		32,847,594	13,173,342
Changes in operating assets and liabilities:			
Deferred policy acquisition costs		(1,777,257)	(130,733)
Unit linked investments		35,507,116	8,914,042
Reinsurance balances receivable		8,087	(43,636,907)
Premiums receivable		40,093,376	(118,780,087)
Prepayments and others assets		(6,751,261)	608,382
Unearned premiums, net		12,631,484	58,451,257
Unit linked liabilities		(20,654,616)	855,080
Outstanding claims, net		33,148,281	46,248,772
Premium deficiency reserves		4,639,430	6,077,722
Additional premium reserves		1,317,438	-
Unearned commission income		(1,137,857)	(3,278,865)
Reinsurance balances payable		(37,097,463)	81,447,936
Accrued expenses and other liabilities		22,862,927	3,591,696
Cash from operations		115,637,279	53,541,637
Employees' end of service benefits paid	21	(1,368,829)	(1,192,388)
Net cash from operating activities		114,268,450	52,349,249
INVESTING ACTIVITIES			
Purchase of property and equipment	13	(1,961,363)	(1,360,648)
Purchase of available for sale investments	10(a)	(61,161,308)	-
Proceeds from sale of available for sale investments	10(a)	10,384,321	-
Surplus distributed to policy holders		(1,505,055)	-
Net cash used in investing activities		(54,243,405)	(1,360,648)
FINANCING ACTIVITIES			
Due to shareholders operations	20	(30,000,000)	(29,011,487)
Net cash used in financing activities		(30,000,000)	(29,011,487)
INCREASE IN CASH AND CASH EQUIVALENTS		30,025,045	21,977,114
Cash and cash equivalents at the beginning of the year		77,221,164	55,244,050
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	107,246,209	77,221,164
Non-cash supplemental information:			
Changes in fair value of available for sale investments	10(a)	(522,052)	1,952,208

Xavier Denys
Chief Executive Officer

Alwaleed Abdulrazak Al Drya:
Chairman

Mohammed Koubar
Chief Financial Officer

The accompanying notes 1 to 35 form an integral part of these financial statements.

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2017

	Notes	2017 SR	2016 SR
OPERATING ACTIVITIES			
Net income for the year		34,918,227	24,429,547
Adjustments for:			
Investments premium amortization	10(b)	824,688	1,247,323
Realized gain on available for sale investments		-	(111,559)
Shareholders' appropriation from insurance operations' surplus		(30,153,597)	(23,868,347)
Operating surplus before changes in operating assets and liabilities		5,589,318	1,696,964
Changes in operating assets and liabilities:			
Prepayments and other assets		(5,981,568)	335,965
Accrued expenses and other liabilities		218,001	(135,333)
Cash (used in) / from operating		(174,249)	1,897,596
Zakat and Income tax paid	22(c)	(2,232,944)	(3,568,691)
Net cash used in operating activities		(2,407,193)	(1,671,095)
INVESTING ACTIVITIES			
Purchase of available for sale investments	10(b)	(38,501,262)	(34,011,487)
Proceeds from sale of available for sale investments	10(b)	20,720,694	21,378,058
Net cash used in investing activities		(17,780,568)	(12,633,429)
FINANCING ACTIVITIES			
Due from insurance operations	20	30,000,000	29,011,487
Net cash from financing activities		30,000,000	29,011,487
INCREASE IN CASH AND CASH EQUIVALENTS		9,812,239	14,706,963
Cash and cash equivalents at the beginning of the year		16,272,417	1,565,454
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	26,084,656	16,272,417
Non-cash supplemental information:			
Changes in fair value of available for sale investments	10(b)	2,415,842	1,476,105

Xavier Denys
Chief Executive Officer

Alwaleed Abdulrazak Al Dryaan
Chairman

Mohammed Koubar
Chief Financial Officer

The accompanying notes 1 to 35 form an integral part of these financial statements.

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 December 2017

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Allianz Saudi Fransi Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010235601 dated 26 Jumada Thani 1428H corresponding to 12 July 2007. The Company operates through its six branches in the Kingdom of Saudi Arabia as at 31 December 2017 (31 December 2016: six branches). The registered office of the Company is located at Al Safwa Commercial Building, P.O Box 3540, Riyadh 11481, Kingdom of Saudi Arabia.

The objectives of the Company are to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi stock exchange on 9 Rajab 1428H, corresponding to 23 July 2007.

The Company has been licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree number 60/M dated 18 Ramadan 1427H (corresponding to 11 October 2006), pursuant to Council of Ministers resolution number 233 dated 16 Ramadan 1427H (corresponding to 9 October 2006).

Following the completion of the public offering on 26 March 2007, an application was submitted to His Excellency the Minister of Commerce and Investment (MOCI) in the Kingdom of Saudi Arabia, requesting the announcement of the incorporation of the Company. On 8 Jumada Thani 1428H corresponding to 24 June 2007, MOCI issued a resolution declaring the incorporation of the Company.

During March 2008, Saudi Arabian Monetary Authority "SAMA" granted the Company an authorisation to commence operations. The Company renewed its operating license on 28 Safar 1438H corresponding to 28 November 2016.

Subsequent to 31 December 2017, SAMA suspended the Company from issuing or renewing any third party motor insurance policies due to non-compliance with some of SAMA's regulatory requirements for motor business. This suspension is not expected to have a significant impact on the Company's operations or on its' financial position, and the company is under discussion to resolve this matter with SAMA.

Seasonality

The Company operates in an industry where significant seasonal or cyclical variations in operating income are experienced during the financial year.

2 BASIS OF PREPARATION

Basis of measurement

The financial statements are prepared under the historical cost convention except for investment classified as Fair Value through Income Statement (FVIS) and Available for Sale (AFS) investments which are measured at fair value and end of service benefits at present value.

Statement of compliance

The financial statements of the Company for the year ended 31 December 2017 have been prepared in accordance with:

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

Basis of presentation

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

In accordance with the Saudi Arabian Insurance Regulations, the Company is required to distribute 10% of net annual surplus from insurance operations to policyholders and the remaining 90% of the surplus to be transferred to the shareholders' operations and losses to be borne by shareholders' operations.

2 BASIS OF PREPARATION (continued)

Functional and presentational currency

The functional and presentational currency of the Company is Saudi Riyals (SR). The financial statement values are presented in Saudi Riyals, unless otherwise indicated.

3 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations. In the current year, the Company has applied number of amendments to IFRS and new interpretations issued by International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 January 2017. The adoption of new standards, amendments and revisions to existing standards, as mentioned below, had no significant financial impact on the financial statements of the Company:

New and amendments to existing standards

Disclosure initiative (Amendments to IAS 7)

Amendments to IAS 7 – “Statement of Cash Flows”, applicable for the annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Standards issued but not yet effective

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

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 9 Financial Instruments

The implementation of IFRS 9 is expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in OCI, are expected to increase due to the introduction of the expected credit loss methodology. The Company will avail of the exemptions available to insurers and is considering deferring the implementation of IFRS 9 until a later date, but no later than January 1, 2021.

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. The Company is currently assessing the implication and effects of adopting IFRS 15 and the management believe that adoption of IFRS 15 will not have a material impact on the Company’s financial statements.

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 impact is not material for the Company.

3 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS (continued)

IFRS 17 - Insurance Contracts

IFRS 17 'Insurance contracts' was published on May 18, 2017 with the effective date of January 1, 2021. IFRS 17 provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features. For non-life and short-term life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk, for which confidence level equivalent disclosure will be required. Further, IFRS 17 will change the presentation of insurance contract revenue, as gross written premium will no longer be presented in profit or loss. At the date of publication of these financial statements, it was not practicable to quantify what the potential impact would be on the financial statements once IFRS 17 will be adopted.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in preparation of these financial statements are as follows:

Prepayments

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

Accrued expenses and other liabilities

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

Employees' end-of-service benefits

The calculation of the employees' end of service benefit is performed annually by a qualified actuary using the projected unit credit method in accordance with the requirements of IAS 19 "Employee Benefits". All past service costs are recognized as an expense immediately in statements of income - insurance operations. Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses are recognized in other comprehensive income.

The company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at that date, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefits payments. Net Interest expense and other expenses related to the defined benefit plans are recognized in the statement of income – insurance operations.

Short term employee benefits

Short-term employee benefits, include leave pay and airfare, are current liabilities included in accrued expenses, measured at the undiscounted amount that the entity expects to pay as a result of the unused entitlement.

Retirement benefits

The Company pays retirement contributions for its Saudi Arabian employees to the General Organization for Social Insurance. This represents a defined contribution plan. The payments made are expensed as incurred.

Unearned commission income

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

Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and any impairment in value. The cost of property and equipment is depreciated on a straight-line method over the estimated useful lives of the assets as follows:

- Computer and office equipment	4 years
- Motor vehicles	4 years
- Furniture and fittings	7 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income - insurance operations when the asset is derecognised.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Expense recognition

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

Reinsurance

The Company cedes insurance risk in the normal course of business for a portion of its businesses. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' financial position representing premiums due to or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. 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 - insurance operations. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Cash and cash equivalents

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

Provisions

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

Liability adequacy test

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

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in two categories:

- Receivables
- Available for sale financial assets

The Company has no held to maturity investments or derivatives.

Premiums receivable

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

Available for sale investments

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

Unrealised gains or losses arising from changes in fair value of investments are shown either in the statement of comprehensive income - shareholder's operations or as a separate component in the insurance operations' surplus. Realised gains or losses on sale of these investments and commission income are reported in the related statements of insurance operations or shareholder's operations.

Derecognition of financial assets

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

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

Impairment and un-collectability of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognised in the statements of income - shareholders' operations and insurance operations. Impairment is determined as follows:

- i. For assets carried at fair value, impairment loss is based on the decline in fair value, less any impairment loss previously recognised in the statement of income of insurance or shareholders' operations;
- ii. For assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset
- iii. For assets carried at amortised cost, impairment is based on estimated cash flows that are discounted at the original effective interest rate

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and un-collectability of financial assets (continued)

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

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

Impairment of non-financial assets

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

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

Revenue recognition

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

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

- Last three months from the period end 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 increase towards the end of the tenure of the policy; and
- Actual number of days for other lines of business.

Dividend income

Dividend income is recognised when the right to receive payment is established, which is generally when shareholders approve the dividend.

Reinsurance premiums

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

Claims

These include the cost of claims and claims handling expenses paid during the year, together with the movements in provisions for outstanding claims, claims incurred but not reported (IBNR) and claims handling provisions. Total outstanding claims comprise estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date, net of salvage and other recoveries including claims handling expenses.

The Company estimates its claims provisions based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Company's prior experience, is maintained for Incurred But Not Reported ('IBNR') claims as well as for the cost of settling pending claims at the statement of financial position date.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims (continued)

The IBNR amount is based on estimates calculated using widely accepted actuarial techniques such as Chain Ladder, Bornhuetter Ferguson Method and loss ratio which are reviewed at regular intervals by the Company's appointed actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. Regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating provisions are that past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a fair reflection of the likely level of ultimate claims to be incurred for the more recent years. The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

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 property.

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

Reinsurance share of claims

Reinsurance share of claims are recognised when the related gross insurance claim is recognised to reflect the amount estimated to be recoverable under the terms of the relevant reinsurance contract in respect of the outstanding claims reported.

Deferred policy acquisition costs (DAC)

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future premiums. Amortisation is recorded in the statement of income - insurance operations. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in accounting estimate.

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

Deferred policy acquisition costs are derecognised when the related contracts are either settled or disposed of.

Unit linked investments and liabilities

Unit linked investments are assets backing liabilities arising from insurance contracts, where the liabilities are contractually linked to the fair value of the financial assets within the policy holders unit linked funds and are classified as 'held for trading' assets and are designated at fair value through income statement. Any change in fair value is recognized in statement of income – Insurance operations.

Insurance contract are those contracts that have significant insurance risk and the Company classifies all the unit linked investments as insurance contracts based on the associated death and disability features.

The unit linked liabilities are determined as the value of the units deemed allocated at the valuation date. Additional technical provisions have been established for the value of risk related to the life insurance contracts. These additional provisions are calculated using stochastic techniques.

Zakat and income tax

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax (continued)

Income tax is computed on the foreign shareholders' share of net income for the year. Zakat and income tax are charged to retained earnings as these are liabilities of the shareholders.

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

Segmental reporting

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

- Motor insurance provides coverage against loss or damage to the motor vehicles caused by accident, fire or theft along with the coverage of third party liability as well;
- Engineering insurance provides coverage for builders' risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance;
- Health care products provide medical cover to policyholders;
- Property insurance provides cover against accidental physical loss or damage to the property due to any cause including fire and allied perils and consequential losses associated with the perils insured;
- Other general insurance segment comprises of marine, credit, fidelity guarantee insurance and liability;
- Protection and saving segment includes a variety of savings products designed to meet the needs of individuals as well as corporate institutions.

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

No inter-segment transactions occurred during the year, if any transaction were to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between business segments which will then be eliminated at the level of financial statements of the Company. As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income - shareholders' operations and insurance operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

Offsetting

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

Trade date accounting

All regular way purchases and sales of financial assets are recognised / derecognised on the trade date (i.e. the date that the Company commits to purchase or sell the assets). Regular way purchases or sales 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.

Statutory reserve

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company is required to establish a statutory reserve by appropriating 20% of annual net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution

5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and contingent liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

Impairment of available for sale investments

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims net of reinsurance share which are expected to be reported subsequent to the statement of financial position date, for which the insured event has occurred prior to that date. The primary technique adopted by the 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. The mathematical reserve for protection and saving insurance contracts is calculated on the basis of management assumptions that include prudent prospective external actuarial valuation method and current unit fund prices.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property, engineering and large claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis. The company uses the service of an independent actuary in the valuation of IBNR as well as Premium Deficiency Reserves.

Fair value of available for sale financial assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)*Fair value of available for sale financial assets (continued)*

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Company's management determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

Impairment on premiums receivable

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

6 CASH AND CASH EQUIVALENTS

	2017 SR		2016 SR	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
Cash on hand	1,106,567	-	1,084,470	-
Cash at banks – Current accounts	76,139,642	26,084,656	38,971,527	16,272,417
Cash at banks – Short-term deposit	30,000,000	-	37,165,167	-
	<u>107,246,209</u>	<u>26,084,656</u>	<u>77,221,164</u>	<u>16,272,417</u>

Cash at bank is placed with counterparties who have investment grade credit ratings, as rated by international rating agencies. The short-term deposit, which are denominated in Saudi Riyals at interest rate of 1.33% per annum (2016: 1.33% per annum), are made for varying periods of less than three months from the date of original acquisition depending on the immediate cash requirements of the Company.

7 PREPAYMENTS AND OTHER ASSETS

	2017 SR		2016 SR	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
Receivable for unit linked investments	7,693,449	-	6,968,621	-
Prepaid rent	1,384,180	-	1,130,396	-
Accrued investment income	3,494,422	8,153,653	930,894	2,172,085
Receivable from Manafeth	1,900,000	-	-	-
Advances to employees	1,467,931	-	762,471	-
Other assets	2,792,570	-	2,188,909	-
	<u>18,732,552</u>	<u>8,153,653</u>	<u>11,981,291</u>	<u>2,172,085</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

8 REINSURANCE BALANCES

a) Reinsurance balances receivable

	2017 SR	2016 SR
Reinsurance balances receivable	75,703,175	75,711,262
Provision for doubtful receivable	(3,161,480)	(1,606,067)
Reinsurance balances receivable, net	72,541,695	74,105,195

The movement in the allowance for doubtful reinsurance receivable is as follows:

Balance at the beginning of the year	1,606,067	2,606,067
Provided / (released) during the year	1,555,413	(1,000,000)
Balance at the end of the year	3,161,480	1,606,067

b) Reinsurance balances payable

	2017 SR	2016 SR
Reinsurance balances due to related parties (note 26)	23,030,672	28,335,880
Reinsurance balances due to other parties	158,626,606	190,418,861
Total reinsurance balances payable	181,657,278	218,754,741

9 PREMIUMS RECEIVABLE

	2017 SR	2016 SR
Premiums receivable	411,284,248	451,377,624
Provision for doubtful receivables	(48,773,133)	(39,333,767)
Premiums receivable, net	362,511,115	412,043,857

The ageing analysis of premiums receivable balances is set out below.

	<i>Past due but not impaired</i>	<i>Past due and impaired</i>		<i>Total</i>
<u>31 December 2017</u>	Up to 90 days	Less than 180 days	More than 180 days	
<i>Amount in SR</i>				
Premiums receivable from insurance contracts	123,538,278	51,503,984	95,434,922	270,477,184
Provision for doubtful receivables	-	(7,725,598)	(41,047,535)	(48,773,133)
Premiums receivable from past due insurance contracts, net	123,538,278	43,778,386	54,387,387	221,704,051
Neither past due nor impaired	-	-	-	60,690,388
Premiums receivables under fronting arrangements ³³	-	-	-	80,116,676
Premiums receivable, net	123,538,278	43,778,386	54,387,387	362,511,115

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

9 PREMIUMS RECEIVABLE (continued)

31 December 2016	Past due but not impaired	Past due and impaired		Total
	Up to 90 days	Less than 180 days	More than 180 days	
<i>Amount in SR</i>				
Premiums receivable from insurance contracts	161,885,174	44,731,258	57,891,861	264,508,293
Provision for doubtful receivables	-	(6,709,689)	(32,624,078)	(39,333,767)
Premiums receivable from past due insurance contracts, net	161,885,174	38,021,569	25,267,783	225,174,526
Neither past due nor impaired	-	-	-	54,349,153
Premiums receivables under fronting arrangements*	-	-	-	132,520,178
Premiums receivable, net	161,885,174	38,021,569	25,267,783	412,043,857

*Premiums receivable under fronting arrangements are insurance contracts under which the Company passes all the risks including the clients' credit risk to other insurance/ reinsurance companies. Such arrangements are made between global clients and entities of Allianz Group under which Allianz Saudi Fransi provides the insurance service for the entity located in the Kingdom of Saudi Arabia.

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

The movement in the allowance for doubtful receivables is as follows:

	2017 SR	2016 SR
Balance at the beginning of the year	39,333,767	41,180,489
Provided / (released) during the year	10,352,961	(1,846,722)
Debts written-off against the provision	(913,595)	-
Balance at the end of the year	48,773,133	39,333,767

10 AVAILABLE FOR SALE INVESTMENTS

Investments are classified as follows:

Insurance operations' available for sale investments:

	2017 SR	2016 SR
<u>Unquoted</u>		
Bond – Floating rate	5,000,000	5,000,000
<u>Quoted</u>		
Bonds – Floating rate	5,020,031	5,011,110
Bonds – Fixed rate	94,667,945	45,339,834
Mutual Funds	4,736,140	4,790,452
Total	109,424,116	60,141,396

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

10 AVAILABLE FOR SALE INVESTMENTS (continued)

The cumulative unrealised loss in fair value of available for sale investments amounts to SR 926,182 (31 December 2016: SR 404,130) is presented within the insurance operations' liabilities and surplus in the statement of financial position.

The available for sale investments comprise of bonds and mutual funds issued by corporate and financial institutions in the Kingdom of Saudi Arabia and Gulf Cooperation Council (GCC) countries.

Bonds – Fixed rate is rated "AA" and Bonds – Floating rate is rated "A" by Standard & Poor's however Funds are unrated.

The movement in insurance operations' available for sale investments is as follows:

	2017 SR	2016 SR
Balance at the beginning of the year	60,141,396	59,303,915
Acquisitions during the year	61,161,308	-
Disposals during the year	(10,384,321)	-
Investment premium amortization	(688,909)	(1,114,727)
Realized loss on sale of available for sale investments	(283,306)	-
Unrealised (loss) / gain on available for sale investments	(522,052)	1,952,208
Balance at the end of the year	<u>109,424,116</u>	<u>60,141,396</u>

a) Shareholders' available for sale investments:

	2017 - SR		
	Quoted	Unquoted	Total
Sukuk – Floating rate	-	40,000,000	40,000,000
Sukuk – Fixed rate	16,611,422	25,000,000	41,611,422
Bonds – Fixed rate	97,904,545	-	97,904,545
Bonds – Floating	-	12,000,000	12,000,000
Mutual Funds	4,886,259	-	4,886,259
Equities	-	3,223,078	3,223,078
Total	<u>119,402,226</u>	<u>80,223,078</u>	<u>199,625,304</u>

	2016 - SR		
	Quoted	Unquoted	Total
Sukuk – Floating rate	-	20,000,000	20,000,000
Sukuk – Fixed rate	31,911,167	25,000,000	56,911,167
Bonds – Fixed rate	83,610,062	-	83,610,062
Bonds – Floating	-	12,000,000	12,000,000
Mutual Funds	4,509,275	-	4,509,275
Equities	-	3,223,078	3,223,078
Total	<u>120,030,504</u>	<u>60,223,078</u>	<u>180,253,582</u>

The cumulative unrealised gain in fair value of available for sale investments amounts to SR 1,507,192 (31 December 2016: loss SR 908,650) is presented within the shareholders' equity in the statement of financial position.

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

10 AVAILABLE FOR SALE INVESTMENTS (continued)

The available for sale investments comprise of bonds and mutual funds issued by corporate and financial institutions in the Kingdom of Saudi Arabia and Gulf Cooperation Council (GCC) countries.

The movement in shareholders' available for sale investments is as follows:

	2017 SR	2016 SR
Balance at the beginning of the year	180,253,582	167,391,371
Acquisitions during the year	38,501,262	34,011,487
Disposals during the year	(20,720,694)	(21,378,058)
Investment Premium Amortization	(824,688)	(1,247,323)
Unrealised gain on available for sale investments	2,415,842	1,476,105
Balance at the end of the year	199,625,304	180,253,582

b) Credit standing of investments

Following is the credit standing of available for sale investments:

Credit quality	Credit Rating Agency	Financial Instrument	2017	2016
AA	S&P/ Moody's	Bonds / Sukuks	12,021,188	23,247,365
A+	S&P	Bonds / Sukuks	108,344,778	33,422,886
A-	S&P	Sukuk	93,837,977	89,123,771
Unrated	N/A	Equities/Sukuk/ Mutual Funds	94,845,477	94,600,956

c) Determination of fair value and fair values hierarchy

As at 31 December, the financial instruments under insurance and shareholder's operations are measured at fair value using Level 1 hierarchy for bonds and funds which are quoted in stock exchange.

The following table shows an analysis of financial instruments measured at fair value by level of the fair value hierarchy;

i. Insurance operations

	2017 - SR			
	Level 1	Level 2	Level 3	Total
Bonds and Sukuk	99,687,976	-	5,000,000	104,687,976
Mutual Funds	4,736,140	-	-	4,736,140
Total	104,424,116	-	5,000,000	109,424,116

	2016 - SR			
	Level 1	Level 2	Level 3	Total
Bonds and Sukuk	50,350,944	-	5,000,000	55,350,944
Mutual Funds	4,790,452	-	-	4,790,452
Total	55,141,396	-	5,000,000	60,141,396

At 31 December 2017

10 AVAILABLE FOR SALE INVESTMENTS (continued)**ii. Shareholders' operations**

2017 - SR				
	Level 1	Level 2	Level 3	Total
Bonds and sukuk	114,515,967	-	77,000,000	191,515,967
Mutual Funds	4,886,259	-	-	4,886,259
Total	119,402,226	-	77,000,000	196,402,226
2016 – SR				
	Level 1	Level 2	Level 3	Total
Bonds and sukuk	115,521,229	-	57,000,000	172,521,229
Mutual Funds	4,509,275	-	-	4,509,275
Total	120,030,504	-	57,000,000	177,030,504

In addition to the above investments, the Company holds unlisted available for sale securities as at 31 December 2017 amounting to SR 3,223,078 (December 2016: SR 3,223,078) which are carried at cost as their fair value is neither evidenced by a quoted price in an active market for an identical asset nor can be determined based on a valuation technique that uses only data from observable markets. The management believes that the fair value of these securities are not materially different from their carrying values.

Valuation technique for unquoted debt securities

The Discounted Cash flow Model (DCF) has been used to determine the fair value of debt securities of both insurance operations and shareholders' operations. This model considers the present value of net cash flows to be generated from the debt securities, discounted at the market yield of similar quoted instruments and adjusted for the effect of non-marketability of the debt securities. The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurement in level 3 of the fair value hierarchy.

	Opening	Purchase	Sale	Closing
2017	62,000,000	20,000,000	--	82,000,000
2016	50,000,000	12,000,000	--	62,000,000

Sensitivity Analysis

The sensitivity to a 1% increase in the risk adjusted discount rate with all other variables constant on the fair value of the level 3 available for sale investments is SR 3,656,603 and sensitivity to 1% decrease in the risk adjusted discount rate with all other variables constant on the fair value of the level 3 available for sale investments is SR 3,887,482.

11 UNIT LINKED INVESTMENTS

The fair values for unit linked investments as at 31 December are:

	2017 SR	2016 SR
Local funds	562,992,783	573,078,698
Foreign funds	10,723,613	19,572,956
	573,716,396	592,651,654

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

11 UNIT LINKED INVESTMENTS (continued)

Portfolios of the funds are as follows:

	2017	2016
	SR	SR
Al Ghad/Al Anjal Low Risk Fund	244,320,531	258,350,657
Al Badr Fund Saudi Riyal	216,423,999	219,986,738
Al Saffa Equity Fund	48,838,255	43,331,027
Al Ghad/Al Anjal Murabaha Fund	36,790,965	42,677,902
Al Badr Fund US Dollar	10,290,040	10,684,380
Money Market Fund Saudi Riyal	4,533,558	5,096,944
Al Danah GCC Equity Fund	4,419,078	4,359,010
Al Fursan Equity Fund US Dollar	3,510,465	3,592,484
Saudi Istithmar Fund	2,540,409	2,444,264
Al Naqaa Asia Growth Fund US Dollar	2,049,096	2,128,248
	573,716,396	592,651,654

Unit Linked Assets are related to investments in unit linked funds. The Company has established unit linked liabilities which excluding some timing differences and reserves, match exactly with the policyholder's unit linked assets.

The fair value of unit linked investments are measured based on the net assets value provided by fund manager. As the values of these investments are available from the market, the Company uses Level 1 hierarchy for determining and disclosing the fair value of above unit linked investments.

12 DEFERRED POLICY ACQUISITION COSTS

	2017	2016
	SR	SR
Balance at the beginning of the year	22,089,024	21,958,291
Incurred during the year	59,649,076	49,049,960
Amortized during the year	(57,871,819)	(48,919,227)
Balance at the end of the year	23,866,281	22,089,024

13 PROPERTY AND EQUIPMENT

2017	Computer and office equipment SR	Motor vehicles SR	Furniture and fittings SR	Leasehold improvements SR	Total SR
Cost:					
At the beginning of the year	10,301,734	969,347	6,697,553	-	17,968,634
Additions during the year	1,550,155	-	157,664	253,544	1,961,363
Balance at the end of the year	11,851,889	969,347	6,855,217	253,544	19,929,997
Accumulated depreciation:					
At the beginning of the year	8,916,450	968,159	5,694,650	-	15,579,259
Charge for the year	428,831	1,187	274,500	11,024	715,542
Balance at the end of the year	9,345,281	969,346	5,969,150	11,024	16,294,801
Net book value at 31 December 2017	2,506,608	1	886,067	242,520	3,635,196

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

13 PROPERTY AND EQUIPMENT (continued)

<u>2016</u>	<i>Computer and office equipment SR</i>	<i>Motor vehicles SR</i>	<i>Furniture and fittings SR</i>	<i>Leasehold improvements SR</i>	<i>Total SR</i>
<i>Cost:</i>					
At the beginning of the year	9,286,617	969,347	6,352,022	-	16,607,986
Additions during the year	1,015,117	-	345,531	-	1,360,648
Balance at the end of the year	10,301,734	969,347	6,697,553	-	17,968,634
<i>Accumulated depreciation:</i>					
At the beginning of the year	8,464,330	895,825	5,471,735	-	14,831,890
Charge for the year	452,120	72,334	222,915	-	747,369
Balance at the end of the year	8,916,450	968,159	5,694,650	-	15,579,259
<i>Net book value at 31 December 2016</i>	<u>1,385,284</u>	<u>1,188</u>	<u>1,002,903</u>	<u>-</u>	<u>2,389,375</u>

14 STATUTORY DEPOSIT

In compliance with the Insurance Implementing Regulations of SAMA, the Company deposited 10% of its paid up capital, amounting to SR 20 Million in a bank designated by SAMA. The accrued commission on the deposit as at 31 December 2017 is SR 817,056 (31 December 2016: SR 679,569) and has been disclosed in assets as "Return on investment of statutory deposit" and the corresponding commission is shown in liabilities as "Deferred return on investment of statutory deposit". This deposit cannot be withdrawn without SAMA's consent. The statutory deposit is maintained with Banque Saudi Fransi, a shareholder of the Company and rated "BBB+" by Fitch Ratings Services.

15 ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>2017 SR</u>		<u>2016 SR</u>
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>
Accrued bonus	6,921,409	-	5,870,573
Inspection and supervision fees	2,876,543	-	2,153,820
Accrued TPA fees	10,558,429	-	-
Claims payable	39,321,155	-	30,541,473
Others	4,917,476	268,366	3,166,219
	<u>64,595,012</u>	<u>268,366</u>	<u>41,732,085</u>
			<u>50,365</u>

16 OUTSTANDING CLAIMS

	<u>2017 - SR</u>	
	<i>Gross</i>	<i>Reinsurance share</i>
General insurance	421,667,635	(274,496,010)
Protection and saving insurance	12,873,732	(8,227,273)
Total outstanding claims	<u>434,541,367</u>	<u>(282,723,283)</u>
		<u>151,818,084</u>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

16 OUTSTANDING CLAIMS (continued)

	2016 -SR		
	Gross	Reinsurance share	Net
General insurance	375,880,242	(261,535,321)	114,344,921
Protection and saving insurance	10,249,910	(5,925,028)	4,324,882
Total outstanding claims	<u>386,130,152</u>	<u>(267,460,349)</u>	<u>118,669,803</u>

Movement of outstanding claims is as follows:

	2017 SR			2016 SR		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
As at 1 January						
Reported claims	239,418,512	(191,714,583)	47,703,929	292,010,152	(250,600,850)	41,409,302
IBNR	146,711,640	(75,745,766)	70,965,874	155,918,813	(124,907,084)	31,011,729
Total outstanding claims	<u>386,130,152</u>	<u>(267,460,349)</u>	<u>118,669,803</u>	<u>447,928,965</u>	<u>(375,507,934)</u>	<u>72,421,031</u>
Provided during the year	652,422,489	(153,692,028)	498,730,461	400,432,031	37,537,594	437,969,625
Paid during the year	(604,011,274)	138,429,094	(465,582,180)	(462,230,844)	132,015,478	(330,215,366)
As at 31 December	<u>434,541,367</u>	<u>(282,723,283)</u>	<u>151,818,084</u>	<u>386,130,152</u>	<u>(205,954,862)</u>	<u>180,175,290</u>
Reported claims	237,365,286	(196,869,565)	40,495,721	239,418,512	(191,714,583)	47,703,929
IBNR	197,176,081	(85,853,718)	111,322,363	146,711,640	(75,745,766)	70,965,874
Total outstanding claims	<u>434,541,367</u>	<u>(282,723,283)</u>	<u>151,818,084</u>	<u>386,130,152</u>	<u>(267,460,349)</u>	<u>118,669,803</u>

17 UNIT LINKED LIABILITIES

	2017 SR	2016 SR
Balance at the beginning of the year	593,706,572	592,851,492
Change in unit linked liabilities during the year	(20,654,616)	855,080
Balance at the end of the year	<u>573,051,956</u>	<u>593,706,572</u>

Liabilities arising from insurance contracts where the risk is borne by policyholders relates to the value of unit linked contracts.

The technical provision relating to insurance contracts represent the excess of expected claims under these products over expected charges. The computation was made on the basis of recognized actuarial methods, with due regard to the actuarial principles.

18 UNEARNED COMMISSION INCOME

	2017 SR	2016 SR
Balance at the beginning of the year	11,951,608	15,230,473
Commission received during the year	24,580,335	14,260,879
Commission earned during the year	(25,718,192)	(17,539,744)
Balance at the end of the year	<u>10,813,751</u>	<u>11,951,608</u>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

19 UNEARNED PREMIUMS

	2017 SR	2016 SR
Balance at the beginning of the year	222,796,791	164,345,534
Net premiums written during the year	650,851,063	558,440,631
Net premiums earned during the year	(638,219,579)	(499,989,374)
	235,428,275	222,796,791
Reinsurer's share of unearned premium	180,184,370	236,460,497
Balance at the end of the year	415,612,645	459,257,288

20 DUE TO SHAREHOLDERS' OPERATIONS

	2017 SR	2016 SR
Balance at the beginning of the year	18,772,461	23,915,601
Net surplus for the year	30,153,597	23,868,347
Funds transferred from insurance operations	(30,000,000)	(29,011,487)
Balance at the end of the year	18,926,058	18,772,461

21 EMPLOYEES' END OF SERVICE BENEFITS

a) The movement in provision for employees' end of service benefits for the years ended 31 December are as follows:

	2017 SR	2016 SR
Defined benefit obligation at the beginning of the year	12,828,431	11,786,168
Provided during the year	3,232,920	2,234,651
Paid during the year	(1,368,829)	(1,192,388)
Actuarial reserve for employee benefits	765,304	-
Defined benefit obligation at the end of the year	15,457,826	12,828,431

b) The amount provided during the year comprised of the following:

	2017 SR	2016 SR
Current service cost	2,751,185	2,234,651
Net interest	481,735	-
	3,232,920	2,234,651

Actuarial Assumption:

Discount rate used for valuation of current year	4.00%
Discount rate used for valuation of prior year	4.15%
Salary increase rate	6.00%
Duration (years)	8.39

Sensitivity analysis

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

	2017 SR	
	Increase	Decrease
Discount rate (1% movement)	14,296,031	16,893,341
Future salary growth (1% movement)	16,930,043	14,239,097

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

22 PROVISION FOR ZAKAT AND INCOME TAX

A summary of the Company's share capital and percentages of ownership are as follows:

	31 December 2017		31 December 2016	
	SR	%	SR	%
Saudi and GCC Shareholders	114,760,000	57.38%	114,760,000	57.38%
Non-Saudi and GCC Shareholders	85,240,000	42.62%	85,240,000	42.62%
Total	200,000,000	100%	200,000,000	100%

As at 31 December 2017 and 31 December 2016, the authorized, issued and fully paid-in share capital of the Company consists of 20 million shares of SR 10 each. The Company's zakat and income tax calculations and corresponding accruals and payments of zakat and income tax are based on the above ownership percentages in accordance with the relevant provisions of the Saudi Arabian zakat and income tax regulations.

The provision for zakat and income tax for the year is set out below:

	2017 SR	2016 SR
Provision for zakat	4,294,733	3,509,169
Provision for income tax	3,289,263	1,853,974
	<u>7,583,996</u>	<u>5,363,143</u>

a) Zakat

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

Opening share capital	200,000,000	200,000,000
Reserves and opening provisions	99,689,499	67,625,285
Closing value of long term assets	(51,751,675)	(51,007,646)
	<u>247,937,824</u>	<u>216,617,639</u>
Zakat-able income for the year	51,451,011	28,864,619
	<u>299,388,835</u>	<u>245,482,258</u>
Zakat base		
Total Saudi share of zakat base	171,789,314	140,366,755
	<u>4,294,733</u>	<u>3,509,169</u>

The differences between the income as per financial statements and the zakatable income are mainly due to provisions which are not allowed in the calculation of zakatable income.

b) Income tax

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

Net income for the year	34,918,227	24,429,547
Add: Inadmissible expenses	19,058,944	6,634,059
Less : Admissible expenses	(9,906,807)	(6,325,168)
Adjustment of brought forward losses	(5,482,105)	(3,089,958)
	<u>38,588,259</u>	<u>21,648,480</u>
Adjusted income		
Adjusted income attributed to non-Saudi shareholders	16,446,316	9,269,870
	<u>3,289,263</u>	<u>1,853,974</u>

c) Movement in zakat and income tax payable is as follows:

Opening balance of zakat and tax payable	16,065,894	14,271,442
Provided during the year	7,583,996	5,363,143
Payment made during the year	(2,232,944)	(3,568,691)
	<u>21,416,946</u>	<u>16,065,894</u>

22 PROVISION FOR ZAKAT AND INCOME TAX (continued)**d) Status of assessments**

The Company has filed tax and zakat declarations for the years ended 31 December 2008 to 31 December 2016 and the assessments for these years are still outstanding. The Company has filed appeals against the General Authority for Zakat and Tax (GAZT) assessments of additional zakat arising from disallowance of long term investments from zakat base for the years 2010, 2011, 2012 and 2013. The Company has accounted for the additional zakat provision in the financial statements, however has not paid the same. The Company is in the process of filing tax and zakat returns for the year ended 31 December 2017 with the GAZT.

23 SHARE CAPITAL

The authorised and issued share capital of the Company is SR 200 million divided into 20 million shares of SR 10 each (31 December 2016: SR 200 million divided into 20 million shares of SR 10 each). The founding shareholders of the Company have subscribed and paid for 13 million shares with a nominal value of SR 10 each, which represents 65% of the shares of the Company's capital and the remaining 7 million shares with a nominal value of SR 10 each have been subscribed by general public.

On 25th October 2017, Allianz Europe BV (a 100% subsidiary of Allianz SE) entered in a legally binding agreement with Banque Saudi Fransi (BSF) to purchase from BSF, 57% of its shareholding in the Company which represents 18.5% of the total share capital of the Company. This agreement received SAMA's no-objection and will be completed by Allianz Europe BV, upon completion Allianz SE will own 51% shareholding of the Company. The completion of this transaction is subject to additional regulatory approvals which are outstanding as at 31 December 2017.

24 STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company is required to establish a statutory reserve by appropriating 20% of annual net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution.

25 PREMIUMS WRITTEN AND EARNED

	2017 (SR)		
	Gross	Reinsurance share	Net
General insurance	788,918,480	(259,250,741)	529,667,739
Protection and saving insurance	136,618,227	(15,434,903)	121,183,324
Written premiums	925,536,707	(274,685,644)	650,851,063
Change in unearned premiums	43,644,643	(56,276,127)	(12,631,484)
Premiums earned	969,181,350	(330,961,771)	638,219,579

	2016 (SR)		
	Gross	Reinsurance share	Net
General insurance	686,334,653	(262,659,719)	423,674,934
Protection and saving insurance	149,937,377	(15,171,680)	134,765,697
Written premiums	836,272,030	(277,831,399)	558,440,631
Change in unearned premiums	(36,671,363)	(21,779,894)	(58,451,257)
Premiums earned	799,600,667	(299,611,293)	499,989,374

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

26 GENERAL AND ADMINISTRATIVE EXPENSES

	2017 SR		2016 SR	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
Employees' costs	60,262,579	-	52,781,095	645,764
Allowance for premium and reinsurance receivable	11,908,374	-	-	-
Consultation fees	9,220,471	-	7,625,692	2,253,300
Advertisement and promotion	4,163,634	-	985,620	-
Repairs and maintenance	3,634,192	-	2,204,677	-
Employees' end of service benefits	3,232,920	-	2,234,651	-
Rent	3,212,072	-	3,227,386	-
Insurance expenses	3,088,225	-	2,408,887	-
Postage and telephone	1,375,244	-	1,575,837	-
Board expenses	908,574	876,537	936,794	234,198
Travel and transportation	849,715	-	849,236	-
Depreciation (note 13)	715,542	-	747,369	-
Others	2,809,667	-	282,913	-
	<u>105,381,209</u>	<u>876,537</u>	<u>75,860,157</u>	<u>3,133,262</u>

27 RELATED PARTY TRANSACTIONS AND BALANCES

Following are the details of related party transactions during the year ended 31 December 2017 and 31 December 2016 and the related affiliate's balances as at 31 December 2017 and 31 December 2016:

Related party	Nature of transaction	2017 SR	2016 SR
Entities controlled, jointly controlled or significantly influenced by related parties.	-Insurance premiums written	111,686,186	90,301,473
	-Insurance premiums ceded	62,420,083	98,361,666
	-Gross claims paid	37,164,753	42,479,386
	-Reinsurers' share of claims paid	25,268,439	35,897,776
	-Commission expense	4,444,600	4,031,476
	-Commission income	5,567,446	8,663,209
	<i>Other expenses</i>		
	-Third party administrator (TPA) fees	8,817,319	7,691,263
	-Remuneration and related expenses	6,108,232	6,233,575
	-Fees and related expenses	1,785,111	1,146,648
Key management personnel			
Chairmans			

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly and comprise top management executives including the Chief Executive Officer, Deputy Chief Executive Officer and the Chief Financial Officer of the Company. All Unit Linked investments and certain significant available for sale investments are managed by an affiliate, Saudi Fransi Capital.

Cash and cash equivalents include bank accounts, the majority of which are maintained with the shareholder of the Company, Banque Saudi Fransi.

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

27 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The significant amounts with the related parties are included in the following balances as at the financial position date:

	2017 SR	2016 SR
Entities controlled, jointly controlled or significantly influenced by related parties.		
- Accrued expenses	6,753,903	5,708,440
- Premiums receivable, net	25,452,683	57,937,612
- Reinsurance balances payable	23,030,672	28,335,880
- Outstanding claims	39,957,886	4,026,131

Related parties include Allianz SNA, Allianz Mena Holding Bermuda, Allianz Risk Transfer A.G. Dubai, Allianz France, Allianz Global Corporate and Speciality AG, Allianz World Wide Care, Allianz Global risks U.S Insurance, Allianz Belgium, Euler Hermes, Allianz SE Zurich, Allianz Insurance Hong Kong, Allianz Global Risks Netherland, Allianz Insurance Singapore, Allianz Insurance New Zealand, Saudi Fransi Insurance Agency, Banque Saudi Fransi, Saudi Fransi Leasing Company, Saudi Next Care, Saudi Fransi Capital.

28 CLAIMS DEVELOPMENT TABLE

The following table reflects the net incurred claims including both the net claims notified and net incurred but not reported claims for each accident year (excluding the surrenders for protection and savings insurance products) 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.

Claims triangulation analysis by accident years for the last five years is set out below:

a) Claims triangulation analysis – Net basis

	SR					
2017	2013 and earlier	2014	2015	2016	2017	Total
Accident Year						
Estimate of ultimate claims cost:						
At the end of accident year	120,625,501	176,986,593	146,996,450	200,630,919	374,692,166	-
One year later	134,302,221	181,013,130	163,278,601	240,449,122	-	-
Two years later	133,421,984	177,463,452	166,635,230	-	-	-
Three years later	131,515,203	178,825,807	-	-	-	-
Four years later	130,456,835	-	-	-	-	-
Current estimate of cumulative net claims	130,456,835	178,825,807	166,635,230	240,449,122	374,692,166	1,091,059,160
Cumulative payments to date	(128,921,027)	(171,293,358)	(155,174,295)	(223,586,916)	(260,265,480)	(939,241,076)
Net liability recognised in statement of financial position	1,535,808	7,532,449	11,460,935	16,862,206	114,426,686	151,818,084

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

28 CLAIMS DEVELOPMENT TABLE (continued)

	SR					
2016						
Accident Year	2012 and earlier	2013	2014	2015	2016	Total
Estimate of ultimate claims cost:						
At the end of accident year	104,912,265	120,625,501	176,986,593	146,996,450	243,798,701	-
One year later	113,103,673	134,302,221	181,013,130	170,621,899	-	-
Two years later	113,744,848	133,421,984	182,180,151	-	-	-
Three years later	113,977,879	133,054,046	-	-	-	-
Four years later	117,419,311	-	-	-	-	-
Current estimate of cumulative net claims	117,419,311	133,054,046	182,180,151	170,621,899	243,798,701	847,074,108
Cumulative payments to date	(112,442,178)	(128,942,959)	(169,200,388)	(151,712,734)	(166,106,046)	(728,404,305)
Net liability recognised in statement of financial position	4,977,133	4,111,087	12,979,763	18,909,165	77,692,655	118,669,803

b) Claims triangulation analysis – Gross basis

	SR					
2017						
Accident Year	2013 and earlier	2014	2015	2016	2017	Total
Estimate of ultimate claims cost:						
At the end of accident year	301,622,709	317,526,019	387,505,257	316,095,677	524,842,372	-
One year later	338,700,516	413,602,896	401,202,916	420,666,359	-	-
Two years later	332,078,904	388,793,005	403,744,616	-	-	-
Three years later	316,855,740	399,323,549	-	-	-	-
Four years later	318,418,725	-	-	-	-	-
Current estimate of cumulative claims	318,418,725	399,323,549	403,744,616	420,666,359	524,842,372	2,066,995,621
Cumulative payments to date	(311,503,980)	(329,043,708)	(351,637,228)	(323,101,746)	(317,167,592)	(1,632,454,254)
Net liability recognised in statement of financial position	6,914,745	70,279,841	52,107,388	97,564,613	207,674,780	434,541,367

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

28 CLAIMS DEVELOPMENT TABLE (continued)

	SR					
2016						
Accident Year	2012 and earlier	2013	2014	2015	2016	Total
Estimate of ultimate claims cost:						
At the end of accident year	210,669,922	301,622,709	317,526,019	387,505,257	351,105,261	-
One year later	246,785,537	338,700,516	413,602,896	434,547,262	-	-
Two years later	247,242,919	332,078,904	427,654,012	-	-	-
Three years later	243,555,988	334,753,978	-	-	-	-
Four years later	252,403,710	-	-	-	-	-
Current estimate of cumulative claims	252,403,710	334,753,978	427,654,012	434,547,262	351,105,261	1,800,464,223
Cumulative payments to date	(235,053,646)	(307,000,158)	(324,140,371)	(336,083,456)	(212,056,440)	(1,414,334,071)
Net liability recognised in statement of financial position	17,350,064	27,753,820	103,513,641	98,463,806	139,048,821	386,130,152

29 BASIC AND DILUTED EARNINGS PER SHARE

	31 December 2017	31 December 2016
Net income for the year (SR)	34,918,227	24,429,547
Weighted average number of ordinary shares	20,000,000	20,000,000
Basic and diluted earnings per share (SR)	1.75	1.22

30 PREMIUM DEFICIENCY RESERVES AND ADDITIONAL PREMIUM RESERVE

The Company has created a provision in respect of premium deficiency reserves ("PDR") for its medical and motor business. The PDR for medical is based on the recommendations of the actuary. The PDR for motor represents provision created by the Company with respect to additional reserve required to cover expected claims not initially built in the premium. The Company created 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 statement of financial position date.

	2017 SR	2016 SR
Motor	5,315,543	5,315,543
Medical	5,401,609	762,179
Total	10,717,152	6,077,722

During the current year the company booked an additional premium reserve amounting to SR 1,317,438 (31 December 2016: Nil) on the basis of unexpired risk reserve for Engineering business.

31 RISK MANAGEMENT

Risk management strategy

The Company's activities expose it to a variety of financial risks. Company has a comprehensive risk management strategy to understand and manage the types of risk arising from the Company's core business operations.

The strategy considers the impact of market conditions and available expertise on inherent risks to which the Company is exposed. Consideration is not limited to the risks associated with one class of business but is extended to risks from all other classes.

The Board of Directors and the senior management periodically reviews and updates the risk management strategy by taking into account developments that are internal and external to the Company.

Risk management structure

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

Board of directors

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

Senior management

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

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

a) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Company manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance.

b) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands.

The Company underwrites mainly medical, motor, fire and burglary, marine, engineering and public liability risks. The insurance risks arising from the above insurance contracts are mainly concentrated in the Kingdom of Saudi Arabia.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites medical, motor, fire and burglary, marine, engineering and public liability risks. These classes except for long term engineering policies are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Concentration of insurance risk

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

31 RISK MANAGEMENT (continued)

The Company monitors concentration of risk by evaluating multiple risks covered in the same geographical location or by same party. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and 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 only, hence, all the insurance risks relate to policies written in Saudi Arabia.

Protection and Saving

For Protection and saving, the main risk is the mortality and morbidity (permanent or temporary disability) of the insured. This is managed through an effective and clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also conducts financial, lifestyle and occupational underwriting to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

For group Protection and saving, the mortality risk is compounded due to the concentration of lives, for example employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also looks at the nature of activity carried out by the group, group size, mix of lives by geographical regions, cultural background and manual/non-manual worker split.

The individual family and group Protection and saving portfolio is protected through an efficient reinsurance arrangement in accordance with Allianz Group standards. This protects the Company from adverse mortality/morbidity experience. There is a maximum retention per life under the reinsurance arrangement which protects the Company from single large losses. Multiple claims and concentrations of risk are also covered under the arrangement.

General Insurance

Medical

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

Motor

For motor contracts, the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company only underwrites comprehensive policies for owner/drivers over 21 years of age.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims. The Company also has appropriate risk management procedures to control the cost of claims. The Company has reinsurance cover for such damage to limit the losses for any individual claim.

Property

For property insurance contracts the main risk is fire. The Company only underwrites policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has appropriate reinsurance cover for such damage to limit losses for any individual claim. These are covered under proportional and non-proportional treaties.

Marine

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

At 31 December 2017

31 RISK MANAGEMENT (continued)

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

Engineering

For engineering insurance, the main risks are loss or damage to the construction/erection works caused by fire, explosion, natural perils like floods, earthquakes, hailstorms, etc. Selection of risks and proper underwriting are the criteria for this line of business. The Company has appropriate reinsurance cover for such risks to limit losses for any individual claim. These are covered under engineering proportional and non-proportional treaties.

Public liability

For public liability insurance, the main risks are legal liabilities of the insured towards third party deaths, bodily injury or property damage arising out of insured premises, business operations or projects handled by the insured.

This insurance policy is underwritten based on the turnover of the company or the value of the contract, nature / occupation of the premises, nature of contracts handled. The Company has appropriate reinsurance cover to limit the losses for any individual claim.

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. A hypothetical 5% change in the claims ratio would impact income annually in aggregate by:

<i>Change in claim ratio</i>	<i>Effect on income 2017 – SR</i>	<i>Effect on income 2016 – SR</i>
+5%	24,936,523	18,823,207
-5%	(24,936,523)	(18,823,207)

c) Claims management risk

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

d) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the company where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions. To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognized techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances.

The objective of the company's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business.

e) Liquidity risk

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

Maturity profile

The table below summarises the expected utilisation or settlement of assets and liabilities.

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

31 RISK MANAGEMENT (continued)

Maturity analysis on expected maturity bases

31 December 2017	<i>Less than one</i>	<i>More than one</i>	<i>Total</i>
<i>Amount in SR</i>	<i>year</i>	<i>year</i>	
Insurance operations' assets			
Cash and cash equivalents	107,246,209	-	107,246,209
Prepayments and other assets	18,732,552	-	18,732,552
Reinsurance balances receivable	72,541,695	-	72,541,695
Premiums receivable	362,511,115	-	362,511,115
Available for sale investments	4,736,140	104,687,976	109,424,116
Unit linked investments	573,716,396	-	573,716,396
Deferred policy acquisition costs	23,866,281	-	23,866,281
Reinsurers' share of unearned premiums	180,184,370	-	180,184,370
Reinsurers' share of outstanding claims	282,723,283	-	282,723,283
Property and equipment	-	3,635,196	3,635,196
	<u>1,626,258,041</u>	<u>108,323,172</u>	<u>1,734,581,213</u>
Shareholders' assets			
Cash and cash equivalents	26,084,656	-	26,084,656
Prepayments and other assets	8,153,653	-	8,153,653
Due from insurance operations	18,926,058	-	18,926,058
Available for sale investments	29,548,088	170,077,216	199,625,304
Statutory deposit	-	20,000,000	20,000,000
Return on investment of statutory deposit	-	817,056	817,056
	<u>82,712,455</u>	<u>190,894,272</u>	<u>273,606,727</u>
31 December 2017	<i>Less than one</i>	<i>More than one</i>	<i>Total</i>
<i>Amount in SR</i>	<i>year</i>	<i>year</i>	
Insurance operations' liabilities			
Accrued expenses and other liabilities	64,595,012	-	64,595,012
Reinsurance balances payable	181,657,278	-	181,657,278
Due to shareholders' operations	18,926,058	-	18,926,058
Outstanding claims	434,541,367	-	434,541,367
Premium deficiency reserves	10,717,152	-	10,717,152
Additional premium reserve	1,317,438	-	1,317,438
Unit linked liabilities	573,051,956	-	573,051,956
Unearned commission income	10,813,751	-	10,813,751
Unearned premiums	415,612,645	-	415,612,645
Employees' end of service benefits	-	15,457,826	15,457,826
	<u>1,711,232,657</u>	<u>15,457,826</u>	<u>1,726,690,483</u>
Shareholders' liabilities			
Zakat and income tax payable	21,416,946	-	21,416,946
Deferred return on investment of statutory deposit	817,056	-	817,056
Accrued expenses and other liabilities	268,366	-	268,366
	<u>22,502,368</u>	<u>-</u>	<u>22,502,368</u>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

31 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

Maturity profile (continued)

Maturity analysis on expected maturity bases

31 December 2016 Amount in SR	Less than one year	More than one year	Total
Insurance operations' assets			
Cash and cash equivalents	77,221,164	-	77,221,164
Prepayments and other assets	11,981,291	-	11,981,291
Reinsurance balances receivable	74,105,195	-	74,105,195
Premiums receivable	412,043,857	-	412,043,857
Available for sale investments	4,790,452	55,350,944	60,141,396
Unit linked investments	592,651,654	-	592,651,654
Deferred policy acquisition costs	22,089,024	-	22,089,024
Reinsurers' share of unearned premiums	236,460,497	-	236,460,497
Reinsurers' share of outstanding claims	267,460,349	-	267,460,349
Property and equipment	-	2,389,375	2,389,375
	<u>1,698,803,483</u>	<u>57,740,319</u>	<u>1,756,543,802</u>

Shareholders' assets			
Cash and cash equivalents	16,272,417	-	16,272,417
Prepayments and other assets	2,172,085	-	2,172,085
Due from insurance operations	18,772,461	-	18,772,461
Available for sale investments	7,732,353	172,521,229	180,253,582
Statutory deposit	-	20,000,000	20,000,000
Return on investment of statutory deposit	-	679,569	679,569
	<u>44,949,316</u>	<u>193,200,798</u>	<u>238,150,114</u>

31 December 2016 Amount in SR	Less than one year	More than one year	Total
Insurance operations' liabilities			
Accrued expenses and other liabilities	41,732,085	-	41,732,085
Reinsurance balances payable	218,754,741	-	218,754,741
Due to shareholders' operations	18,772,461	-	18,772,461
Outstanding claims	386,130,152	-	386,130,152
Premium deficiency reserves	6,077,722	-	6,077,722
Unit linked liabilities	593,706,572	-	593,706,572
Unearned commission income	11,951,608	-	11,951,608
Unearned premiums	459,257,288	-	459,257,288
Employees' end of service benefits	-	12,828,431	12,828,431
	<u>1,736,382,629</u>	<u>12,828,431</u>	<u>1,749,211,060</u>
Shareholders' liabilities			
Zakat and income tax payable	16,065,894	-	16,065,894
Deferred return on investment of statutory deposit	679,569	-	679,569
Accrued expenses and other liabilities	50,365	-	50,365
	<u>16,795,828</u>	<u>-</u>	<u>16,795,828</u>

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

31 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

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

31 December 2017 Amount in SR	On Demand	Up to 1 year	2-5 years	More than 5 years	Total
Insurance operations' assets					
Cash and cash equivalents	-	107,246,209	-	-	107,246,209
Reinsurance balances receivable	-	72,541,695	-	-	72,541,695
Premiums receivable	-	362,511,115	-	-	362,511,115
Available for sale investments	4,736,140	-	5,000,000	99,687,976	109,424,116
Unit linked investments	573,716,396	-	-	-	573,716,396
Reinsurers' share of outstanding claims	-	282,723,283	-	-	282,723,283
	578,452,536	825,022,302	5,000,000	99,687,976	1,508,162,814
Shareholders' assets					
Cash and cash equivalents	-	26,084,656	-	-	26,084,656
Due from insurance operations	-	18,926,058	-	-	18,926,058
Available for sale investments	29,548,088	-	74,428,360	95,648,855	199,625,303
Returns on investment of statutory deposit	-	-	-	817,056	817,056
Statutory deposit	-	-	-	20,000,000	20,000,000
	29,548,088	45,010,714	74,428,360	116,465,911	265,453,073
31 December 2017 Amount in SR	On Demand	Up to 1 year	2-5 years	More than 5 years	Total
Insurance operations' liabilities					
Accrued expenses and other payables	-	64,595,012	-	-	64,595,012
Reinsurance balances payable	-	181,657,278	-	-	181,657,278
Due to shareholders operations	-	18,926,058	-	-	18,926,058
Outstanding claims	-	434,541,367	-	-	434,541,367
Unit linked liabilities	573,051,956	-	-	-	573,051,956
Employees' end of service benefits	15,457,826	-	-	-	15,457,826
	588,509,782	699,719,715	-	-	1,288,229,497
Shareholders' liabilities					
Accrued expenses and other liabilities	-	268,366	-	-	268,366
Deferred return on investment of statutory deposit	817,056	-	-	-	817,056
Zakat and income tax payable	-	21,416,946	-	-	21,416,946
	817,056	21,685,312	-	-	22,502,368

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

31 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

Maturity profile (continued)

31 December 2016 Amount in SR	On Demand	Up to 1 year	2-5 years	More than 5 years	Total
Insurance operations' assets					
Cash and cash equivalents	-	77,221,164	-	-	77,221,164
Reinsurance balances receivable	-	74,105,195	-	-	74,105,195
Premiums receivable	-	412,043,857	-	-	412,043,857
Available for sale investments	4,790,452	-	5,000,000	50,350,944	60,141,396
Unit linked investments	592,651,654	-	-	-	592,651,654
Reinsurers' share of outstanding claims	-	267,460,349	-	-	267,460,349
	<u>597,442,106</u>	<u>830,830,565</u>	<u>5,000,000</u>	<u>50,350,944</u>	<u>1,483,623,615</u>
Shareholders' assets					
Cash and cash equivalents	-	16,272,416	-	-	16,272,416
Due from insurance operations	-	18,772,461	-	-	18,772,461
Available for sale investments	7,732,353	-	74,428,360	98,092,869	180,253,582
Returns on investment of statutory deposit	-	-	-	679,569	679,569
Statutory deposit	-	-	-	20,000,000	20,000,000
	<u>7,732,353</u>	<u>35,044,877</u>	<u>74,428,360</u>	<u>118,772,438</u>	<u>235,978,028</u>
31 December 2016 Amount in SR	On Demand	Up to 1 year	2-5 years	More than 5 years	Total
Insurance operations' liabilities					
Accrued expenses and other payables	-	41,732,085	-	-	41,732,085
Reinsurance balances payable	-	218,754,741	-	-	218,754,741
Due to shareholders operations	-	18,772,461	-	-	18,772,461
Outstanding claims	-	386,130,152	-	-	386,130,152
Unit linked liabilities	593,706,572	-	-	-	593,706,572
Employees' end of service benefits	12,828,431	-	-	-	12,828,431
	<u>606,535,003</u>	<u>665,389,439</u>	<u>-</u>	<u>-</u>	<u>1,271,924,442</u>
Shareholders' liabilities					
Accrued expenses and other liabilities	-	50,365	-	-	50,365
Deferred return on investment of statutory deposit	679,569	-	-	-	679,569
Zakat and income tax payable	-	16,065,894	-	-	16,065,894
	<u>679,569</u>	<u>16,116,259</u>	<u>-</u>	<u>-</u>	<u>16,795,828</u>

f) Credit risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

31 RISK MANAGEMENT (continued)

f) Credit risk (continued)

- To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurance counterparties. Accordingly, as a pre-requisite, the parties with whom reinsurance is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company only enters into insurance and reinsurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an on-going basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit the credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- Premiums receivable are mainly receivable from individuals and corporate customers (unrated). The Company seeks to limit the credit risk with respect individuals and corporate customers by setting credit limits and monitoring outstanding receivables.
- Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company's investments mainly comprise of debt securities and Sukuk. The Company does not have an internal grading mechanism for debt securities. The Company limits its credit risk on debt securities by setting out a minimum acceptable security rating level for such investments.

Premiums receivable comprise a large number of receivables from individual and corporate clients. The five largest premium receivable accounts constitute 16% of premium receivable as at 31 December 2017 (31 December 2016: 29%). The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	Note	2017 SR		
		Insurance operations	Shareholders' operations	Total
Cash and cash equivalents	6	107,246,209	26,084,656	133,330,865
Reinsurance balances receivable	8(a)	72,541,695	-	72,541,695
Premiums receivable	9	362,511,115	-	362,511,115
Available for sale investments	10(a)	109,424,116	199,625,304	309,049,420
Reinsurance share of outstanding claims	16	282,723,283	-	282,723,283
Statutory deposit	14	-	20,000,000	20,000,000
Returns on investment of statutory deposit	14	-	817,056	817,056
		<u>934,446,418</u>	<u>246,527,016</u>	<u>1,180,973,434</u>
	Note	2016 SR		
		Insurance operations	Shareholders' operations	Total
Cash and cash equivalents	6	77,221,164	16,272,417	93,493,581
Reinsurance balances receivable	8(a)	74,105,195	-	74,105,195
Premiums receivable	9	412,043,857	-	412,043,857
Available for sale investments	10(a)	60,141,396	180,253,582	240,394,978
Reinsurance share of outstanding claims	16	267,460,349	-	267,460,349
Statutory deposit	14	-	20,000,000	20,000,000
Returns on investment of statutory deposit	14	-	679,569	679,569
		<u>890,971,961</u>	<u>217,205,568</u>	<u>1,108,177,529</u>

31 RISK MANAGEMENT (continued)

g) Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to special commission rate risk on its bank balances and available for sale- debt securities.

The sensitivity of the income is the effect of the assumed changes in the interest rates, with all other variable held constant, on the profit for one year, based on the floating rate financial assets held at 31 December 2017. A hypothetical 100 basis points change in the weighted average special commission rate of the floating rate at 31 December 2017 would impact special commission income by approximately SR 707,120 (2016: SR 485,000) annually in aggregate.

h) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, as the Company's foreign currency transactions are primarily in US dollars which is pegged with the Saudi Riyal, foreign exchange gains and losses are not significant and have not been disclosed separately.

i) Fund price risk

Fund price risk is the risk that the fair value of future cash flows of a fund will fluctuate because of changes in the net asset value (NAV) being determined by fund managers.

The Company is not exposed to fund price risk since any change in the NAV of the funds will affect the change in unit linked liabilities and the change in the fair value of the funds by the same amount; hence, there is no impact on the performance of the Company.

j) Reinsurance risk

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

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

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

k) Market risk

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

The Company's market risk exposure relates to its quoted available for sale investments whose values will fluctuate as a result of changes in market prices. The Company limits market risk by maintaining a diversified portfolio and by monitoring the developments in financial markets. The Company also has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of insurance operations will be impacted.

A 1% change in the market price of the quoted available for sale investments, with all other variables held constant, would impact shareholders' equity and insurance operations' accumulated surplus as set out below:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

31 RISK MANAGEMENT (continued)

	<i>Change in market price</i>	<i>Effect on statement of changes in shareholders' equity SR</i>	<i>Effect on insurance operations accumulated surplus SR</i>
2017	+1%	1,194,022	1,044,241
	-1%	(1,194,022)	(1,044,241)
2016	+1%	1,200,305	551,414
	-1%	(1,200,305)	(551,414)

l) *Capital management*

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

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

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

The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained. According to the said Article, 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 200 million
Premium Solvency Margin
Claims Solvency Margin

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

m) *Fair value of financial instruments*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair values of recognised financial instruments are not significantly different from the carrying values included in the financial statements. The estimated fair values of financial instruments are based on quoted market prices, when available. The Company's financial assets consist of cash and cash equivalents, receivables, investments and accrued income and its financial liabilities consist of payables, accrued expenses and gross outstanding claims. The fair values of financial assets and financial liabilities are not materially different from their carrying values at the statement of financial position date.

32 CONTINGENCIES AND COMMITMENTS

a) *Legal proceedings and regulations*

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

b) *Operating lease commitments*

Rental expenses under operating leases pertained to leases of office spaces in various locations amounted to SR 3,791,990 for the year ended 31 December 2017 (2016: SR 3,505,996) are recognized in the statement of insurance operations.

33 SEGMENT INFORMATION

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

Segment assets do not include insurance operations' cash and cash equivalents, prepaid expenses, due from shareholders' operations and property and equipment. Accordingly they are included in unallocated assets. Segment liabilities do not include reinsurers' balances payable, employees' end of service benefits, accrued expenses and other liabilities. Accordingly they are included in unallocated liabilities.

The unallocated assets and unallocated liabilities are reported to chief operating decision maker on the cumulative basis and not reported under the related segments.

Operating segments

Following are the operating segments identified for segment reporting purposes;

Motor	:	Motor corporate and motor individual
Engineering	:	Construction
Medical	:	Medical
Property	:	Fire, Burglary and Money
Other general	:	Liability and Marine
Protection and Saving	:	Group Retirement and Individual Protection and Saving

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

33 SEGMENT INFORMATION (continued)

	Motor SR	Engineering SR	Medical SR	Property SR	Other General SR	Protection and Saving SR	Shareholders' Operations SR	Total SR
For the year ended 31 December 2017								
Gross written premiums	428,146,754	50,418,661	104,339,487	130,423,957	75,589,621	136,618,227	-	925,536,707
Reinsurance premiums ceded	(4,715,034)	(40,296,184)	(57,424,011)	(104,070,983)	(52,744,529)	(15,434,903)	-	(274,685,644)
Net written premiums	423,431,720	10,122,477	46,915,476	26,352,974	22,845,092	121,183,324	-	650,851,063
Net premiums earned	401,174,080	14,635,209	53,859,930	23,195,569	24,115,504	121,239,287	-	638,219,579
Unrealized gain on unit linked investments	-	-	-	-	-	16,571,858	-	16,571,858
Net claims incurred	(309,360,240)	(2,685,223)	(45,809,205)	(2,781,507)	(150,972)	(137,943,314)	-	(498,730,461)
Change in premium deficiency reserve	-	-	(4,639,430)	-	-	-	-	(4,639,430)
Change in additional premium reserve	-	(1,317,438)	-	-	-	-	-	(1,317,438)
Change in unit linked liabilities	-	-	-	-	-	20,654,616	-	20,654,616
Commission expenses, net	(29,350,825)	703,982	(4,331,965)	5,189,542	(32,230)	(4,332,131)	-	(32,153,627)
Inspection and supervision fees	(2,140,734)	(252,093)	(521,697)	(652,120)	(2,524,520)	-	-	(6,091,164)
Net underwriting results	60,322,281	11,084,437	(1,442,367)	24,951,484	21,407,782	16,190,316	-	132,513,933
Other income	-	-	-	-	-	-	-	6,371,272
General and administrative expenses	-	-	-	-	-	-	-	(105,381,209)
Net surplus for the period	-	-	-	-	-	-	-	33,503,996
Net insurance operations' surplus after shareholders' appropriation for the period	-	-	-	-	-	-	5,641,167	(3,350,399)
Shareholders' total revenue	-	-	-	-	-	-	(876,537)	5,641,167
General and administrative expenses	-	-	-	-	-	-	-	(876,537)
Net income for the year								34,918,227

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

33 SEGMENT INFORMATION (continued)

As at 31 December 2017	Motor		Engineering		Medical		Property		Other General		Protection and Saving		Shareholders' Operations		Total	
	SR		SR		SR		SR		SR		SR		SR		SR	
Insurance Operations' Assets																
Premiums receivable, gross	134,560,050		34,442,350		72,214,624		39,565,519		130,436,452		65,253		-		411,284,248	
Provision for doubtful debts	-		-		-		-		-		-		-		(48,773,133)	
Unit linked investments	-		-		-		-		-		573,716,396		-		573,716,396	
Deferred policy acquisition costs	13,641,088		2,946,128		2,482,196		4,491,210		1,398,241		(1,092,582)		-		23,866,281	
Reinsurers' share of unearned premiums	274,316		66,580,146		36,185,210		45,532,072		25,058,951		6,553,675		-		180,184,370	
Reinsurers' share of outstanding claims	3,944,780		118,716,769		20,927,177		70,096,241		60,811,043		8,227,273		-		282,723,283	
Unallocated assets	-		-		-		-		-		-		-		311,579,768	
Shareholders' assets	-		-		-		-		-		-		273,606,727		273,606,727	
Total assets															2,008,187,940	
Insurance Operations' Liabilities																
Outstanding claims	116,449,060		123,348,411		37,965,985		76,493,489		67,410,690		12,873,732		-		434,541,367	
Unit linked liabilities	-		-		-		-		-		573,051,956		-		573,051,956	
Unearned commission income	17,831		4,856,394		-		4,560,308		1,089,144		290,074		-		10,813,751	
Unearned premiums	174,404,606		72,422,449		67,349,742		58,465,661		31,981,793		10,988,394		-		415,612,645	
Unallocated liabilities and surplus	-		-		-		-		-		-		-		300,561,494	
Total Shareholders' liabilities and equity	-		-		-		-		-		-		273,606,727		273,606,727	
Total insurance operations liabilities, surplus and shareholders' liabilities and equity															2,008,187,940	

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

33 SEGMENT INFORMATION (continued)

	Motor	Engineering	Medical	Property	Other General	Protection and Saving	Shareholders' Operations	Total
	SR	SR	SR	SR	SR	SR	SR	SR
For the year ended 31 December 2016								
Gross written premiums	298,980,060	73,982,750	123,833,665	125,188,188	64,349,990	149,937,377	-	836,272,030
Reinsurance premiums ceded	(4,272,356)	(60,877,894)	(56,664,499)	(102,212,348)	(38,632,622)	(15,171,680)	-	(277,831,399)
Net written premiums	294,707,704	13,104,856	67,169,166	22,975,840	25,717,368	134,765,697	-	558,440,631
Net premiums earned	248,710,953	14,755,083	52,619,976	24,675,355	23,771,269	135,456,738	-	499,989,374
Unrealized gain on unit linked investments	-	-	-	-	-	14,597,069	-	14,597,069
Net claims incurred	(208,159,316)	(1,006,799)	(35,667,256)	(796,282)	(2,252,936)	(128,581,549)	-	(376,464,138)
Change in premium deficiency reserves	(5,315,543)	-	(762,179)	-	-	-	-	(6,077,722)
Change in unit linked liabilities	-	-	-	-	-	(855,080)	-	(855,080)
Commission expenses, net	(17,518,963)	(5,982,016)	(5,595,850)	2,973,626	(831,701)	(4,424,579)	-	(31,379,483)
Inspection and supervision fees	(1,494,900)	(369,914)	(619,168)	(625,941)	(1,565,355)	(749,687)	-	(5,424,965)
Net underwriting results	16,222,231	7,396,354	9,975,523	26,226,758	19,121,277	15,442,912	-	94,385,055
Other income	-	-	-	-	-	-	-	7,995,488
General and administrative expenses	-	-	-	-	-	-	-	(75,860,157)
Net surplus for the period	-	-	-	-	-	-	-	26,520,386
Net insurance operations' surplus after shareholders' appropriation for the period	-	-	-	-	-	-	-	(2,652,039)
Shareholders' total revenue	-	-	-	-	-	-	3,694,462	3,694,462
General and administrative expenses	-	-	-	-	-	-	(3,133,262)	(3,133,262)
Net income for the year	-	-	-	-	-	-	-	24,429,547

Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

33 SEGMENT INFORMATION (continued)

	<u>Motor</u>	<u>Engineering</u>	<u>Medical</u>	<u>Property</u>	<u>Other General</u>	<u>Protection and Saving</u>	<u>Shareholders' Operations</u>	<u>Total</u>
	SR	SR	SR	SR	SR	SR	SR	SR
<u>As at 31 December 2016</u>								
<u>Insurance Operations' Assets</u>								
Premiums receivable, gross	110,232,068	92,593,267	71,187,083	33,128,003	133,147,577	11,089,626	-	451,377,624
Provision for doubtful debts	-	-	-	-	-	-	-	(39,333,767)
Unit linked investments	-	-	-	-	-	592,651,654	-	592,651,654
Deferred policy acquisition costs	11,636,494	3,487,406	1,948,609	3,740,909	1,822,035	(546,429)	-	22,089,024
Reinsurers' share of unearned premiums	293,920	132,206,909	29,100,130	37,235,341	30,898,109	6,726,088	-	236,460,497
Reinsurers' share of outstanding claims	3,785,367	114,046,361	20,185,536	54,463,180	69,054,877	5,925,028	-	267,460,349
Unallocated assets	-	-	-	-	-	-	-	225,838,421
Shareholders' assets	-	-	-	-	-	-	238,150,114	238,150,114
Total assets								1,994,693,916
<u>Insurance Operations' Liabilities</u>								
Outstanding claims	78,417,405	118,455,997	40,371,072	60,418,188	78,217,580	10,249,910	-	386,130,152
Unit linked liabilities	-	-	-	-	-	593,706,572	-	593,706,572
Unearned commission income	45,558	6,121,791	-	4,143,671	1,334,715	305,873	-	11,951,608
Unearned premiums	152,166,570	142,561,943	67,209,116	47,011,526	39,091,363	11,216,770	-	459,257,288
Unallocated liabilities and surplus	-	-	-	-	-	-	-	305,498,182
Total shareholders' liabilities and equity	-	-	-	-	-	-	238,150,114	238,150,114
Total insurance operations liabilities, surplus and shareholders' liabilities and equity								1,994,693,916

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

33 SEGMENT INFORMATION (continued)

Geographical segments

The Company, during the years 2017 and 2016 operated only in the Kingdom of Saudi Arabia.

34 COMPARATIVE FIGURES

Certain items of prior year amount have been reclassified to conform to the presentation in the current year.

35 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors on 12 Rajab 1439H, corresponding to 28 March 2018.