The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

Financial Statements and Independent Auditors' Report
For the Year Ended 31 December 2018

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF THE MEDITERRANEAN AND GULF COOPERATIVE INSURANCE AND REINSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

Qualified Opinion

We have audited the financial statements of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, (A Saudi Joint Stock Company) (the "Company"), which comprise of the statement of financial position as at 31 December 2018 and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the accompanying notes which form an integral part of these financial statements.

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

Basis of Qualified Opinion

1) As disclosed in note 10 to the accompanying financial statements, all reinsurance treaties up to the underwriting year 2014 were managed by the Medgulf Group Corporate Reinsurance Center ("CRC"), a related party, who dealt with the Company's transactions, along with those of other related parties, on a consolidated basis with the reinsurers and brokers. All transactions with reinsurers and brokers were routed through CRC and the settlement of balances with these reinsurers and brokers were also made by CRC. The Company, together with CRC, have now initiated an exercise to separate the Company's transactions and balances with the respective reinsurers and brokers from those of other related parties. This exercise is still on-going and on completion certain parties included in the policyholders' and reinsurance balances receivable under note 9 amounting to Saudi Riyals 117.24 million may be identified as receivable from related parties and therefore may need to be disclosed under due from related parties. The underlying transactions with such related parties will then also require disclosure under related party transactions. Accordingly, management is currently unable to provide a complete list of all related parties balances and transactions which impacts both the presentation and disclosure of related party balances and transactions. Consequently, we were unable to determine whether any adjustments to the presentation and disclosure of the related party balances and transactions were necessary in the accompanying financial statements.

2) As disclosed in note 6, the Company is accounting for its reinsurance transactions related to the general line of business based on their understanding of the contractual terms of the reinsurance agreements. However, such accounting of reinsurance transactions may be subject to different interpretations. As a result, the Company's financial statements may require adjustments, if the terms of reinsurance agreements are interpreted differently. Management is still securing clarity on the terms of the reinsurance agreements. In the absence of information in this regard, we were unable to determine whether adjustments would be required in the accompanying financial statements.

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

Emphasis of Matters

We draw attention to note 2 to the accompanying financial statements, which details various communications from SAMA to the Company. The Company did not meet the solvency margin requirements as at 31 December 2018. The deficiency in solvency margin along with other matters as set forth in note 2 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. However, the accompanying financial statements are prepared using the going-concern assumption since during the year the Company has successfully issued SAR 400 million in right shares improving the financial position of the Company and based on management's assessment on the Company abilities to continue as a going concern. Our opinion is not further modified in respect of this matter.

INDEPENDENT AUDITORS' REPORT (Continued)
TO THE SHAREHOLDERS OF THE MEDITERRANEAN AND GULF COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report:

Key audit matter	How our audit addressed the key audit matter
Valuation of ultimate claim liabilities arising from insurance contracts As at 31 December 2018, outstanding claims and claims incurred but not reported (IBNR) amounted to Saudi Riyals 325 million and Saudi Riyals 625 million respectively as reported in Note 11 to the financial statements. The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of actuarial methods are used by the actuary to determine these technical reserves. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We considered this as a key audit matter since use of management assumptions and judgements could result in material over / understatement of the Company's profitability. *The Company's policies for claims and related judgments and estimates are disclosed in note 6 to the financial statements respectively. Liabilities for outstanding claims including IBNR and claims incurred have been disclosed in note 11 to the financial statements. Segment wise disclosure of claim related liabilities and expense have been disclosed in note 30 to the financial statements.*	We understood and evaluated key controls around the claims handling and technical reserve setting processes of the Company including completeness and accuracy of claims data used in the actuarial reserving process. We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their relationship with the entity. In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR by comparing it to accounting records. In order to assess management's methodologies and assumptions, we were assisted by our actuarial expert to understand and evaluate the Company's actuarial practices and the technical reserves established. In order to obtain comfort over the Company's actuarial report, our expert actuarial performed the following: - Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought sufficient justification for any significant differences. - Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We assessed these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge. - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.

INDEPENDENT AUDITORS' REPORT (Continued)
TO THE SHAREHOLDERS OF THE MEDITERRANEAN AND GULF COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Key Audit Matters ***(Continued)***

Key audit matter	How our audit addressed the key audit matter
Valuation of Goodwill	
At 31 December 2018, the Company had goodwill amounting to Saudi Riyals 480 million, which represents the fair value of the consideration paid in excess of the fair value of net assets or liabilities acquired. Management reviews goodwill for impairment annually, and assesses the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. As per IAS 36, an impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. As management believes that fair value less cost to sell analysis provides higher value compared to value in use, therefore, Fair value less cost to sell analysis are used for impairment valuation. Management uses its expert to perform fair value less cost to sell analysis that use market approach to determine the need for impairment. In arriving at the valuation under market approach, the expert applied certain judgments and factors including trends in share prices, stock index liquidity, book price multiple, comparable companies' analysis and comparable transaction analysis, etc. We considered this as a key audit matter since the financial condition of the Company has deteriorated over the year with accumulated losses of Saudi Riyal 273.52 million as at 31 December 2018 and deteriorating solvency margin position, therefore, there is a risk that the carrying value of goodwill may be impaired. *Refer to the significant accounting policies note 5 to the financial statements, note which explains the valuation methodology used by the Company and critical judgment and estimates.*	We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their relationship with the entity. We evaluated the source data of significance to the management's expert's work for relevance, completeness and accuracy by performing the following procedures: - Inquired of the expert to determine how the expert has obtained satisfaction that the data used is relevant, complete and accurate; - Reviewed the data for completeness and internal consistency; and - Agreed the data to supporting documentation. We gained an understanding and evaluated methods and assumptions that are significant to the management's expert's work for their relevance and reasonableness by reviewing the expert's report and cross checked their consistency with other audit evidence.

INDEPENDENT AUDITORS' REPORT (Continued)
TO THE SHAREHOLDERS OF THE MEDITERRANEAN AND GULF COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Key Audit Matters ***(Continued)***

Key audit matter	How our audit addressed the key audit matter
Insurance and reinsurance receivables	
As at 31 December 2018, the Company had insurance and reinsurance receivables of SR 870.37 million and SR 339.35 million respectively, against which an impairment provision of SR 313.58 million and SR 215.06 million was maintained, respectively. We considered this as a key audit matter as the assessment of impairment requires subjective judgments with respect to the estimation of the amount and timing of future cash flows. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms. For individually significant receivables, the Company also assesses the impairment individually on a regular basis. *Refer to note 5 of the financial statements for the accounting policy relating to the impairment of insurance and reinsurance receivables, note 6 for the critical accounting estimates and judgments, and note 9 for the disclosures of insurance and reinsurance receivable balances.*	We also carried-out the following audit procedures: - Reviewed the methodology and judgment used and challenged management's key assumptions used in assessing impairment. - On sample basis checked the completeness and accuracy of the insurance and reinsurance aging reports by tracing the balances to the source documents. - On sample basis, requested external confirmations of the outstanding amount from counterparties and where responses were poor, we performed alternative tests to ensure existence and accuracy of those receivables. - Challenged management's key assumptions over credit risk and the calculation methodology, including correspondence with the insurer and re-insurers to assess recoverability. - Considered the consistency of the approach with the prior years, and enquired about any major variations and changes in key assumptions and its basis. - Considered adequacy of disclosures in the financial statements in accordance with the requirements of International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT (Continued)
TO THE SHAREHOLDERS OF THE MEDITERRANEAN AND GULF COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Other Matter

The financial statements of the Company for the year ended 31 December 2017, were audited by other auditors who expressed a qualified opinion on the matters explained in our basis of qualified opinion, in their report dated 15 April 2018.

Other information included in the Company's 2018 Annual Report

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

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

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

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

Responsibilities of Those Charged with Governance for the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT (Continued)
TO THE SHAREHOLDERS OF THE MEDITERRANEAN AND GULF COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- 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.

PKF Al-Bassam & Co.
Allied Accountants
(Member firm of PKF International)
Audit - Consultants - Zakat & Tax

Crowe Horwath.
AlAzem & AlSudairy Co.
CPA's & Consultants
Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT (Continued)
TO THE SHAREHOLDERS OF THE MEDITERRANEAN AND GULF COOPERATIVE INSURANCE AND REINSURANCE COMPANY
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Auditors' responsibilities for the audit of the financial statements (Continued)

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current 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.

Report on legal and other regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance with the requirements of Regulations for Companies and the Company's By-Laws in so far as they affect the preparation and presentation of the financial statements

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24 March 2019
17 Rajab 1440

المحاسبون المتحالفون
محاسبون قانونيون
رقم الترخيص ٥٢٠
C.R 1010385804
Licence 520
Allied Accountants
Certified Public Accountants

License No
323/11/148
Al Azem & Al Sudairy
Certified Public Accountants

STATEMENT OF FINANCIAL POSITION
As At 31 December 2018
(Amounts in SR'000)

	Note	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	7	**1,122,429**	383,525
Short-term deposits	8	**-**	471,250
Premium and reinsurers' receivable - net	9	**681,078**	659,105
Reinsurers' share of unearned premiums	15	**282,901**	464,063
Reinsurers' share of outstanding claims	11 a	**294,162**	366,647
Reinsurers' share of claims incurred but not reported	11 a	**126,644**	114,493
Deferred policy acquisition costs	16	**76,227**	85,065
Due from a related party	10	**63**	63
Prepayments and other assets	14	**134,273**	238,077
Available for sale investments	13	**74,151**	153,376
Property and equipment, net	17 a	**19,158**	23,211
Land		**30,000**	30,000
Intangible assets, net	17 b	**2,484**	3,319
Statutory deposit	18	**120,000**	150,000
Investment in an associate	12	**9,872**	9,341
Accrued commission on statutory deposit	27	**19,507**	15,546
Goodwill	19	**480,000**	480,000
TOTAL ASSETS		**3,472,949**	3,647,081

The accompanying notes 1 to 34 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION (Continued)
As At 31 December 2018
(Amounts in SR'000)

	Note	31 December 2018	31 December 2017
Liabilities			
Accrued expenses and other liabilities	20	**158,493**	152,892
Accounts and commission payable		**124,860**	121,768
Reinsurers' balances payable		**50,410**	135,761
Gross unearned premiums	15	**1,236,849**	1,405,228
Unearned reinsurance commission	22	**22,205**	35,206
Gross outstanding claims	11 a	**325,214**	499,938
Claims incurred but not reported	11 a	**624,910**	594,499
Premium deficiency reserve	11 b	**51,052**	15,700
Other technical reserves	11 b	**9,759**	10,596
Due to related party	10	**17,600**	3,886
End of service indemnities	21	**25,461**	20,887
Surplus distribution payable		**111,566**	111,566
Zakat and income tax	25	**27,184**	25,022
Accrued commission income payable to SAMA	27	**19,507**	15,546
Total Liabilities		**2,805,070**	3,148,495
Equity			
Share capital	26 a	**800,000**	400,000
Statutory reserve		**146,135**	146,135
Accumulated losses	1	**(273,529)**	(53,002)
Re-measurement of defined benefit liability – employees benefits	21	**(4,285)**	(302)
Fair values gain reserve on available for sale investments	13	**(442)**	5,755
TOTAL EQUITY		**667,879**	498,586
TOTAL LIABILITIES AND EQUITY		**3,472,949**	3,647,081

Commitments and Contingencies 29

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
For the Year Ended 31 December 2018
(Amounts in SR'000)

	Note	31 December 2018	31 December 2017
Revenues			
Gross premiums written			
-Direct		**2,070,179**	2,616,057
-Reinsurance		**(706)**	49,781
	15	**2,069,473**	2,665,838
Reinsurance premiums ceded			
-Local		**(2,419)**	(3,937)
-Abroad		**(248,063)**	(473,238)
		(250,482)	(477,175)
Excess of loss premiums		**(15,521)**	(17,504)
Net premiums written		**1,803,470**	2,171,159
Changes in unearned premiums, net	15	**(12,783)**	151,703
Net premiums earned		**1,790,687**	2,322,862
Reinsurance commission income	22	**54,027**	64,063
Total Underwriting Revenues		**1,844,714**	2,386,925
Underwriting Costs and Expenses			
Gross claims paid	11 a	**(2,052,478)**	(2,445,590)
Expenses incurred related to paid claims	11 a	**(77,133)**	(97,281)
Reinsurers' share of gross claims paid	11 a	**380,720**	345,713
Net claims and other benefits paid		**(1,748,891)**	(2,197,158)
Changes in outstanding claims, net		**102,239**	33,422
Changes in incurred but not reported, net		**(18,260)**	81,296
Net claims and other benefits incurred		**(1,664,912)**	(2,082,440)
Premium deficiency reserve	11 b	**(35,352)**	1,827
Other technical reserves	11 b	**837**	17,031
Policy acquisition costs	16 a,b	**(123,776)**	(160,677)
Total Underwriting Costs and Expenses		**(1,823,203)**	(2,224,259)
NET UNDERWRITING INCOME		**21,511**	162,666
Other Operating (Expenses)/Income			
Allowance for doubtful debts	9, 10 a	**(27,074)**	(295,260)
General and administrative expenses	23	**(266,372)**	(312,446)
Impairment on discontinued ERP system	17 b	**-**	(25,688)
Special commission income		**13,291**	15,651
Income from investment in associate	12	**5,017**	2,621
Realized gain on available for sale investments		**6,016**	-
Other income	24	**43,084**	64,430
Total Other Operating Expenses		**(226,038)**	(550,692)
Net loss for the year end		**(204,527)**	(388,026)
Net loss attributed to the insurance operations		**-**	-
Net loss for the year end attributable to the shareholders		**(204,527)**	(388,026)
Loss per share			
Loss per share stated as SAR per share (2017 : restetd)	26	**(3.81)**	(8.28)

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT COMPREHENSIVE INCOME / (LOSS)
For the Year Ended 31 December 2018
(Amounts in SR'000)

	Note	**31 December 2018**	31 December 2017
Net loss for the year end		**(204,527)**	(388,026)
Other comprehensive loss:			
Item that will not be reclassified to statement of income in subsequent period			
Impairment loss for the period transferred to statement of income			
Re-measurement of employees end of service indemnities	21	**(3,983)**	(302)
Items that are or may be reclassified to condensed statement of income in subsequent year end			
<u>Available for sale investments</u>			
- Net change in fair values	13 a	**(181)**	(8)
- Reclassified to statement of income		**(6,016)**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR END		**(214,707)**	(388,336)
Total comprehensive income / (loss) attributed to the insurance operations		**21**	(252)
Total comprehensive loss for the year attributable to the shareholders		**(214,686)**	(388,588)

The accompanying notes 1 to 34 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2018
(Amounts in SR'000)

	Note	Share capital	Statutory reserve	Accumulated losses	Fair values gain on investments	Re-measurement of defined benefit liability – employees benefits	Total
Balance at 1 January 2018		**400,000**	**146,135**	**(53,002)**	**5,755**	**(302)**	**498,586**
Total comprehensive loss for the year end:							
Net loss for the year end		-	-	**(204,527)**	-	-	**(204,527)**
Actuarial losses on define benefits obligation		-	-	-	-	**(3,983)**	**(3,983)**
Reclassification		-	-	-	**(6,016)**	-	**(6,016)**
Change in fair values	13(a)	-	-	-	**(181)**	-	**(181)**
		-	-	**(204,527)**	**(6,197)**	**(3,983)**	**(214,707)**
Right issue	26(a)	**400,000**	-	-	-	-	**400,000**
Transaction cost related to right issue	26(a)	-	-	**(9,677)**	-	-	**(9,677)**
Zakat	25(a)	-	-	**(6,323)**	-	-	**(6,323)**
Balance at 31 December 2018		**800,000**	**146,135**	**(273,529)**	**(442)**	**(4,285)**	**667,879**
Balance at 1 January 2017 as previously reported		1,000,000	146,135	(199,101)	5,763	-	952,797
Effect of restatement	4	-	-	(33,070)	-	-	(33,070)
Balance at 1 January 2017 as restated		1,000,000	146,135	(232,171)	5,763	-	919,727
Total comprehensive loss for the year end:							
Net loss for the year end		-	-	(388,026)	-	-	(388,026)
Actuarial losses on define benefits obligation		-	-	-	-	(302)	(302)
Change in fair values		-	-	-	(8)	-	(8)
		-	-	(388,026)	(8)	(302)	(388,336)
Reduction of capital		(600,000)	-	600,000	-	-	-
Transaction cost related to reduction in share capital		-	-	(691)	-	-	(691)
Zakat	25	-	-	(32,114)	-	-	(32,114)
Balance at 31 December 2017 - restated	4	400,000	146,135	(53,002)	5,755	(302)	498,586

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2018
(Amounts in SR'000)

	Note	31 December 2018	31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year end		**(204,527)**	(388,026)
Adjustments for non-cash items:			
Depreciation and amortization	17	**8,956**	9,764
Gain on disposal of property and equipment		**-**	(737)
Realized gain on sale of investment		**(6,016)**	-
Allowance for doubtful debts	9	**27,074**	295,260
Special commission income		**(13,291)**	(15,651)
Income from investment in associate		**(5,017)**	(2,621)
Provision for end of service indemnities	21	**5,931**	13,111
Impairment on discontinued ERP system		**-**	25,688
		(186,890)	(63,212)
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		**(49,047)**	258,730
Reinsurers' share of unearned premiums		**181,162**	72,320
Reinsurers' share of outstanding claims		**72,485**	74,648
Reinsurers' share of claims incurred but not reported		**(12,151)**	40,153
Deferred policy acquisition costs		**8,838**	6,400
Due from a related party		**-**	(388)
Deposit against letter of guarantee		**(35,392)**	(3,054)
Prepayments and other assets		**103,804**	(17,130)
Accounts and commission payable		**3,092**	(1,942)
Accrued expenses and other liabilities		**5,601**	(6,050)
Reinsurers' balances payable		**(85,351)**	49,589
Gross unearned premiums		**(168,379)**	(224,023)
Unearned reinsurance commission		**(13,001)**	(1,378)
Gross outstanding claims		**(174,724)**	(108,071)
Claims incurred but not reported		**30,411**	(121,448)
Premium deficiency reserves		**37,622**	(1,827)
Other technical reserves		**(3,107)**	(17,031)
Due to a related party		**13,714**	(1,757)
		(271,313)	(65,471)
Payment of employees end of service indemnities	21	**(5,340)**	(18,573)
Zakat and income tax paid		**(4,161)**	(22,490)
Net cash used in operating activities		**(280,814)**	(106,534)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from investment in an associate		**4,486**	8,082
Proceeds from sale of available for sale investments	13 a	**79,044**	21,000
Proceeds from sale of property and equipment		**-**	791
Special commission income		**13,291**	15,651
Proceeds from short term deposits		**471,250**	(245,746)
Interest on statutory deposit		**3,961**	4,474
Interest payable on statutory deposit		**(3,961)**	(4,474)
Additions in property, equipment and intangible	17	**(4,068)**	(10,881)
Net cash generated from / (used in) investing activities		**564,003**	(211,103)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in statutory deposit		**30,000**	-
Transaction cost related to reduction of share capital		**-**	(691)
Transaction cost related to increase in capital		**(9,677)**	-
Increase in capital		**400,000**	-
Net cash generated from / (used in) financing activities		**420,323**	(691)
Net change in cash and cash equivalents		**703,512**	(318,328)
Cash and cash equivalents, beginning of the year end	7	**353,960**	672,288
Cash and cash equivalents, end of the year	7	**1,057,472**	353,960
NON-CASH INFORMATION			
Change in fair value of available for sale investments		**(181)**	(15)

The accompanying notes 1 to ~~34 form~~ an integral part of these financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010231925 dated 8 Rabi Thani 1428H (corresponding to 26 April 2007). The registered address of the Company's head office is as follows:

Medgulf Insurance
Futuro Tower
King Saud Road
P.O. Box 2302
Riyadh 11451, Saudi Arabia

The objectives of the Company are to transact cooperative insurance and reinsurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include medical, motor and other general insurance. The Company was listed on the Saudi Arabian Stock Exchange (Tadawul) on 28 Rabi Al-Awal 1428H (corresponding to 16 April 2007).

The Company in its extra-ordinary general meeting held on 22 September 2017 approved the reduction of share capital from Saudi Riyals 1 billion to Saudi Riyals 400 million to absorb the accumulated losses in order to comply with the requirements of the Regulations for Companies. This resulted in the accumulated losses to decline below one-half of the Company's share capital as at 30 September 2017. The reduction of capital was approved by the regulatory authorities.

During the year ended 31 December 2016, SAMA issued a letter to the Company that highlighted certain weaknesses in claims processing including non-compliance with legal limits for settling claims and required the submission of a detailed report regarding the corrective actions taken or to be taken by the management. SAMA also prohibited the Company from issuing any new motor insurance policies with effect from 29 November 2016. The Company was however allowed to add vehicles to existing insurance policies and renew insurance policies issued prior to 29 November 2016. On 22 January 2017, SAMA issued another letter that highlighted certain additional matters related to claims including ineffectiveness of system used to handle and process claims and certain actions that needed to be taken by the Company. SAMA also instructed the Company to take serious actions and to provide a detailed plan with procedures and timeframes approved by the Company's board of directors to address the current situation. The detailed plan was submitted to SAMA after approval by the Company's Board of Directors. On 2 March 2017, SAMA permitted the Company to issue new motor insurance policies effective 5 March 2017 and instructed the Company to submit a monthly report for the actions taken in regard to the improvement of the current information technology system and the migration process from old information technology system to the new system. The Company has signed up for new enterprise resource planning (ERP) system, the update of which has been provided to SAMA. Accordingly, the Company has impaired its ERP system during the year ended 31 December 2017. The Company is in process of implementing a new ERP system.

2. BASIS OF PREPARATION

Basis of measurement

The financial statements have been prepared on a historical cost basis except for the measurement at fair value of available for sale investments and investment in associates which is accounted for under equity method.

Statement of compliance

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

The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: Prpoerty and equipment, net, land, intangible assts, net, and employees end of services. All other financial statement line items would generally be classified as current.

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly (Note 32). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented in Note 32 of the financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

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

Going concern

Due to the continuous decline in the financial performance of the Company, the Company did not meet the solvency margin requirements as at 31 December 2017 and consequently SAMA issued a letter number 391000054425 dated 29 January 2018, preventing the Company from writing any new policies and renewing the existing policies. SAMA, in its aforesaid letter, also instructed the Company to increase its share capital before 30 July 2018 to address the issue of its deteriorating solvency margin. The Company's Board of Directors in their meeting held on 6 February 2018, recommended a rights issue amounting to SAR 400 million in order to improve the solvency margin and the Company's future business activities. Such right issue was subject to approval of the regulatory authorities and general assembly of the Company. SAMA issued a letter dated 15 April 2018 allowing the Company to write new policies and renewing the existing policies starting from 17 April 2018 subject to certain conditions. The aforesaid conditions amongst others include, the Company's commitment to increase its share capital before 31 October 2018. In addition SAMA instructed the Company to take necessary steps for continuous recovery of Company's receivables, implementation of best governance practices by the Board of Directors and the executive management and submit weekly progress report on the measures taken by the management in this regard and intimated that in case of non-compliance of the above, SAMA will take necessary actions as required by the law.

Further, during the period ended 30 June 2018, the Company submitted its request to Capital Market Authority to proceed with the rights issue on 28 June 2018 and subsequently in the period ended 30 September 2018 Company obtained CMA approval to issue right shares as at 15 August 2018. The shareholders of the Company has approved the issue of right shares as at 10 September 2018. Subsequently to the 17 October 2018 Company has successfully right SR 400 million right shares.

2. BASIS OF PREPARATION (Continued)

Going concern (continued)

Management has performed an assessment of its going concern assumption under different scenarios. Based on the underlying cash flow projections under such scenarios, management believes that the Company will be able to continue the business and meet its obligations as and when they fall due over the next 12 months. As a result, the financial information have been prepared on a going concern basis. Management's assessment is based on number of estimates and assumptions including significant recoveries from major policyholders, reinsurers and related parties and other cost saving measures

Functional and presentational currency

The functional and presentational currency of the Company is Saudi Arabian Riyals. The financial statement are presented in Saudi Riyal rounded to nearest thousand unless otherwise stated.

3. SURPLUS DISTRIBUTION

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

The insurance operations' full deficit for the year ended 2018 amounted to SR 213,459 thousand (31 December 2017: deficit of SR 390,399 thousand). Accordingly, full deficit amount for the year 2017 and 2018 has been transfer to shareholders'.

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS

The accounting policies and risk management policy used in the preparation of the financial statement are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2017, except as explained below:

New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The Company has adopted the following amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

Standard/ Interpretation	Description	Effective date
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 2	Amendments to IFRS 2 Classification and Measurement of share-based Payment transactions.	1 January 2018
IAS 40	Amendments to IAS 40 Transfers of investment property.	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance consideration.	1 January 2018
IFRS 1 and IAS 28	Annual Improvements 2016 to IFRS 2014- 2016 cycle.	1 January 2018

Standards issued but not yet effective

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

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

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS (continued)

Standards issued but not yet effective (continued)

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

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the forthcoming accounting standard for insurance contracts. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until the earlier of the effective date of a new insurance contract standard or 2021 which was further delay for 1 year. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

The Company is eligible and have chosen to apply the deferral approach under the amendments to IFRS 4. The impact of the adoption of IFRS 9 on the Company's financial statement will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. As such, it is not possible to fully assess the effect that may occur before the new insurance contracts standard is applied.

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

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

RESTATEMENT

Effect of error

During the year ended 31 December 2017, the Company restated its retained earnings as at 1 January 2016 and comparative financial statements as of 31 December 2016 as a result of erroneous recording in prior year of transaction amounted to SR 33,070 thousand relating to medical reinsurance treaty managed by Medgulf BSC Bahrain (major shareholder) on behalf of the Company. The restated amount was part of receivable from Medgulf BSC Bahrain and was confirmed by Medgulf BSC Bahrain in earlier years without any differences. Subsequently, as a result of reconciliation of medical reinsurance treaty, an error pertaining to prior year was identified which was ultimately accepted by Medgulf BSC Bahrain and the Company. Also, there are certain amounts reclassified from the previously reported numbers as at 31 December 2016 to conform with the presentation as at 31 December 2017.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand and at banks and short-term time deposits with an original maturity of less than three months at the date of acquisition.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill
Goodwill represents the fair value of the consideration paid in excess of the fair value of net assets or liabilities acquired. Goodwill is tested for impairment by management at least once at the end of each financial year. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses, if any, relating to goodwill cannot be reversed in future periods.

Land, property and equipment
Land is stated at cost less any impairment and is not depreciated. Property and equipment are measured at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis at the following depreciation rates:

	Rates
Leasehold improvements	15% - 25%
Office equipment, furniture and fixtures	10% - 15%
Computers	25%
Motor vehicles	25%

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in statement of income.

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

Intangible assets
IT development and software is shown at historical cost. It has a finite useful life and are subsequent carried at cost less accumulated amortization and impairment losses. The Company amortises intangible assets with a limited useful life using straight-line method over the following periods:

	Years
IT development and software	4

Investments
All investments are initially recognised at fair value, being the fair value of the consideration given, including acquisition charges associated with the investment except for investments at fair value through profit or loss. Premiums and discounts are amortized on a systematic basis to their maturity. For investments that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the statement of financial position date without any deduction for transaction costs.

(a) Available for sale investments
Investments which are classified as "available for sale" are subsequently measured at fair value. Available for sale investments are those investments that are not held to maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any unrealized gain or loss arising from a change in its fair value is recognised directly under insurance operations' surplus and / or shareholders' comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss previously recognised under the insurance operations' surplus and / or shareholders' comprehensive income is included in the statement of insurance operations and accumulated surplus and / or shareholders' operations for the year. Available for sale investments whose fair value cannot be reliably measured are carried at amortised cost less impairment provision.

(b) Investments in held to maturity securities
Investments which have fixed or determinable payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of income - shareholders' operations when the investment is derecognized or impaired.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

(c) Investment in an associate
Associates are enterprises in which the Company generally holds 20% to 50% of the voting power and / or over which it exercises significant influence. Investments in an associates are carried in the statement of financial position at cost, plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments.

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

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 recognized in the statement of shareholders' operations. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between the cost and fair value (fair value being lower than cost), less any impairment loss previously recognized in the statement of shareholders' operations
- For assets carried at cost, impairment is the difference between the cost and the present value (present value being lower than cost) of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is determined based on future cash flows that are discounted at the original effective special commission rate.

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

Zakat and income tax
The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis. Effective January 1, 2017, based on the Circular issued by SAMA, the Company amended its accounting policy to charge zakat directly into retained earnings in the statement of changes in shareholders' equity instead of statement of shareholders comprehensive income. The effect of change in accounting policy is explained in note 4 (c) (i).

Special commission income
Special commission income from time deposits is recognized on an effective yield basis.

Dividend income
Dividend income is recognised when the right to receive dividend is established.

Provisions
Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Premiums earned and commission income
Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. For engineering construction projects with policy terms in excess of one year, the premium are taken into income linearly over the policy term. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

The underwriting results represents premiums earned and fee and commission income less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts subject to reinsurance, less provision for any anticipated future losses on continuing policies.

Commission receivable on reinsurance contracts are deferred and amortised on a straight-line basis over the term of the reinsurance contracts.

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

- Actual number of days for all lines of business, except
- For engineering construction projects with policy terms in excess of one year, it is assumed that the risk is increasing linearly over the policy term.
- Last three month of premiums for marine cargo business

Premiums receivable
Premiums receivable are recognized when due and are measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of insurance operations and accumulated surplus. Premiums receivable are derecognized when the de-recognition criteria for financial assets have been met.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Claims

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and are charged to statement of income - insurance operations and accumulated surplus / (deficit) as incurred. Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the date of statement of financial position, whether reported or not. Provisions for reported claims not paid as at the date of statement of financial position are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at date of statement of financial position. The ultimate liability may be in excess of or less than the amount provided. Any difference between the provisions at the date of statement of financial position and settlements and provisions in the following year is included in the underwriting account for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position 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 the asset.

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

Reinsurance contracts held

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 4 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income as incurred. For details please refer to note 4.

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

Reinsurance assumed

The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to insurance companies. Amounts payable are estimated in a manner consistent with the related
reinsurance contract. 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.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured.

Investment income on these contracts is accounted for using the EIR method when accrued.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Liability adequacy test
At each statement of financial position date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of income - insurance operations and accumulated surplus and an unexpired risk provision is created.

Deferred policy acquisition costs
Commissions, SAMA fees, CCHI fees, TPA fees, partial administration cost (related to underwriting and issue of policy), and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognised as an expense when incurred. Amortization is recorded in the statement of income - insurance operations and accumulated surplus.

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

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

Reinsurance
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income - insurance operations and accumulated surplus.
Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.
Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.
Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.
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.

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

Product classification
The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

Derecognition of financial instruments
The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Segmental reporting
An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incurs expenses and about which discrete financial statement is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organized into business units based on their products and services and has three reportable operating segments as follows:

- Medical insurance, which covers medical costs, medicines, and all other medical services and supplies.
- Motor Insurance, which provides coverage against losses and liability related to motor vehicles.
- Other classes, which covers any other classes of insurance not included above.

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

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from income or loss in the accompanying financial statements.

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and 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.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate and involves a significant degree of judgment. There are several sources of uncertainty that needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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

Following are the critical areas of estimation and judgments for medical and motor business for which the Company acquires services of independent actuary to determine such reserves.

As a first step towards setting appropriate IBNR reserves for the medical and motor line of businesses, a runoff analysis is prepared to assess how the claims reserves determined at the previous valuation dates compare with actual developments. Results from runoff analysis are taken into consideration while setting reserves for IBNR claims. An analysis is carried out by using the following methods:

- Chain Ladder method - this builds up, using historical claims payment patterns, ratios of eventual cumulative claims which have been incurred in a particular year to those which have been paid as at the end of a reporting year.
- Bornhuetter Ferguson method – this is a technique that combines actual past claims experience and any prior information or expectations that might be available concerning claims, for example expected ultimate loss ratios.
- Expected Loss Ratio method – this technique determines the projected amount of claims relative to earned premiums. The method is used where the insurer lacks the appropriate past claim occurrence data because of changes in product offerings, change in claims settlement processes, etc.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on quarterly basis.

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

(ii) Premium deficiency reserve

Estimation of the premium deficiency for medical and motor business is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the claims and premiums relationship which is expected to realize in the future.

iii) Impairment of receivables

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. During 2017, the Company has revisited its provisioning approach and significantly increased the level of provisioning in respect of insurance and reinsurance receivables due to increase in credit risk associated with the receivables.

iv) Goodwill

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Management believes that fair value less cost to sell analysis provides a higher value compared to value in use, and therefore, fair value less cost to sell analyses are used for impairment assessments. Management used a valuation expert to perform fair value less cost to sell analysis through a market based approach to test impairment. The fair value less cost to sell calculation is based on the quoted share price of the Company as of period close and subsequent events that occurred till measurement date. In arriving at the valuation under market approach, the expert also applied certain judgments and factors including analysis of price book value multiples of the comparable companies and comparable transactions.

v) Reinsurance

The Company accounts for its reinsurance transactions based on their understanding of the contractual terms of the reinsurance treaties.

7. CASH AND CASH EQUIVALENTS

	SAR'000	
	Insurance operations	
	31 December 2018	31 December 2017
Cash and bank balances	**208,789**	97,035
Deposits maturing within 3 months from the acquisition date	**438,500**	251,749
Cash and cash equivalent in the statement of cash flows	**647,289**	348,784
Deposit against letter of guarantee	**64,957**	29,565
	712,246	378,349

	SAR'000	
	Shareholders' operations	
	31 December 2018	31 December 2017
Cash and bank balances	**6,314**	5,176
Deposits maturing within 3 months from the acquisition date	**403,869**	-
	410,183	5,176
Cash and cash equivalent in the statement of cash flows	**1,057,472**	353,960
Cash and bank balances	**1,122,429**	383,525

Cash at banks and short-term deposits are placed with counterparties who have credit ratings equivalent to A+ to BBB ratings under Standard and Poor's, Fitch and Moody's ratings methodology.

Short-term deposits are placed with local and licensed foreign banks' branches in Kingdom of Saudi Arabia with an original maturity of less than three months from the date of acquisition and earned special commission income at an average rate of 3.22% per annum (2017: 1.7% per annum).

The carrying amounts disclosed above reasonably approximate the fair value at the statement of financial position date.

Deposits against letters of guarantee comprise amounts placed with a local bank against issuance of payment guarantees in favour of the Company's customers and service providers (also see note 29). Such deposits against letters of guarantee cannot be withdrawn before the expiration of guarantee (are restricted in nature).

8. SHORT' TERM DEPOSITS

Short' term deposits are placed with counterparties that have credit ratings equivalent to BBB+ to BBB ratings under Standard and Poor's, Fitch and Moody's ratings methodology.

Short term deposits are placed with local and licensed foreign banks' branches in Kingdom of Saudi Arabia with a maturity of more than three months from the date of original acquisition and earned special commission income at an average rate of 3.04% per annum (2017: 2.14% per annum).

The company does not have any short term deposit as at 31 December 2018. For the year end 31 December 2017 the carrying amounts of the short term deposits reasonably approximate the fair value at the statement of financial position date.

9. PREMIUM AND REINSURERS RECEIVABLE, NET

Receivables comprise amounts due from the following:

	SR'000	
	31 December 2018	31 December 2017
Policyholders	**450,663**	518,982
Brokers and agents	**419,703**	349,996
Premiums receivables	**870,366**	868,978
Less: Allowance for doubtful debts	**(313,582)**	(290,942)
	556,784	578,036
Reinsurers' receivable	**339,354**	302,568
Less: Allowance for doubtful debts	**(215,060)**	(221,499)
	124,294	81,069
Premium and reinsurers' receivable – net	**681,078**	659,105

As disclosed in note 10, the Company, together with CRC, have now initiated an exercise to separate the Company's transactions and balances with the respective reinsurers and brokers from those of other related parties. This exercise is still on-going and on completion certain parties included above in reinsurance balances receivable amounting to Saudi Riyals 117.24 million may be identified as receivable from related parties and therefore may need to be disclosed under due from related parties in note 10.

As at December 31, 2018, the movement in the provision for doubtful debts of premium receivables was as follows:

	SR'000	
	31 December 2018	31 December 2017
Balance, January 1	**290,942**	182,862
Provision for the year	**22,640**	108,080
Balance, December 31	**313,582**	**290,942**

As at December 31, 2018, the movement in the provision for doubtful debts of reinsurance receivables was as follows:

	SR'000	
	31 December 2018	31 December 2017
Balance, January 1	**221,499**	36,709
Write off during the year	**(10,873)**	-
Provision for the year	**4,434**	184,790
Balance, December 31	**215,060**	221,499

9. PREMIUM AND REINSURERS RECEIVABLE, NET (Continued)

The aging analysis of gross premiums and reinsurance balances receivable is as at 31 December 2018 and 2017 is set as below:

			Past due but not impaired		
	Total	*Neither past due nor impaired*	*Less than 30 day*	*31 to 90 days*	*Past due and impaired*
			SR'000		
Premium and reinsurance receivables					
Policyholders	**450,663**	**161,994**	**48,674**	**23,376**	**216,619**
Brokers and agents	**419,703**	**275,004**	**39,426**	**15,252**	**90,021**
- Premium receivables	**870,366**	**436,998**	**88,100**	**38,628**	**306,640**
- Receivable from reinsurers	**339,354**	**-**	**62,168**	**731**	**276,455**
2018	**1,209,720**	**436,998**	**150,268**	**39,359**	**583,095**
Premium and reinsurance receivables					
Policyholders	518,982	218,697	56,282	80,506	163,497
Brokers and agents	349,996	86,720	54,397	56,501	152,378
- Premiums receivables	868,978	305,417	110,679	137,007	315,875
- Receivable from reinsurers	302,568	-	8,434	1,499	292,635
2017	1,171,546	305,417	119,113	138,506	608,510

Premiums and reinsurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies mainly in Europe. Premiums and reinsurance balances receivable include SR 21.4 million (31 December 2017: SR 72.4 million) due in foreign currencies, mainly in US Dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. The five largest customers accounts for 41% (31 December 2017: 37%) of the premiums receivable as at 31 December 2018. Further, total receivable from government entities amount to SR 163.9 million (31 December 2017: SR 172.9 million) constituting 19% (31 December 2017: 16%) of total premium receivable.

Unimpaired premiums and reinsurance balances receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured. The Company does not have an internal credit ratings assessment process and accordingly, amounts which are neither past due nor impaired, in respect of premiums receivable balances, are from individuals and unrated corporates. Balances due from reinsurers are with counterparties who have investment grade credit ratings issued by external rating agencies.

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

(a) The following are the details of major related party transactions during the year and their balances at the end of the year:

Related parties	Nature of transaction	Amount of transaction for the year end		Balance	
		SR'000			
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
Due from a related party					
Medgulf BSC - Head office account (*major shareholder)*	-Claims recoveries on behalf of major shareholder	-	388	-	-
	-Balance due from at year end	-	-	**2,453**	2,453
	-Allowance for doubtful debts	-	-	**(2,390)**	(2,390)
	-Net balance due from at year end	-	-	**63**	63
	Total due from related party			**63**	63
Due to a related party					
Medivisa KSA *(affiliate)*	-Insurance premium for employees of fellow subsidiary	**3,017**	3,792	-	-
	-Third party administration fees	**51,555**	59,032	-	-
	-Claim incurred	**95**	59	-	-
	-Payment received	**2**	15	-	-
	-Premium refundable	**464**	428	-	-
	-Payment on third party administration fees	**35,386**	98,088	-	-
	-Balance due to at year end	-	-	**17,600**	3,886
	Total due to related party			**17,600**	3,886

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	*Nature of transaction*	*Amount of transaction for the year end*		*Balance*	
		SR'000			
		31 December 2018	*31 December 2017*	***31 December 2018***	*31 December 2017*
Other related parties transactions and balances – due from / (due to)					
The Saudi Investment Bank, (*Founding shareholder*)	-Current account and time deposits	**34,453**	798	**35,450**	997
	-Statutory deposit *(refer note 10.a (i))*	**26,039**	4,474	**139,507**	165,546
	-Gross written premiums	**3,244**	4,051	**-**	-
	-Premiums (refundable)	**-**	-	**(1,016)**	(1,163)
	-Claims incurred / adjustment	**-**	65	**-**	-
	-Outstanding claims	**-**	-	**(580)**	(607)
Saudi Orix *(Shareholder of the Medgulf BSC)*	-Gross written premiums	**9,732**	27,439	**-**	-
	-Premiums receivable	**-**	-	**246**	774
	-Allowance for doubtful debts	**-**	-	**(10)**	(23)
	-Net Balance receivable at year end	**-**	-	**236**	751
	-Claims incurred	**10,106**	16,254	**-**	-
	-Outstanding claims	**-**	-	**(166)**	(593)

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	*Nature of transaction*	*Amount of transaction for the year end*		*Balance*	
		SR'000			
		31 December 2018	*31 December 2017*	***31 December 2018***	*31 December 2017*
Other related parties transactions and balances – due from / (due to)					
Medivisa KSA *(affiliate)*	-Medical claim Jordan / balance	**1,022**	265	**570**	1,592
	-Medical claim Lebanon / balance	**580**	164	**1,109**	529
	-Medical claim Egypt / balance	**160**	77	**160**	-
Al Istithmar Capital *(subsidiary of SIB-founding shareholder)*	-Discretionary portfolio arrangement *(refer 10.a (ii))*	**55,524**	102	-	55,524
	-Current account	**685**	18,505	**1,205**	520
	-Premiums refundable	-	-	**(38)**	(38)
Al Andalos Property *(Under common directorship)*	-Gross written premiums	**1**	52	-	-
	-Premiums receivable	-	-	**1**	-
Saudi Electricity Company *(Under common directorship)*	-Gross written premiums	**29,949**	39,305	-	-
	-Premiums receivable	-	-	**11,722**	17,887
	-Allowance for doubtful debts	-	-	**(1,756)**	(2,682)
	-Net Balance receivable at year end	-	-	**9,966**	15,205
	-Claims incurred	**34,115**	28,015	-	-
	-Outstanding claims	-	-	**(18)**	(17)
Batic Investments and Logistics Co *(Under common directorship)*	-Gross written premiums	**24**	727	-	-
	-Premiums receivable	-	-	**24**	-
	-Allowance for doubtful debts	-	-	**(18)**	-
	-Net Balance receivable year end	-	-	**6**	-
	-Claims incurred	**490**	15	-	-
Mohammed Saad Dawood *(Under common directorship)*	-Gross written premiums	**1**	17	-	-
	-Premiums receivable	-	-	**1**	-
Bayan Credit Bureau *(Under common directorship)*	-Gross written premiums	**858**	-	-	-
	-Premiums receivable	-	-	**(38)**	-
	-Claims incurred	**343**	-	-	-

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	*Nature of transaction*	*Amount of transaction for the year end*		*Balance*	
		SR'000			
		31 December 2018	*31 December 2017*	***31 December 2018***	*31 December 2017*
Other related parties transactions and balances – due from / (due to)					
Medgulf BSC *(major shareholder)*	-Claim recoveries	**-**	7	**-**	-
	-Reinsurance recovery *(refer 10.a(iii))*	**-**	-	**5,962**	5,962
	-Allowance for doubtful debts	**-**	-	**(4,471)**	(5,962)
	-Net balance receivable at year end	**-**	-	**1,491**	-
Addison Bradley Overseas / Addison Bradley & Co. *(affiliate)*	-Balance receivable at year end	**-**	-	**3,856**	**3,856**
	-Allowance for doubtful debts	**-**	-	**(3,856)**	**(3,856)**
	-Net balance due from at year end	**-**	-	**-**	-
Saudi Fransi Capital *(Under common directorship)*	-Gross written premiums	**3,969**	3,481	**-**	-
	-Premium receivable	**-**	-	**253**	-
	-Allowance for doubtful debts	**-**	-	**(66)**	-
	-Net balance receivable at year end	**-**	-	**187**	-
	-Claims incurred	**2,774**	2,091	**-**	-
Al elem information security Co. *(Under common directorship)*	-Insurance service fees	**2,984**	1,511	**-**	-
	-Gross written premiums	**254**	335	**-**	-
	-Premiums refundable / receivable	**-**	-	**(27)**	29
	-Allowance for doubtful debts	**-**	-	**-**	(7)
	-Net balance receivable at year end	**-**	-	**(27)**	22
	-Claims incurred	**21**	-	**-**	-
Falacon Plastic Production *(Under common directorship)*	-Gross written premiums	**510**	512	**-**	-
	-Premiums receivable	**-**	-	**493**	**203**
	-Claims incurred	**264**	-	**-**	-
	-Outstanding claims	**-**	-	**-**	-

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	*Nature of transaction*	*Amount of transaction for the year end*		*Balance*	
		SR'000			
		31 December 2018	*31 December 2017*	***31 December 2018***	*31 December 2017*
Other related parties transactions and balances – due from / (due to)					
Addison Bradley International / Medgulf Lebanon *(affiliate)*	-Reinsurance recovery	**23**	-	-	-
	-Balance receivable at year end	-	-	**30,265**	30,242
	-Allowance for doubtful debts	-	-	**(30,242)**	(30,242)
	-Net balance due from at year end	-	-	**23**	-
Addison Bradley Arabia-KSA *(affiliate)*	-Payment received during the year	-	-	-	-
	-Reinsurance recoveries *(Refer 10.a (iv)*	**2,799**	13,453	-	-
	-Balance due from at year end	-	-	**16,252**	13,453
	- Allowance for doubtful debts	-	-	**(10,106)**	(10,090)
	- Net balance due from at year end	-	-	**6,146**	3,363
Addison Bradley Arabia Holding LLC (UAE) (affiliate)	-Balance due from at year end	-	-	**1,472**	1,472
	- Allowance for doubtful debts	-	-	**(1,472)**	(1,472)
	- Net balance due from at year end *(Refer 10.a (v)*	-	-	-	-

10.a(i) Statutory deposit is placed with the Saudi Investment Bank, at the commission rate of 2.05% per annum

10.a(ii) Discretionary portfolio management agreement (DPM) was signed on 11 February 2011 and includes a mix of equity and debt investments.

10. a (iii) This represent overpayment of premium ceded to Medgulf Bahrain for reinsurance placement.

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

10. a (iv) This represent reinsurance claims recoverable from Addison Bradley International. Most of the reinsurance claim recoveries in respect of run-off treaties for the underwriting years up to 2014 have been collected by the related party either directly or through a broker (refer note 11.c).

10. a (v) Reinsurance placement was made by the said related party. There is a claim recovery from the reinsurer which related party needs to recover.

10.b Compensation of key management personnel

The remuneration of the Board of Directors and other key management personnel during the year is as follows:

	SR'000		
	31 December 2018		
	BOD members (Executives)	BOD members (Non-Executive)	Top Executives including the CEO and CFO
Salaries and compensation	-	85	7,260
Allowances	-	480	-
Annual remuneration	-	3,394	-
End of service indemnities	-	-	1,863
	-	3,959	9,123

	SR'000		
	31 December 2017		
	BOD members (Executives)	BOD members (Non-Executive)	Top Executives including the CEO and CFO
Salaries and compensation	-	-	9,381
Allowances	1,500	393	-
Annual remuneration	-	1,212	-
End of service indemnities	7,460	-	2,750
	8,960	1,605	12,131

10.c. All reinsurance treaties up to the underwriting year 2014 were managed by the Medgulf Group Corporate Reinsurance Center ("CRC"), a related party, who dealt with the Company's transactions, along with those of other related parties, on a consolidated basis with the reinsurers and brokers. All transactions with reinsurers and brokers were routed through CRC and the settlement of balances with these reinsurers and brokers were also made by CRC. The Company, together with CRC, have now initiated an exercise to separate the Company's transactions and balances with the respective reinsurers and brokers from those of other related parties. This exercise is still on-going and on completion certain parties included in the policyholders' and reinsurance balances receivable under note 9 amounting to Saudi Riyals 117.24 million may be identified as receivable from related parties and therefore may need to be disclosed under due from related parties. The underlying transactions with such related parties will then also require disclosure under related party transactions.

11. CLAIMS

a) Outstanding Claims and IBNR

	SR'000					
	31 December 2018			31 December 2017		
	Gross	*Reinsurers' share*	*Net*	*Gross*	*Reinsurers' share*	*Net*
Outstanding claims at end of the year	**325,214**	**(294,162)**	**31,052**	499,938	(366,647)	133,291
Claims incurred but not reported	**624,910**	**(126,644)**	**498,266**	594,499	(114,493)	480,006
	950,124	**(420,806)**	**529,318**	1,094,437	(481,140)	613,297
Claims paid during the year	**2,129,611**	**(380,720)**	**1,748,891**	2,542,871	(345,713)	2,197,158
Outstanding claims at beginning of the year	**499,938**	**(366,647)**	**133,291**	608,009	(441,296)	166,713
Claims incurred but not reported	**594,499**	**(114,493)**	**480,006**	715,947	(154,645)	561,302
	1,094,437	**(481,140)**	**613,297**	1,323,956	(595,941)	728,015
Claims incurred	**1,985,298**	**(320,386)**	**1,664,912**	2,313,352	(230,912)	2,082,440

b) Other Technical Reserves

	SR'000	
	31 December 2018	31 December 2017
Premium deficiency reserve	**51,052**	15,700
Others	**9,759**	10,596
Other reserves at end of the year	**60,811**	26,296

c) Claims Triangulation Analysis by Accident Year

The Company maintains adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

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

11. CLAIMS (Continued)

c) Claims Triangulation Analysis by Accident Year (Continued)

i) On Gross Basis

Accident Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**TOTAL**
At the end of accident year	148,965	1,525,392	1,759,169	2,030,375	2,865,129	3,196,139	3,553,993	2,821,668	2,281,556	1,776,365	
One year later	1,166,831	1,538,465	1,887,696	2,355,342	3,006,147	3,446,409	3,403,193	2,818,050	2,446,353		
Two years later	1,165,977	1,509,521	1,967,919	2,319,794	3,056,802	3,430,507	3,413,046	2,838,429			
Three years later	1,145,562	1,537,038	1,950,795	2,321,681	3,082,282	3,453,587	3,438,152				
Four years later	1,281,007	1,537,201	1,948,513	2,323,884	3,021,821	3,453,723					
Five years later	1,257,000	1,543,934	1,945,686	2,331,979	3,015,807						
Six years later	1,238,429	1,544,369	1,942,946	2,338,689							
Seven years later	1,238,219	1,538,549	1,942,017								
Eight years later	1,233,679	1,537,916									
Nine years later	1,233,062										
Ultimate paid claims (estimated)	1,233,062	1,537,916	1,942,017	2,338,689	3,015,807	3,453,723	3,438,152	2,838,429	2,446,353	1,776,365	24,020,513
Cumulative paid claims	1,233,310	1,529,299	1,936,952	2,326,382	2,990,495	3,382,885	3,366,936	2,744,046	2,316,290	1,243,794	23,070,389
Outstanding claims + IBNR	(248)	8,617	5,065	12,307	25,312	70,838	71,216	94,383	130,063	532,571	950,124

*Other reserves amounting to SR 60,811 thousand are not included in the claims triangulation.

ii) On net Basis (net of reinsurance)

Accident Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**TOTAL**
At the end of accident year	607,986	872,155	1,032,598	1,118,998	1,437,617	2,459,548	2,884,490	2,518,555	1,995,672	1,547,947	
One year later	962,313	1,230,576	1,472,573	1,767,465	2,299,916	2,657,710	2,749,239	2,527,751	2,058,366		
Two years later	976,888	1,253,029	1,500,727	1,790,733	2,337,043	2,637,623	2,769,138	2,548,626			
Three years later	979,244	1,256,681	1,505,277	1,797,190	2,343,241	2,634,880	2,782,439				
Four years later	980,249	1,258,037	1,505,267	1,796,803	2,345,967	2,635,323					
Five years later	980,674	1,265,891	1,508,041	1,792,822	2,346,221						
Six years later	980,908	1,265,159	1,506,466	1,797,794							
Seven years later	980,888	1,264,497	1,509,313								
Eight years later	976,851	1,268,117									
Nine years later	980,708										
Ultimate paid claims (estimated)	980,708	1,268,117	1,509,313	1,797,794	2,346,221	2,635,323	2,782,439	2,548,626	2,058,366	1,547,947	19,474,854
Cumulative paid claims	980,233	1,267,944	1,508,888	1,796,769	2,344,794	2,630,417	2,773,677	2,527,054	1,989,928	1,129,932	18,949,636
Outstanding claims + IBNR	475	173	425	1,025	1,427	4,906	8,762	21,572	68,438	418,015	525,218

*Other reserves amounting to SR 26,296 thousand are not included in the claims triangulation

12. INVESTMENT IN AN ASSOCIATE

Investment in an associate comprises of an equity investment in Al-Waseel for Electronic Transportation amounting to SR 9,872 thousand (a 25% equity interest) (2017: SR 9,341), in an unquoted company (the "associate"), registered in the Kingdom of Saudi Arabia.

	SAR'000	
	31 December 2018	31 December 2017
At the beginning of the year	**9,341**	14,800
Dividend received from investment in an associate	**(4,486)**	(8,080)
Change in investment in an associate	**5,017**	2,621
At the end of year	**9,872**	9,341

Al-Waseel for Electronic Transportation

As of date	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
		SAR'000				
31/12/2018	Saudi Arabia	56,841	10,590	38,590	19,216	25%

13. AVAILABLE FOR SALE INVESTMENTS

Investments are classified as set out below:

(a) Insurance Operations - Available for sale investments

	SR'000				
	31 December 2018				
	Quoted		***Unquoted***		***Total***
	Domestic	***International***	***Domestic***	***International***	
Sukuk	-	-	**25,000**	-	**25,000**
Total	-	-	**25,000**	-	**25,000**

	SR'000				
	31 December 2017				
	Quoted		*Unquoted*		*Total*
	Domestic	*International*	*Domestic*	*International*	
Mutual Funds	3,308	-	-	-	3,308
Sukuk	-	-	25,000	-	25,000
Total	3,308	-	25,000	-	28,308

The available for sale investments comprise mutual funds, sukuk and equities issued by corporate and financial institutions in the Kingdom of Saudi Arabia.

The cumulative change in fair values of available for sale investments for insurance operations amounting to SR 327 thousand (31 December 2017: SR 277 thousand) is presented within insurance operations' surplus' in the statement of financial position.

13. AVAILABLE FOR SALE INVESTMENTS (Continued)

(a) Insurance Operations - Available for sale investments (Continued)

The movements during the year in available for sale investments for insurance's operations were as follows:

	SAR'000	
	31 December 2018	31 December 2017
At the beginning of the year	**28,358**	28,308
Sold during the year	**(3,379)**	-
	24,979	28,308
Net change in fair values	**21**	50
At the end of the year	**25,000**	28,358

*The realised gain is transferred to statement of income under special commission income.

(b) Shareholders' Operations - Available for sale investments

	SR'000				
	31 December 2018				
	Quoted		*Unquoted*		*Total*
	Domestic	*International*	*Domestic*	*International*	
Equity shares	**-**	**-**	**1,923**	**-**	**1,923**
Sukuk	**-**	**18,606**	**10,000**	**18,622**	**47,228**
Total	**-**	**18,606**	**11,923**	**18,622**	**49,151**

	SR'000				
	31 December 2017				
	Quoted		*Unquoted*		*Total*
	Domestic	*International*	*Domestic*	*International*	
Mutual funds	55,524	-	-	-	55,524
Bonds	9,998	18,938	-	18,635	47,571
Sukuk	-	-	20,000	-	20,000
Equities	-	-	1,923	-	1,923
Total	65,522	18,938	21,923	18,635	125,018

The available for sale investments comprise of mutual funds, bonds, sukuk and equities issued by corporate and financial institutions in the Kingdom of Saudi Arabia.

The cumulative change in fair values of available for sale investments for shareholders' operations amounting to SR (442) thousand (31 December 2017: SR 5,428 thousand) is presented within shareholders' equity in the statement of financial position.

13. AVAILABLE FOR SALE INVESTMENTS (Continued)

(b) Shareholders' Operations - Available for sale investments (Continued)

The movements during the year in available for sale investments for shareholders' operations were as follows:

	SAR'000	
	31 December 2018	31 December 2017
At the beginning of the year	**125,018**	146,076
Sold during the year	**(75,665)**	(21,000)
	49,353	125,076
Net change in fair values	**(202)**	(58)
At the end of the year	**49,151**	125,018

(c) Available for sale investments

i. The analysis of investments of insurance and shareholders' operations by counterparties is as follows:

	SAR'000	
	31 December 2018	31 December 2017
Government and quasi government	**10,000**	38,938
Banks and other financial institutions	**62,228**	112,515
Corporates	**1,923**	1,923
Total	**74,151**	153,376

ii. The credit quality of investment portfolio is as follows:

	SAR'000	
	31 December 2018	31 December 2017
AA- To AAA	**28,605**	38,938
A- To A+	**5,000**	14,998
N/A	**40,546**	99,440
Total	**74,151**	153,376

Credit ratings are based on Standard and Poor, Fitch and Moody's rating methodology or the issuer, noting that "NA" represents the sum of the investments which are not rated.

13. AVAILABLE FOR SALE INVESTMENTS (Continued)

(C) Available for sale investments (Continued)

iii. Fair value

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 statement. The estimated fair values of financial instruments are based on quoted market prices, when available. The fair values of these investments are disclosed below.

For financial instruments that are recognised at fair value 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 of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The unlisted security of SR1.92 million (31 December 2017: SR 1.92 million) held as part of Company's shareholder operations, were stated at cost in the absence of active markets or other means of reliably measuring their fair value.

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy cumulatively for insurance and shareholders operations:

Determination of fair value and fair value hierarchy

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

- Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.
- Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.
- Level 3: valuation techniques for which any significant input is not based on observable market data.

1. Insurance operations – Fair Value

	SAR'000			
	31 December 2018			
	Level 1	***Level 2***	***Level 3***	***Total***
Available for sale investments				
Sukuk	-	**25,000**	-	**25,000**
Total available for sale investments	-	**25,000**	-	**25,000**

	SAR'000			
	31 December 2017			
	Level 1	*Level 2*	*Level 3*	*Total*
Available for sale investments				
Mutual funds	3,358	-	-	3,358
Sukuk	-	25,000	-	25,000
Total available for sale investments	3,358	25,000	-	28,358

13. INVESTMENTS (Continued)

(C) Insurance and Shareholders' Operations - Available for sale investments (Continued)

iii. Fair value (Continued)

2. Shareholders' operations –Fair value

	SAR'000			
	31 December 2018			
	Level 1	*Level 2*	*Level 3*	*Total*
Available for sale investments				
Bonds	-	37,228	-	37,228
Sukuk	-	10,000	-	10,000
Equities	-	-	1,923	1,923
Total available for sale investments	-	47,228	1,923	49,151

	SAR'000			
	31 December 2017			
	Level 1	*Level 2*	*Level 3*	*Total*
Available for sale investments				
Mutual funds	55,524	-	-	55,524
Bonds	9,998	37,573	-	47,571
Sukuk	-	20,000	-	20,000
Equities	-	-	1,923	1,923
Total available for sale investments	65,522	57,573	1,923	125,018

14. PREPAYMENTS AND OTHER ASSETS

(a) Prepayment and other assets

		SAR'000					
		31 December 2018			*31 December 2017*		
	Note	*Insurance Operations*	*Shareholders' Operations*	*Total*	*Insurance Operations*	*Shareholders' Operations*	*Total*
Prepayment on hospital dues		61,092	-	61,092	173,372	-	173,372
Deferral of SAMA, CCHI and TPA fees	14 (b)	39,321	-	39,320	37,765	-	37,765
Advances to suppliers		10,902	-	10,902	4,944	-	4,944
Advances to employees		8,824	-	8,824	9,343	-	9,343
Accrued Income from Manafeth		2,467	-	2,467			
Prepaid rent		1,889	-	1,889	3,665	-	3,665
Accrued special commission income		900	2,522	3,422	950	1,427	2,377
Prepaid expenses		470	-	470	1,092	-	1,092
Others		5,886	-	5,887	5,519	-	5,519
		131,751	2,522	134,273	236,650	1,427	238,077

14. PREPAYMENTS AND OTHER ASSETS (Continued)

(b) The movements during the year for deferral of TPA, SAMA and CCHI fees are as follows:

	SAR'000	
	31 December 2018	*31 December 2017*
TPA fees	**23,909**	32,443
Costs incurred during the year	**49,511**	59,412
Amortised during the year charged to claim expenses	**(47,648)**	(67,946)
At the end of the year	**25,772**	23,909

	Note	SAR'000	
	Note	***31 December 2018***	*31 December 2017*
Supervision and inspection fees - SAMA		**7,024**	8,158
Costs incurred during the year		**10,347**	13,329
Amortised during the year	23	**(11,186)**	(14,463)
At the end of the year		**6,185**	7,024

	Note	SAR'000	
	Note	***31 December 2018***	*31 December 2017*
Supervision and inspection fees - CCHI		**6,832**	9,270
Costs incurred during the year		**14,392**	18,765
Amortised during the year	23	**(13,860)**	(21,203)
At the end of the year		**7,364**	6,832
Total Deferral of SAMA, CCHI and TPA fees		**39,321**	37,765

15. UNEARNED PREMIUMS

	SAR'000					
	31 December 2018			*31 December 2017*		
	Gross	***Reinsurers' share***	***Net***	*Gross*	*Reinsurers' share*	*Net*
At the beginning of the year	**1,405,228**	**(464,063)**	**941,165**	1,629,251	(536,383)	1,092,868
Premiums written during the year	**2,069,473**	**(266,003)**	**1,803,470**	2,665,838	(494,679)	2,171,159
Premiums earned during the year	**(2,237,852)**	**447,165**	**(1,790,687)**	(2,889,861)	566,999	(2,322,862)
At the end of the year	**1,236,849**	**(282,901)**	**953,948**	1,405,228	(464,063)	941,165

16. DEFERRED POLICY ACQUISITION COSTS

(a) The movements during the year for commissions' incurred for operations are as follows:

	SR'000	
	31 December 2018	*31 Decemebr 2017*
At the beginning of the year	**71,402**	72,926
Costs incurred during the year	**114,938**	154,277
Amortised during the year	**(124,840)**	(155,801)
At the end of the year	**61,500**	71,402

(b) The movements during the year for deferral of administration cost are as follows:

	SR'000	
	31 December 2018	*31 December 2017*
At the beginning of the year	**13,663**	18,539
Amortised during the year	**1,064**	(4,876)
At the end of the year	**14,727**	13,663
Total deferred acquisition cost at end of the year	**76,227**	85,065

17. PROPERTY, EQUIPMENT AND INTANGIBLES, NET

(a) Property and equipment, net

	SR'000				
	Leasehold improvements	*Office equipment, furniture and fixtures*	*Computers*	*Motor vehicles*	*Total*
Cost:					
1 January 2017	40,685	35,784	16,899	5,190	98,558
Additions	358	2,771	1,654	-	4,783
Disposals	-	(248)	(6)	(2,315)	(2,569)
31 December 2017	41,043	38,307	18,547	2,875	100,772
Additions	**778**	**449**	**2,690**	-	**3,917**
Disposals	-	-	-	-	-
31 December 2018	**41,821**	**38,756**	**21,237**	**2,875**	**104,689**
Accumulated depreciation:					
1 January 2017	32,965	22,386	11,126	4,418	70,895
Provided during the year	2,237	4,059	2,591	294	9,181
Disposals	-	(208)	(2)	(2,305)	(2,515)
31 December 2017	35,202	26,237	13,715	2,407	77,561
Provided during the year	**1,941**	**3,267**	**2,511**	**251**	**7,970**
Disposals	-	-	-	-	-
31 December 2018	**37,143**	**29,504**	**16,226**	**2,658**	**85,531**
Net book value:					
31 December 2018	**4,678**	**9,252**	**5,011**	**217**	**19,158**
31 December 2017	5,841	12,070	4,832	468	23,211

17. PROPERTY, EQUIPMENT AND INTANGIBLES, NET(Continued)

(b) Intangible Assets, net

	Note	*SR'000* Computers softwares
Cost:		
1 January 2017		33,965
Additions		6,098
Impairment	1	(25,688)
31 December 2017		14,375
Additions		**151**
31 December 2018		**14,526**
Accumulated amortizations:		
1 January 2017		10,473
Provided during the year		583
Disposals		-
31 December 2017		11,056
Provided during the year		**986**
Disposals		-
31 December 2018		**12,042**
Net book value:		
31 December 2018		**2,484**
31 December 2017		3,319

18. STATUTORY DEPOSIT

In accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. The Company is required to maintain a statutory deposit at 10%. Further, SAMA has increased the statutory deposit by 5%, and accordingly, the Company has transferred the same to arrive at 15% statutory deposit. This statutory deposit cannot be withdrawn without the consent of SAMA. During the year ended 2017, the Company in its extraordinary general meeting held on 22 September 2017 reduced the share capital from Saudi Riyals 1 billion to Saudi Riyals 400 million. (Refer Note 1). Thereafter, during the year 2018, the company increased its paid capital to SR 800 million by right issue shares. After the aforementioned amendments to the capital, the statutory deposit is currently maintained at 15% of the new paid up capital, SR 800 million, amounting to SR 120 million. The Statutory deposit is placed at the commission rate of 2.05% per anum (2017 : 2.05%)

19. GOODWILL

The Company held an ordinary general assembly meeting on 22 December 2008 and approved the purchase of the insurance portfolio and the related net assets and liabilities of the Saudi Arabian Operations of the Mediterranean and Gulf Insurance and Reinsurance Company (MEDGULF) B.S.C (closed) ("Portfolio") effective 1 January 2009. The acquisition resulted in goodwill of SR 480 million.

Determining whether goodwill is impaired requires an estimation of the recoverable amount of cash-generating units ('CGU') to which goodwill has been allocated. To assess the Goodwill impairment impact as of 31 December 2018, the Company appointed a consultant and a report dated 11 February 2018 was issued. Considering the Company as a single CGU, the consultant applied 'Share Price' and 'Market' approach on the trading activity of the Company's stock and the capitalization of the earnings using value metrics of broadly comparable listed companies and Mergers and Acquisitions transaction multiples. Accordingly, as of the date of the approval of the financial statements for the year ended 31 December 2018 based on the aforementioned approach, the valuation result concluded the recoverable amount of goodwill to be higher than the carrying value.

19. GOODWILL (Continued)

During the year end December 31, 2018 the management revisited the assessment approach by using Value-In-Use (VIU) assessment for the goodwill impairment based on a detailed five year business plan, in addition to the 'Share Price' and 'Market' approach on the trading activity of the Company's stock. This assessment was carried-out by a consultant appointed by the Company in their report dated February 20, 2019. As per the management's assessment, the goodwill will be impaired if WACC (Weighted average cost of capital) will have to increase to over 30% and terminal value growth rate reduce to 1% for goodwill to be impaired.

20. ACCRUED EXPENSES AND OTHER LIABILITIES

	SR'000					
	31 December 2018			31 December 2017		
	Insurance Operations	Shareholders Operations	Total	Insurance Operations	Shareholders Operations	Total
Payable to suppliers	**135,036**	**-**	**135,036**	135,924	-	135,924
VAT payable	**10,256**	**-**	**10,256**	-	-	-
Accrued expenses	**3,661**	**2,820**	**6,481**	5,655	635	6,290
Accrued CCHI fees	**3,497**	**-**	**3,497**	2,313	-	2,313
Accrued withholding tax	**2,490**	**-**	**2,490**	7,907	-	7,907
Other payables	**733**	**-**	**733**	458	-	458
Total	**155,673**	**2,820**	**158,493**	152,257	635	152,892

21. END OF SERVICE INDEMNITIES

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

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

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

	SAR'000	
	31 December 2018	31 December 2017
Present value of defined benefit obligation	**25,461**	20,887
Fair value of plan assets	**-**	-
	25,461	20,887

21. END OF SERVICE INDEMNITIES (Continued)

21.2 Movement of defined benefit obligation

		SAR'000	
	Note	*31 December 2018*	*31 December 2017*
Opening balance		**20,887**	26,047
Charge to statement of income–insurance operations & accumulated surplus	23	**5,931**	13,111
Charge to statement of comprehensive income – insurance operations		**3,983**	302
Payment of benefits during the year		**(5,340)**	(18,573)
Closing balance		**25,461**	20,887

21.3 Reconciliation of present value of defined benefit obligation

	SAR'000	
	31 December 2018	*31 December 2017*
Present value of defined benefit obligation as at January 1	**20,887**	26,047
Current service costs	**4,808**	12,032
Financial costs	**1,123**	1,079
Actuarial loss from experience adjustments	**3,983**	302
Benefits paid during the year	**(5,340)**	(18,573)
Present value of defined benefit obligation as at December 31	**25,461**	20,887

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

	31 December 2018	*31 December 2017*
Valuation discount rate	**4.20%**	3.60%
Expected rate of increase in salary level	**4.20%**	2.50%

21.5 Sensitivity analysis of actuarial assumptions
The impact of changes in sensitivities on present value of defined benefit obligation is as follows:

	Impact on defined benefit obligation	
	SAR'000	
	31 December 2018	*31 December 2017*
Valuation discount rate		
-Increase by 0.5%	**(975)**	(805)
	(3.8%)	(3.9%)
-Decrease by 0.5%	**1,031**	863
	4.0%	4.1%
Expected rate of increase in salary level across different age bands		
-Increase by 0.5%	**1,121**	947
	4.4%	4.5%
-Decrease by 0.5%	**(1,071)**	(903)
	(4.2%)	(4.3%)

22. UNEARNED REINSURANCE COMMISSION

	SR'000	
	31 December 2018	31 December 2017
At the beginning of the year	35,206	36,584
Commission received during the year	41,026	62,685
Commission earned during the year	(54,027)	(64,063)
At the end of the year	22,205	35,206

23. GENERAL AND ADMINISTRATIVE EXPENSES

		SR'000					
		31 December 2018			31 December 2017		
	Note	Insurance Operations	Shareholders' Operations	Total	Insurance Operations	Shareholders' Operations	Total
Variable cost							
CCHI fees		13,860	-	13,860	21,203	-	21,203
Withholding taxes		16,000	-	16,000	26,192	-	26,192
SAMA fees		11,186	-	11,186	14,463	-	14,463
Assist America		2,999	-	2,999	4,863	-	4,863
Al – Alem fees		2,984	-	2,984	1,511	-	1,511
Najm fees		879	-	879	-	-	-
Taamin		739	-	739	-	-	-
Yaqeen		428	-	428	-	-	-
		49,075	-	49,075	68,232	-	68,232
Fix cost							
Employee salaries and costs		145,892	-	145,892	162,821	-	162,821
Rent		16,058	-	16,058	19,061	-	19,061
Outsources		11,699	-	11,699	11,583	-	11,583
Depreciation & amortization	17	8,956	-	8,956	9,764	-	9,764
Professional fees		7,974	1,295	9,269	9,352	1,641	10,993
Repair and maintenance		4,460	-	4,460	8,159	-	8,159
Communication		3,316	-	3,316	3,958	-	3,958
Stationery		3,090	-	3,090	3,541	-	3,541
Promotion and advertising		2,605	25	2,630	2,896	20	2,916
Hospitality and business trip		1,447	-	1,447	2,711	-	2,711
Utilities		1,323	-	1,323	1,613	-	1,613
Borad of directors and other committees fees		-	3,959	3,959	-	3,612	3,612
Other expenses		4,370	828	5,198	3,142	340	3,482
		211,190	6,107	217,297	238,601	5,613	244,214
Total		260,265	6,107	266,372	306,833	5,613	312,446

24. OTHER INCOME

	SR'000	
	31 December 2018	31 December 2017
Income from hospitals for prompt settlement of claims	32,316	44,405
Others	10,768	20,025
	43,084	64,430

25. ZAKAT AND INCOME TAX

a) Zakat charge for the year

	Note	SR'000 **31 December 2018**	SR'000 31 December 2017
Zakat Calculation:			
Net loss for the year		**(204,830)**	(388,026)
Provision for end of service benefits	21	**19,805**	20,887
Provision for doubtful debts including provision on due from a related party	9	**531,032**	514,832
Withholding taxes payable on reinsurance payment		**109,098**	102,525
Share capital	26	**400,000**	400,000
Surplus distribution payable		**111,566**	111,566
Statutory reserve	26	**146,135**	146,135
Provision for zakat and income tax		**20,862**	-
Decrease in share capital	26	**-**	600,000
		1,338,498	1,895,945
Property and equipment differences		**(513,475)**	(516,675)
Investment in associate	12	**(9,872)**	(9,341)
Investment in Najm (level 3)	13(c)	**(1,923)**	(1,923)
Difference in depreciation on fixed assets		**(15,126)**	(21,817)
Deferred acquisition cost	16	**(76,227)**	(85,065)
Opening accumulated loss		**(53,002)**	(232,171)
Transaction cost related to reduction in share capital	26	**-**	(691)
Others		**-**	23,076
		(669,625)	(844,607)
Zakat base		**464,043**	663,312
Saudi shareholders' share of zakat base (54.5%) (31 December 2017: 54.5%)		**252,903**	361,504
Zakat at 2.5%		**6,323**	9,038
Income tax calculation:			
Net Income / (loss) for the year		-	-
Provision charged during the year for end of service benefits	21	-	-
Provision charged during the year for doubtful debts	9	-	-
Withholding tax expense during the year	23	-	-
Difference in depreciation on fixed assets		-	-
		-	-
		-	-
Foreign shareholders' share of tax base (45.5%)		-	-
Payments of end of service benefits	21	-	-
Payments of withholding tax		-	-
		-	-
Foreign shareholders' share of tax base (45.5%) (31 December 2016: 52.03%		-	-
25% deduction from foreign share of tax base to cover accumulated losses		-	-
Tax base		-	-
Tax at 20%		-	-
Total zakat and tax charge for the year	25 (c)	**6,323**	9,038

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

25. ZAKAT AND INCOME TAX (Continued)

b) Income tax charge for the year

There was no income tax in the year 2018 and 2017 due to net adjusted losses incurred.

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

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

		SR'000	
	Note	*31 December 2018*	*31 December 2017*
At the beginning of the year		**25,022**	15,398
Charge - current year	25	**6,323**	9,038
prior year		**-**	23,076
		6,323	32,114
Payments during the year		**(4,161)**	(22,490)
At the end of the year		**27,184**	25,022

The provision for zakat and income tax for the year is 6,323 thousand (31 December 2017: SR 32,114 thousand).

d) Status of zakat and tax assessments

The Company has filed its zakat and income tax declarations for the year from 16 April 2007 to 31 December 2017 with the General Authority of Zakat and Income Tax (GAZT). Further, the Company has filed two appeal for zakat, income tax and withholding tax for assessment years 2008 to 2012 and another one for assessment year 2013 to 2016. The management has made appropriate provisions in this financial information based on the advice of the Company's zakat and tax consultant.

26. SHARE CAPITAL AND LOSS PER SHARE

a) Share capital

The authorized and paid up share capital of the Company was SR 1,000 million divided into 100 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for 75 million shares (SR 750 million) with a nominal value of SR 10 each, which represent 75% of the shares of the Company and the remaining 25 million shares (SR 250 million) with a nominal value of SR 10 each which represent 25% of the shares of the Company, was subscribed by the general public. The Share capital represents foreign shareholders by 45.5% and Saudi shareholders by 54.5% as at the period end. The Company in its extra ordinary general meeting held on 22 September 2017 approved the reduction of share capital from Saudi Riyals 1 billion to Saudi Riyals 400 million by reducing the number of shares from 100 million to 40 million shares of SR 10 each to comply with the requirements of the Regulations for Companies. This resulted in accumulated losses to decline below one half of Company's share capital. The reduction of capital was approved by the regulatory authorities. During 2017, the Company incurred transaction cost of SR 691 thousand in respect of reduction in share capital, which has been charged directly to the Statement of changes in Shareholders' Equity.

During the year end 31 December 2018, the Company's Board of Directors in their meeting held on 6 February 2018, recommended a rights issue amounting to SAR 400 million. Such rights issue has been approved by the regulatory authorities and general assembly of the Company and the current paid up capital of the company is SR 800 million. the Company incurred transaction cost of SR 9,677 thousand in respect to the increase in share capital, which has been charged directly to the Statement of changes in Shareholders' Equity.

	31 December 2018			*31 December 2017*		
		SR'000			SR'000	
	No. of shares	Authorized and issued	Paid up	No. of shares	Authorized and issued	Paid up
Founding shareholders	**60,000**	**600,000**	**600,000**	30,000	300,000	300,000
General public	**20,000**	**200,000**	**200,000**	10,000	100,000	100,000
	80,000	**800,000**	**800,000**	40,000	400,000	400,000

26. SHARE CAPITAL AND LOSS PER SHARE (continued)

b) Loss per share

Loss per share has been calculated by dividing the net loss for the year by the weighted average number of shares outstanding as of the reporting date. The weighted average number of shares have been retersopectively adjusted for all prior periods to reflect the bonus element of the right issue as requried by IAS 33. "Earning per share". The weighted average number of ordinary share for prior years is computed using an adjustment factor of 1.17, which is a ratio of the theoretical ex-right price of 12.08 and the closing price per share of SR 14.16 per share on 4 October 2018, the last day on which the shares were traded before the right issues.

	SR'000	
	31 December 2018	31 December 2017 (Restated)
Loss for the year	**(204,527)**	(388,026)
Weighted average number of ordinary shares	**53,691**	46,887
Loss per share	**(3.81)**	(8.28)

27. ACCRUED COMMISSION ON STATUTORY DEPOSIT

The interest on statutory deposit which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia amounts to SR 19,507 thousand (31 December 2017: 15,546 thousand). This comission cannot be withdrawn without the consent of Saudi Arabian Monetary Authority ("SAMA").

28. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets and liabilities include cash and cash equivalents, time deposits, investments, receivables, payables, and certain other assets and liabilities. The fair values of the financial assets and liabilities are not materially different from their carrying values with the exception of unquoted financial instruments which are carried at cost.

29. COMMITMENTS AND CONTINGENCIES

a) ***Legal proceedings***

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***

The minimum future lease payments for the use of the Company office premises are as follows:

	SR'000	
	31 December 2018	31 December 2017
Less than one year	-	-
One to five years	**16,057**	19,061
	16,057	19,061

c) ***Contingencies and capital commitments***

As at 31 December 2018, the Company's banker has issued letters of guarantee of SR 64,957 thousand (31 December 2017: SR 29,565 thousand) to various customers, motor agencies and workshops as per the terms of the agreements with them (also see note 7). The Company had no capital commitments in 2018 (31 December 2017: nil).

d) ***Contingent liability***

The Company, is subject to a litigation, based on independent legal advice, the Company does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

30. SEGMENTAL 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 as set out below.

Segment results do not include allocation of general and administrative expenses, allowance for doubtful debt, special commission income and other income to operating segments as these are reported and monitored on an overall basis.

Segment assets do not include allocation of cash and cash equivalents, time deposits, available for sale investments, premiums and reinsurance balances receivable, prepayments and other assets, due from a related party, intangible assets, statutory deposit and property and equipment, net, as these are reported and monitored on a total basis.

Segment liabilities do not include allocation of accounts and commission payable, reinsurance balances payable, accrued expenses and other liabilities, surplus distribution payable, end of service benefits, account and commission payable, due to a related party, zakat and tax and commissions payable to SAMA.

Shareholders' operations is a non-operating segment. Certain direct operating expenses, other overhead expenses and surplus from the insurance operations are allocated to this segment on an appropriate basis as approved by management.

	SAR'000					
	As at 31 *December* 2018					
	Insurance operations					
Operating segments	**Medical**	**Motor**	**Property & casualty**	**Total - Insurance operations**	**Shareholders' operations**	**Total**
Assets						
Reinsurers' share of unearned premiums	-	50,680	232,221	282,901	-	282,901
Reinsurers' share of outstanding claims	-	(20,377)	314,539	294,162	-	294,162
Reinsurers' share of claims Incurred but not reported	-	48,733	77,911	126,644	-	126,644
Deferred policy acquisition costs	51,630	12,976	11,621	76,227	-	76,227
Unallocated assets				1,571,781	1,121,234	2,693,015
Total assets				2,351,715	1,121,234	3,472,949

	SAR'000					
	As at 31 *December* 2018					
	Insurance operations					
Operating segments	**Medical**	**Motor**	**Property & casualty**	**Total - Insurance operations**	**Shareholders' operations**	**Total**
Liabilities						
Gross unearned premiums	736,330	241,343	259,176	1,236,849	-	1,236,849
Unearned reinsurance commission	-	10,136	12,069	22,205	-	22,205
Gross outstanding claims	110,072	(123,352)	338,494	325,214	-	325,214
Claims incurred but not reported	300,862	237,791	86,257	624,910	-	624,910
Premium deficiency reserves	48,466	-	2,586	51,052	-	51,052
Other technical reserves	-	4,721	5,038	9,759	-	9,759
Unallocated liabilities and insurance operations' surplus				485,570	49,511	535,081
Total liabilities and insurance operations' surplus				2,755,559	49,511	2,805,070

30. SEGMENTAL INFORMATION (Continued)

	SAR'000					
	As at 31 December 2017					
	Insurance operations					
Operating segments	Medical	Motor	Property & casualty	Total - Insurance operations	Shareholders' operations	Total
Assets						
Reinsurers' share of unearned premiums	-	82,650	381,413	464,063	-	464,063
Reinsurers' share of outstanding claims	-	(9,819)	376,466	366,647	-	366,647
Reinsurers' share of claims Incurred but not reported	-	53,921	60,572	114,493	-	114,493
Deferred policy acquisition costs	50,386	20,551	14,128	85,065	-	85,065
Unallocated assets				1,730,305	886,508	2,616,813
Total assets				2,760,573	886,508	3,647,081

	SAR'000					
	As at 31 December 2017					
	Insurance operations					
Operating segments	Medical	Motor	Property & casualty	Total - Insurance operations	Shareholders' operations	Total
Liabilities						
Gross unearned premiums	683,124	300,279	421,825	1,405,228	-	1,405,228
Unearned reinsurance commission	-	17,547	17,659	35,206	-	35,206
Gross outstanding claims	174,337	(81,946)	407,547	499,938	-	499,938
Claims incurred but not reported	301,984	226,911	65,604	594,499	-	594,499
Premium Deficiency reserves	15,700	-	-	15,700	-	15,700
Other technical reserves	-	2,505	8,091	10,596	-	10,596
Unallocated liabilities and insurance operations` surplus				546,125	41,203	587,328
Total liabilities and insurance operations` surplus				3,107,292	41,203	3,148,495

30. SEGMENTAL INFORMATION (Continued)

	SAR 000's					
	31 December 2018					
	Insurance operations					
Operating segments	**Medical**	**Motor**	**Property & casualty**	**Total**	**Shareholders' operations**	**Total**
Revenues						
Gross premiums written						
-Direct	1,434,090	443,334	192,755	2,070,179	-	2,070,179
-Reinsurance	-	-	(706)	(706)	-	(706)
	1,434,090	443,334	192,049	2,069,473	-	2,069,473
Reinsurance premiums ceded						
-Local	-	-	(2,419)	(2,419)	-	(2,419)
-Abroad	-	(94,809)	(153,254)	(248,063)	-	(248,063)
	-	(94,809)	(155,673)	(250,482)	-	(250,482)
Excess of loss premiums	-	(8,021)	(7,500)	(15,521)	-	(15,521)
Net Premiums Written	1,434,090	340,504	28,876	1,803,470	-	1,803,470
Changes in unearned premiums, net	(53,206)	27,042	13,381	(12,783)	-	(12,783)
Net Premiums Earned	1,380,884	367,546	42,257	1,790,687	-	1,790,687
Reinsurance commission income	-	26,395	27,632	54,027	-	54,027
Total Revenues	1,380,884	393,941	69,889	1,844,714	-	1,844,714
Underwriting Costs and Expenses						
Gross claims paid	(1,437,471)	(334,554)	(280,453)	(2,052,478)	-	(2,052,478)
Expenses incurred related to claims	(47,648)	(24,426)	(5,059)	(77,133)	-	(77,133)
Reinsurers' share of claims paid	-	91,436	289,284	380,720	-	380,720
Net claims and other benefits paid	(1,485,119)	(267,544)	3,772	(1,748,891)	-	(1,748,891)
Change in outstanding claims, net	64,264	30,848	7,127	102,239	-	102,239
Change in incurred but not reported, net	1,122	(16,068)	(3,314)	(18,260)	-	(18,260)
Net claims and other benefits incurred	(1,419,733)	(252,764)	7,585	(1,664,912)	-	(1,664,912)
Premium deficiency reserve	(32,767)	-	(2,585)	(35,352)	-	(35,352)
Other technical reserves	-	(2,216)	3,053	837	-	837
Policy acquisition costs	(74,383)	(33,381)	(16,012)	(123,776)	-	(123,776)
Total Underwriting Costs and Expenses	(1,526,883)	(288,361)	(7,959)	(1,823,203)	-	(1,823,203)
NET UNDERWRITING INCOME	(145,999)	105,580	61,930	21,511	-	21,511
Other Operating (Expenses)/Income						
Allowance for doubtful debts				(27,074)	-	(27,074)
General and administrative expenses				(260,265)	(6,107)	(266,372)
Special commission income				8,937	4,354	13,291
Income from investment in associate				-	5,017	5,017
Realized gain on available for sale investment				348	5,668	6,016
Other income				43,084	-	43,084
Total Other Operating Expenses, net				(234,970)	8,932	(226,038)
Net loss for the year				(213,459)	8,932	(204,527)

30. SEGMENTAL INFORMATION (Continued)

	SAR 000's					
	31 December 2017					
	Insurance operations					
Operating segments	Medical	Motor	Property & casualty	Total	Shareholders' operations	Total
Revenues						
Gross premiums written						
-Direct	1,718,661	546,448	350,948	2,616,057	-	2,616,057
-Reinsurance	-	-	49,781	49,781	-	49,781
	1,718,661	546,448	400,729	2,665,838	-	2,665,838
Reinsurance premiums ceded						
-Local	-	-	(3,937)	(3,937)	-	(3,937)
-Abroad	-	(148,160)	(325,078)	(473,238)	-	(473,238)
	-	(148,160)	(329,015)	(477,175)	-	(477,175)
Excess of loss premiums	-	(7,550)	(9,954)	(17,504)	-	(17,504)
Net Premiums Written	1,718,661	390,738	61,760	2,171,159	-	2,171,159
Changes in unearned premiums, net	243,827	(100,132)	8,008	151,703	-	151,703
Net Premiums Earned	1,962,488	290,606	69,768	2,322,862	-	2,322,862
Reinsurance commission income	-	24,421	39,642	64,063	-	64,063
Total Revenues	1,962,488	315,027	109,410	2,386,925	-	2,386,925
Underwriting Costs and Expenses						
Gross claims paid	(1,888,316)	(301,850)	(255,424)	(2,445,590)	-	(2,445,590)
Expenses incurred related to claims	(67,946)	(19,863)	(9,472)	(97,281)	-	(97,281)
Reinsurers' share of claims paid	-	92,709	253,004	345,713	-	345,713
Net claims and other benefits paid	(1,956,262)	(229,004)	(11,892)	(2,197,158)	-	(2,197,158)
Change in outstanding claims, net	133	34,159	(870)	33,422	-	33,422
Change in incurred but not reported, net	56,793	24,657	(154)	81,296	-	81,296
Net claims and other benefits incurred	(1,899,336)	(170,188)	(12,916)	(2,082,440)	-	(2,082,440)
Premium deficiency reserve	(647)	2,474	-	1,827	-	1,827
Other technical reserves	4,585	7,305	5,141	17,031	-	17,031
Policy acquisition costs	(109,696)	(26,352)	(24,629)	(160,677)	-	(160,677)
Total Underwriting Costs and Expenses	(2,005,094)	(186,761)	(32,404)	(2,224,259)	-	(2,224,259)
NET UNDERWRITING INCOME	(42,606)	128,266	77,006	162,666	-	162,666
Other Operating (Expenses)/Income						
Allowance for doubtful debts				(295,260)	-	(295,260)
General and administrative expenses				(306,833)	(5,613)	(312,446)
Impairment on discounted ERP system				(25,688)	-	(25,688)
Special commission income				10,286	5,365	15,651
Income from investment in associate				-	2,621	2,621
Other income				64,430	-	64,430
Total Other Operating Expenses, net				(553,065)	2,373	(550,692)
Net loss for the year				(390,399)	2,373	(388,026)

31. RISK MANAGEMENT

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

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

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

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

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

The risks faced by the Company and the manner in which these risks are mitigated by management are set out below:

a) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims severity, actual benefits paid and subsequent development of long term claims are different than expected. Therefore the objective of the Company is to ensure that sufficient resources are available to cover these liabilities. The insurance risk arising from insurance contracts is mainly concentrated in the Kingdom of Saudi Arabia.
Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 35% of total reinsurance assets at the reporting date.

Frequency and amounts of claims
The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly motor and medical risks. These 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.

Motor
For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive polices for owner/drivers over 18 years of age. Substantially all of the motor contracts relate to private individuals. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 750 thousand (31 December 2017: SR 750 thousand).

Medical
The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The company does not have any reinsurance coverage for medical line of business.

31. RISK MANAGEMENT (Continued)

a) Insurance risk (Continued)

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or* uncertainty in the estimation process. The general insurance claims provision is sensitive to the above key assumptions. A hypothetical 10% change in the claims ratio would impact income by approximately SR 11,838 thousand (31 December 2017: SR 13,698 thousand) annually in aggregate.

b) Reinsurance risk

In common with other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes. 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 affected under treaty, facultative and excess of loss reinsurance contracts.

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

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

	SR'000	
	31 December 2018	31 December 2017
Middle East	**226,231**	243,552
Europe	**194,575**	237,588
	420,806	481,140

c) Regulatory framework risk

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

31. RISK MANAGEMENT (Continued)

d) Credit risk

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

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

- The Company only enters into insurance and reinsurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company investment portfolio is managed by the investment officer in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.
- There are no significant concentrations of credit risk within the Company.

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

		SR'000					
		31 December 2018			*31 December 2017*		
	Note	*Insurance Operations*	*Shareholders' Operations*	*Total*	*Insurance Operations*	*Shareholders' Operations*	*Total*
Cash and cash equivalents (other than cash in hand)		**712,246**	**410,183**	**1,122,429**	378,319	5,176	383,495
Short term deposits		**-**	**-**	**-**	401,250	70,000	471,250
Available for sale Investments	13	**25,000**	**49,151**	**74,151**	28,358	125,018	153,376
Statutory deposit		**-**	**120,000**	**120,000**	-	150,000	150,000
Accrued commission on statutory deposit		**-**	**19,507**	**19,507**	-	15,546	15,546
Premiums and reinsurance balances receivable	9	**681,078**	**-**	**681,078**	659,105	-	659,105
Advances to employees	14	**8,824**	**-**	**8,824**	9,343	-	9,343
Advances to suppliers	14	**10,902**	**-**	**10,902**	4,944	-	4,944
Accrued special commission income	14	**900**	**2,522**	**3,422**	950	1,427	2,377
Reinsurers' share of outstanding claims	11(a)	**294,162**	**-**	**294,162**	366,647	-	366,647
Reinsurers' share of Claim incurred but not reported		**126,644**	**-**	**126,644**	114,493	-	114,493
Due from related party	10	**63**	**-**	**63**	63	-	63
		1,859,819	**601,363**	**2,461,182**	1,963,472	367,167	2,330,639

31. RISK MANAGEMENT (Continued)

e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

Maturity profiles

Unearned premiums and reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations. The table below summarises the maturity profile of the non-derivative financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

		SR'000					
		31 December 2018			*31 December 2017*		
	Note	***Up to one year***	***More than one year***	***Total***	*Up to one year*	*More than one year*	*Total*
INSURANCE OPERATIONS' FINANCIAL LIABILITIES							
Accrued expenses and other liabilities		**155,673**	**-**	**155,673**	152,257	-	152,257
Accounts and commission payable		**124,860**	**-**	**124,860**	121,768	-	121,768
Reinsurance balances payable		**30,937**	**19,473**	**50,410**	135,761	-	135,761
Gross outstanding claims		**325,214**	**-**	**325,214**	499,938	-	499,938
Claim incurred but not reported		**624,910**	**-**	**624,910**	594,499	-	594,499
Surplus distribution payable		**111,566**	**-**	**111,566**	111,566	-	111,566
		1,373,160	**19,473**	**1,392,633**	1,615,789	-	1,615,789
SHAREHOLDERS' FINANCIAL LIABILITIES							
Accrued expenses and other liabilities	20	**2,820**	**-**	**2,820**	635	-	635
Comission payable on statutory deposit	28	**19,507**	**-**	**19,507**	15,546	-	15,546
		22,327	**-**	**22,327**	16,181	-	16,181
TOTAL FINANCIAL LIABILITIES		**1,395,487**	**19,473**	**1,414,960**	1,631,970	-	1,631,970

Liquidity profile
None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above. There are no differences between contractual and expected maturity of the non-derivative financial liabilities of the Company.

31. RISK MANAGEMENT (Continued)

f) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company`s principal transactions are carried out in Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

		SR'000							
		31 December 2018				31 December 2017			
	Note	Saudi Riyals	US Dollars	Others	Total	Saudi Riyals	US Dollars	Others	Total
INSURANCE OPERATIONS' ASSETS									
Cash and cash equivalents	7	686,084	26,162	-	712,246	350,605	27,744	-	378,349
Short term deposit	8	-	-	-	-	401,250	-	-	401,250
Premiums and reinsurance receivable	9	659,741	19,928	1,409	681,078	586,737	70,940	1,428	659,105
Reinsurers' share of unearned premiums	15	180,685	102,106	110	282,901	464,063	-	-	464,063
Reinsurers' share of outstanding claims	11 (a)	119,332	174,790	40	294,162	167,496	199,151	-	366,647
Reinsurers' share of claims incurred but not reported	11 (a)	126,644	-	-	126,644	114,493	-	-	114,493
Deferred policy acquisition costs	16	76,227	-	-	76,227	85,065	-	-	85,065
Due from a related party	10	63	-	-	63	63	-	-	63
Due from shareholders' operations		399,560	-	-	399,560	346,744	-	-	346,744
Prepayments and other assets	14	131,751	-	-	131,751	236,650	-	-	236,650
Available for sale investments	13 (a)	25,000	-	-	25,000	28,358	-	-	28,358
TOTAL INSURANCE OPERATIONS' ASSETS		2,405,087	322,986	1,559	2,729,632	2,781,524	297,835	1,428	3,080,787
SHAREHOLDERS' ASSETS									
Cash and cash equivalents	7	407,402	2,781	-	410,183	1,915	3,257	4	5,176
Short term deposit		-	-	-	-	70,000	-	-	70,000
Prepayments and other assets	14	2,522	-	-	2,522	1,427	-	-	1,427
Available for sale investments	13 (b)	11,925	37,226	-	49,151	77,447	47,571	-	125,018
Statutory deposit		120,000	-	-	120,000	150,000	-	-	150,000
Investment in an associate	12	9,872	-	-	9,872	9,341	-	-	9,341
Interest on statutory deposit		19,507	-	-	19,507	15,546	-	-	15,546
TOTAL SHAREHOLDERS' ASSETS		571,228	40,007	-	611,235	325,676	50,828	4	376,508
TOTAL ASSETS		2,976,315	362,993	1,559	3,340,867	3,107,200	348,663	1,432	3,457,295

31. RISK MANAGEMENT (Continued)

f) Foreign currency risk (Continued)

		SR'000							
		31 December 2018				31 December 2017			
	Note	*Saudi Riyals*	*US Dollars*	*Other*	*Total*	*Saudi Riyals*	*US Dollars*	*Other*	*Total*
INSURANCE OPERATIONS' LIABILITIES									
Accrued expenses and other liabilities	20	**155,673**	-	-	**155,673**	152,257	-	-	152,257
Accounts and commission payable		**124,860**	-	-	**124,860**	121,768	-	-	121,768
Reinsurers' balances payable		**50,410**	-	-	**50,410**	82,584	52,094	1,083	135,761
Gross unearned premiums	15	**1,132,735**	**103,902**	**212**	**1,236,849**	1,405,228	-	-	1,405,228
Unearned reinsurance commission	22	**19,692**	**2,483**	**30**	**22,205**	35,206	-	-	35,206
Gross outstanding claims	11 (a)	**150,384**	**174,790**	**40**	**325,214**	298,971	200,967	-	499,938
Claims incurred but not reported	11 (a)	**624,910**	-	-	**624,910**	594,499	-	-	594,499
Premium deficiency reserve	11 (b)	**51,052**	-	-	**51,052**	15,700	-	-	15,700
Other technical reserves	11 (b)	**9,759**	-	-	**9,759**	10,596	-	-	10,596
Due to related party	10	**17,600**	-	-	**17,600**	3,886	-	-	3,886
End of service indemnities	21	**25,461**	-	-	**25,461**	20,887	-	-	20,887
Surplus distribution payable		**111,566**	-	-	**111,566**	111,566	-	-	111,566
TOTAL INSURANCE OPERATIONS' LIABILITIES		**2,474,102**	**281,175**	**282**	**2,755,559**	2,853,148	253,061	1,083	3,107,292
SHAREHOLDERS' LIABILITIES									
Accrued expenses and other liabilities	20	**2,820**	-	-	**2,820**	635	-	-	635
Zakat and income tax	25	**27,184**	-	-	**27,184**	25,022	-	-	25,022
Due to insurance operations		**399,560**	-	-	**399,560**	346,744	-	-	346,744
Accrued commission income payable to SAMA	27	**19,507**	-	-	**19,507**	15,546	-	-	15,546
TOTAL SHAREHOLDERS' LIABILITIES		**449,071**	-	-	**449,071**	387,947	-	-	387,947
TOTAL LIABILITIES		**2,923,173**	**281,175**	**282**	**3,204,630**	3,241,095	253,061	1,083	3,495,239

31. RISK MANAGEMENT (Continued)

g) Special commission rate risk

Special commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market special commission rates. Floating rate instruments expose the company to cash flow special commission risk, whereas fixed commission rate instruments expose the Company to fair value interest risk.

The Company is exposed to special commission rate risk on its certain investments, cash and cash equivalents, and time deposits. The Company limits special commission rate risk by monitoring changes in special commission rates in the currencies in which its investments are denominated.

The following table demonstrates the sensitivity of statements of insurance operations and the shareholders income to reasonably possible changes in commission rates of the Company's term deposits, with all other variables held constant.

31 December 2018		
Currency	**Change in variable**	**Impact on net loss**
Saudi Riyal	**+ 50 basis points**	**SR 5,084**
	- 50 basis points	**SR (5,084)**

31 December 2017		
Currency	Change in variable	Impact on net loss
Saudi Riyal	+ 50 basis points	SR 4,593
	- 50 basis points	SR (4,593)

h) Market price risk

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

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

The sensitivity of the income on the assumed changes in the market prices of quoted available for sale investments on the statement of shareholders comprehensive income / (loss) and statement of insurance operations' comprehensive income / loss is set out below:

	Change in market price	*Effect on statement of shareholders comprehensive income / (loss) SR'000*
31 December 2018	**+5%**	**930**
	-5%	**(930)**
31 December 2017	+5%	3,444
	-5%	(3,444)

i) Capital management

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

31. RISK MANAGEMENT (Continued)

i) Capital management (Continued)

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

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

The Company uses Claims Solvency Margin Method for determining its solvency requirements. As at 31 December 2018, the solvency margin is less than the required minimum margin (also see note 2). The capital structure of the Company as at 31 December 2018 consists of paid-up share capital of SAR 800 million, legal reserves of SAR 146 million and accumulated deficit of SR 273.5 million (December 31, 2017: paid-up share capital of SAR 400 million, legal reserves of SAR 146 million and accumulated deficit of SAR 53.0 million.) in the statement of financial position.

(j) Concentration of insurance risk

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

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

(k) Sources of uncertainty in estimation of future claim payments

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

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

31. RISK MANAGEMENT (Continued)

(l) Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.
The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

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

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

32. SUPPLEMENTARY INFORMATION

Statement of financial position

	SAR 000's					
	31 December 2018			31 December 2017		
	Insurance operations	**Shareholders' operations**	**Total**	Insurance operations	Shareholders' operations	Total
Assets						
Cash and cash equivalents`	**712,246**	**410,183**	**1,122,429**	378,349	5,176	383,525
Short term deposits	**-**	**-**	**-**	401,250	70,000	471,250
Premium and reinsurers' receivable, net	**681,078**	**-**	**681,078**	659,105	-	659,105
Reinsurers' share of unearned premiums	**282,901**	**-**	**282,901**	464,063	-	464,063
Reinsurers' share of outstanding claims	**294,162**	**-**	**294,162**	366,647	-	366,647
Reinsurers' share of claims incurred but not reported	**126,644**	**-**	**126,644**	114,493	-	114,493
Deferred policy acquisition costs	**76,227**	**-**	**76,227**	85,065	-	85,065
Due from a related party	**63**	**-**	**63**	63	-	63
Due from / to shareholders` / insurance operation	**399,560**	**(399,560)**	**-**	346,744	(346,744)	-
Prepayment and other assets	**131,751**	**2,522**	**134,273**	236,650	1,427	238,077
Available for sale investments	**25,000**	**49,151**	**74,151**	28,358	125,018	153,376
Property and equipment, net	**19,158**	**-**	**19,158**	23,211	-	23,211
Land	**-**	**30,000**	**30,000**	-	30,000	30,000
Intangible assets, net	**2,484**	**-**	**2,484**	3,319	-	3,319
Statutory deposit	**-**	**120,000**	**120,000**	-	150,000	150,000
Investment in an associate	**-**	**9,872**	**9,872**	-	9,341	9,341
Accrued commission on statutory deposit	**-**	**19,507**	**19,507**	-	15,546	15,546
Goodwill	**-**	**480,000**	**480,000**	-	480,000	480,000
TOTAL ASSETS	**2,751,274**	**721,675**	**3,472,949**	3,107,317	539,764	3,647,081

32. SUPPLEMENTARY INFORMATION (Continued)

	SAR 000's					
	31 December 2018			31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Liabilities						
Accrued expenses and other liabilities	155,673	2,820	158,493	152,257	635	152,892
Accounts and commission payable	124,860	-	124,860	121,768	-	121,768
Reinsurers' balances payable	50,410	-	50,410	135,761	-	135,761
Gross unearned premiums	1,236,849	-	1,236,849	1,405,228	-	1,405,228
Unearned reinsurance commission	22,205	-	22,205	35,206	-	35,206
Gross outstanding claims	325,214	-	325,214	499,938	-	499,938
Claims incurred but not reported	624,910	-	624,910	594,499	-	594,499
Premium deficiency reserve	51,052	-	51,052	15,700	-	15,700
Other technical reserves	9,759	-	9,759	10,596	-	10,596
Due to a related party	17,600	-	17,600	3,886	-	3,886
End of service indemnities	25,461	-	25,461	20,887	-	20,887
Surplus distribution payable	111,566	-	111,566	111,566	-	111,566
Zakat & income tax	-	27,184	27,184	-	25,022	25,022
Accrued commission income payable to SAMA	-	19,507	19,507	-	15,546	15,546
Total Liabilities	2,755,559	49,511	2,805,070	3,107,292	41,203	3,148,495
Insurance Operations` (Deficit) / Surplus						
Cumulative change in fair values of available for sale investments	-	-	-	327	-	327
Re-measurement of defined benefit liability – employees benefits	(4,285)	-	(4,285)	(302)	-	(302)
TOTAL INSURANCE OPERATIONS' (DEFICIT) / SURPLUS	(4,285)	-	(4,285)	25	-	25
Shareholders' Equity						
Share capital	-	800,000	800,000	-	400,000	400,000
Statutory reserve	-	146,135	146,135	-	146,135	146,135
Accumulated losses	-	(273,529)	(273,529)	-	(53,002)	(53,002)
Fair values reserve gain on investments	-	(442)	(442)	-	5,428	5,428
Total Shareholders' Equity	-	672,164	672,164	-	498,561	498,561
TOTAL LIABILITIES, INSURANCE OPERATIONS' (DEFICIT) / SURPLUS AND SHAREHOLDERS` EQUITY	2,751,274	721,675	3,472,949	3,107,317	539,764	3,647,081

32. SUPPLEMENTARY INFORMATION (Continued)

Statement of income

	SAR 000's					
	31 December 2018			31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Revenues						
Gross premiums written						
-Direct	2,070,179	-	2,070,179	2,616,057	-	2,616,057
-Reinsurance	(706)	-	(706)	49,781	-	49,781
	2,069,473	-	2,069,473	2,665,838	-	2,665,838
Reinsurance premiums ceded						
-Local	(2,419)	-	(2,419)	(3,937)	-	(3,937)
-Abroad	(248,063)	-	(248,063)	(473,238)	-	(473,238)
	(250,482)	-	(250,482)	(477,175)	-	(477,175)
Excess of loss premiums	(15,521)	-	(15,521)	(17,504)	-	(17,504)
Net premiums written	1,803,470	-	1,803,470	2,171,159	-	2,171,159
Changes in unearned premiums, net	(12,783)	-	(12,783)	151,703	-	151,703
Net premiums earned	1,790,687	-	1,790,687	2,322,862	-	2,322,862
Reinsurance commission income	54,027	-	54,027	64,063	-	64,063
Total Revenues	1,844,714	-	1,844,714	2,386,925	-	2,386,925
Underwriting Costs and Expenses						
Gross claims paid	(2,052,478)	-	(2,052,478)	(2,445,590)	-	(2,445,590)
Expenses incurred related to claims	(77,133)	-	(77,133)	(97,281)	-	(97,281)
Reinsurers' share of claims paid	380,720	-	380,720	345,713	-	345,713
Net claims and other benefits paid	(1,748,891)	-	(1,748,891)	(2,197,158)	-	(2,197,158)
Change in outstanding claims, net	102,239	-	102,239	33,423	-	33,423
Change in incurred but not reported, net	(18,260)	-	(18,260)	81,295	-	81,295
Net claims and other benefits incurred	(1,664,912)	-	(1,664,912)	(2,082,440)	-	(2,082,440)
Additional premium deficiency reserve	(35,352)	-	(35,352)	1,827	-	1,827
Other technical reserves	837	-	837	17,031	-	17,031
Policy acquisition costs	(123,776)	-	(123,776)	(160,677)	-	(160,677)
Total Underwriting Costs and Expenses	(1,823,203)	-	(1,823,203)	(2,224,259)	-	(2,224,259)
NET UNDERWRITING INCOME	21,511	-	21,511	162,666	-	162,666
Other Operating (Expenses)/Income						
Allowance for doubtful debts	(27,074)	-	(27,074)	(295,260)	-	(295,260)
General and administrative expenses	(260,265)	(6,107)	(266,372)	(306,833)	(5,613)	(312,446)
Impairment on discounted ERP system	-	-	-	(25,688)	-	(25,688)
Special commission income	8,937	4,354	13,291	10,286	5,365	15,651
Income from investment in associate	-	5,017	5,017	-	2,621	2,621
Realized gain on available for sale investment	348	5,668	6,016	-	-	-
Other income	43,084	-	43,084	64,430	-	64,430
Total Other Operation (Expenses)/Income	(234,970)	8,932	(226,038)	(553,065)	2,373	(550,692)
Net (loss) / income for the year before appropriation	(213,459)	8,932	(204,527)	(390,399)	2,373	(388,026)
Shareholders' appropriation from insurance operation deficit	213,459	(213,459)	-	390,399	(390,399)	-
Net loss for the year after appropriation	-	(204,527)	(204,527)	-	(388,026)	(388,026)

32. SUPPLEMENTARY INFORMATION (Continued)

Statement of comprehensive income

	SAR 000's					
	31 December 2018			31 December 2017		
	Insurance operations	**Shareholders' operations**	**Total**	Insurance operations	Shareholders' operations	Total
Net loss for the year	-	(204,527)	(204,527)	-	(388,026)	(388,026)
Other comprehensive loss:						
Item that will not be reclassified to statement of income in subsequent period						
Impairment loss for the period transferred to statement of income						
Re-measurement of employees end of service indemnities	(3,983)	-	(3,983)	(302)	-	(302)
Items that are or may be reclassified to statement of income in subsequent periods						
Available for sale investments						
- Net change in fair values	21	(202)	(181)	50	(58)	(8)
- Reclassified to statement of income	(350)	(5,666)	(6,016)	-	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(4,312)	(210,395)	(214,707)	(252)	(388,084)	(388,336)

32. SUPPLEMENTARY INFORMATION (Continued)

Statement of cash flow

	SAR 000's					
	31 December 2018			31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Net loss for the year	-	(204,527)	(204,527)	-	(388,026)	(388,026)
Adjustments for non-cash items:						
Depreciation and amortization	8,956	-	8,956	9,764	-	9,764
Gain on disposal of property and equipment	-	-	-	(737)	-	(737)
Realized gain on sale of investment	(348)	(5,668)	(6,016)	-	-	-
Allowance for doubtful debts	27,074	-	27,074	295,260	-	295,260
Special commission income	(9,284)	(4,007)	(13,291)	(10,286)	(5,365)	(15,651)
Income from investment in associate	-	(5,017)	(5,017)	-	(2,621)	(2,621)
Provision for end of service indemnities	5,931	-	5,931	13,111	-	13,111
Impairment on discounted ERP system	-	-	-	25,688	-	25,688
	32,329	(219,219)	(186,890)	332,800	(396,012)	(63,212)
Changes in operating assets and liabilities:						
Premiums and reinsurers' receivable	(49,047)	-	(49,047)	258,730	-	258,730
Reinsurers' share of unearned premiums	181,162	-	181,162	72,320	-	72,320
Reinsurers' share of outstanding claims	72,485	-	72,485	74,648	-	74,648
Reinsurers' share of claims Incurred but not reported	(12,151)	-	(12,151)	40,153	-	40,153
Deferred policy acquisition costs	8,838	-	8,838	6,400	-	6,400
Due from related parties	-	-	-	(388)	-	(388)
Prepayment and other assets	104,900	(1,096)	103,804	(18,301)	1,171	(17,130)
Deposit against letter of guarantee	(35,392)	-	(35,392)	(3,054)	-	(3,054)
Accounts and commission payable	3,092	-	3,092	(1,942)	-	(1,942)
Accrued expenses and other liabilities	3,416	2,185	5,601	(6,050)	-	(6,050)
Reinsurers' balances payable	(85,351)	-	(85,351)	49,589	-	49,589
Gross unearned premiums	(168,379)	-	(168,379)	(224,023)	-	(224,023)
Unearned reinsurance commission	(13,001)	-	(13,001)	(1,378)	-	(1,378)
Gross outstanding claims	(174,724)	-	(174,724)	(108,071)	-	(108,071)
Claims incurred but not reported	30,411	-	30,411	(121,448)	-	(121,448)
Premium deficiency reserves	37,622	-	37,622	-	-	-
Other technical reserves	(3,107)	-	(3,107)	(18,858)	-	(18,858)
Due to related party	13,714	-	13,714	(1,757)	-	(1,757)
	(53,183)	(218,130)	(271,313)	329,370	(394,841)	(65,471)
Payment of employee end of service indemnities	(5,340)	-	(5,340)	(18,573)	-	(18,573)
Zakat and income tax paid	-	(4,161)	(4,161)	-	(22,490)	(22,490)
Net cash used in operating activities	(58,523)	(222,291)	(280,814)	310,797	(417,331)	(106,534)
CASH FLOWS FROM INVESTING ACTIVITIES						
Dividend received from investment in an associate	-	4,486	4,486	-	8,082	8,082
Proceeds from sale of available for sale investments	3,379	75,665	79,044	-	21,000	21,000
Proceeds from sale of property and equipment	-	-	-	791	-	791
Special commission income	9,283	4,008	13,291	10,286	5,365	15,651
Proceeds from short term deposits	401,250	70,000	471,250	(175,746)	(70,000)	(245,746)
Interest on statutory deposit	-	3,961	3,961	-	4,474	4,474
Interest payable on statutory deposit	-	(3,961)	(3,961)	-	(4,474)	(4,474)
Additions in property, equipment and intangible	(4,068)	-	(4,068)	(10,881)	-	(10,881)
Net cash generated from investing activities	409,844	154,159	564,003	(175,550)	(35,553)	(211,103)

32. SUPPLEMENTARY INFORMATION (Continued)
Statement of cash flow (Continued)

	SAR 000's					
	31 December 2018			31 December 2017		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
CASH FLOWS FROM FINANCING ACTIVITIES						
Due to / (from) shareholders operation	(52,816)	52,816	-	(247,074)	247,074	-
Decrease in statutory deposit	-	30,000	30,000	-	-	-
Transaction cost related to reduction of share capital	-	-	-	-	(691)	(691)
Transaction cost related to increase in capital	-	(9,677)	(9,677)	-	-	-
Increase in capital	-	400,000	400,000	-	-	-
Net cash generated from / (used in) financing activities	(52,816)	473,139	420,323	(247,074)	246,383	(691)
Net change in cash and cash equivalents	298,505	405,007	703,512	(111,827)	(206,501)	(318,328)
Cash and cash equivalents, beginning of the year	348,784	5,176	353,960	460,611	211,677	672,288
Cash and cash equivalents, end of the year	647,289	410,183	1,057,472	348,784	5,176	353,960

33. Reclassification

The reclassifications mainly related to inclusion of TPA, SAMA and CCHI fees in prepayment and other assets and intangible assets which were previously presented in deferred policy acquisition costs and property and equipment respectively in the statement of financial position. These changes were made for better presentation of balances in the statement of financial position of the Company. Accordingly the above said restatement and reclassifications also have an impact on the previously issued financial statement for the year end 31 December 2018.

The restatement and reclassifications does not have impact on statements of financial position, income, comprehensive income and cash flows for the year end 31 December 2018.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on Rajab 6, 1440 H corresponding to 13 March 2019.