

**ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

**ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

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Independent auditors' report

To the shareholders of
Allied Cooperative Insurance Group

Jeddah, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of Allied Cooperative Insurance Group (the "Company"), which comprise the statement of financial position as at December 31, 2018, the statements of income and accumulated surplus and comprehensive income - insurance operations, income and comprehensive income - shareholders' operations, statements of changes in shareholders' equity and cash flows for insurance and shareholders' operations for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 28.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 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 tax.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's 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 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 its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2018. 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. The key audit matters include:

Independent auditors' report (Continued)
To the shareholders of Allied Cooperative Insurance Group

Key Audit Matters (continued)

| <i>Valuation of ultimate claim liabilities arising from insurance contracts</i> | |
|--|--|
| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
| <p>As at 31 December 2018, outstanding claims including claims incurred but not reported (IBNR) amounted to Saudi Riyals 102 million as reported in Note 10 to the financial statements.</p> <p>The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs.</p> <p>In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of methods e.g. Chain ladder method, Bornhuetter Ferguson method, expected loss ratio method etc. are used by the actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>We considered this as a key audit matter since use of management assumptions and judgements could result in material over / understatement of the Company's profitability.</p> | <p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Understanding and evaluating key controls around the claims handling and provision setting processes of the Company including completeness and accuracy of claims data used in the actuarial reserving process. - Evaluating the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their independence. <p>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 supporting documents.</p> <p>To challenge management's methodologies and assumptions, we were assisted by an actuary engaged by us as auditor's expert to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuary performed the following:</p> <ul style="list-style-type: none"> - Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods, seeking sufficient justification for significant differences. - Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge. - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.. |
| <p><i>Refer to the significant accounting policies note 3 to the financial statements, note 2 which explain the valuation methodology used by the Company and critical judgments and estimates</i></p> | |

Independent auditors' report (Continued)
To the shareholders of Allied Cooperative Insurance Group

Key Audit Matters (continued)

| <i>Insurance and reinsurance and other receivables</i> | |
|---|---|
| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
| <p>As at 31 December 2018, the Company had insurance receivables of Saudi Riyals 107.3 million, against which an impairment provision of Saudi Riyals 13.3 million was maintained. There is no impairment recorded against reinsurance receivables.</p> <p>We considered this as a key audit matter as the assessment of impairment requires subjective judgments with respect to the estimation of the amount and timing of future cash flows. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms. For individually significant receivables, the Company also assesses the impairment individually on a regular basis.</p> | <p>We assessed the design and implementation and tested the operating effectiveness of key controls over the identification of impaired receivables and impairment provision process and also carried-out the following audit procedures:</p> <ul style="list-style-type: none"> - Reviewing the methodology and judgment used and challenged management's key assumptions used in assessing impairment. - On sample basis checking the completeness and accuracy of the insurance and reinsurance aging reports by tracing the balances to the source documents. - On sample basis, requesting 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. - Challenging management's key assumptions over credit risk and the calculation methodology, including correspondence with the insurer and re-insurers to assess recoverability. - Considering the consistency of the approach with the prior years, the compliance with SAMA regulations and enquiring about any major variations and changes in key assumptions and its basis. |
| <p><i>Refer to note 3 of the financial statements for the accounting policy relating to the impairment of insurance and reinsurance receivables, note 2 for the critical accounting estimates and judgments, and note 9 for the disclosures of insurance and reinsurance receivable balances.</i></p> | |

Independent auditors' report (Continued)
To the shareholders of Allied Cooperative Insurance Group

Key Audit Matters (continued)

| <i>Impairment of available-for-sale investments</i> | |
|--|--|
| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
| <p>As at 31 December 2018, the Company had available-for-sale investments of SR 57.7 million. These available-for-sale investments comprise equities and mutual funds, and sukuk which are subject to the risk of impairment in value due to either adverse market situations and / or liquidity constraints faced by the issuers.</p> <p>For assessing the impairment of equities and mutual funds, management monitors volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the equity instrument at initial recognition. For this purpose, management considers a decline of 30% or more against original cost as significant. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the equity instrument has been below its original cost at initial recognition. For this purpose, management considers a decline of over 12 months to be prolonged.</p> <p>For debt instruments such as sukuk management considers them to be impaired when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.</p> <p>We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the financial statements.</p> | <p>We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identifying significant or prolonged decline in the fair value of equities and/or any defaults on sukuk.</p> <p>For equity investments and mutual funds, on a sample basis, our procedures included:</p> <ul style="list-style-type: none"> - Assessing the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments; - Evaluating the basis for determining the costs and fair value of investments; - Testing the costs and valuations; and - Considering the price fluctuation / movement during the holding period to determine if the investment meets the significant or prolonged criteria. <p>For sukuk, on a sample basis, we assessed the creditworthiness of counter parties and cash flows from the instrument to consider any defaults based on the terms and conditions of the issuance of these bonds/sukuk.</p> |
| <p>Refer to note 3 of the financial statements for the accounting policy relating to the impairment of non-trading investments, note 2 for the critical accounting estimates and judgments, and note 25 for the disclosures of market and credit risks.</p> | |

Independent auditors' report (Continued)
To the shareholders of Allied Cooperative Insurance Group

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 management and Those Charged with Governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditors' report (Continued)
To the shareholders of Allied Cooperative Insurance Group

Auditor's responsibilities for the audit of the financial statements (continued)


- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain jointly responsible for our audit opinion.

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

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


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

For Dr. Mohamed Al-Amri & Co


Jamal M. Al-Amri
Certified Public Accountant
Registration No. 331

Jeddah, on 30 March 2019G
Corresponding to: 23 Rajab 1440H

For AlAzem & AlSudairy


Abdullah M. AlAzem
Certified Public Accountant
Registration No. 335

Jeddah, on 30 March 2019G
Corresponding to: 23 Rajab 1440H



ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2018

| | | SAR '000 | |
|---|-------|----------------------|----------------------|
| | Notes | December 31, 2018 | December 31, 2017 |
| ASSETS | | | |
| Cash and cash equivalents | 7 | 93,495 | 77,598 |
| Term deposits | 8 | 187,239 | 185,000 |
| Premiums and reinsurers' receivable – net | 9 | 93,978 | 86,925 |
| Reinsurers' share of unearned premiums | 10.2 | 22,738 | 29,476 |
| Reinsurers' share of outstanding claims | 10.1 | 10,543 | 15,574 |
| Reinsurers' share of claims incurred but not reported | 10.1 | 6,004 | 6,599 |
| Deferred policy acquisition cost | 10.3 | 12,050 | 15,336 |
| Due from a related party | | 2,391 | 2,247 |
| Property and equipment, net | 4 | 5,445 | 3,545 |
| Intangible assets | 5 | 4,564 | 3,865 |
| Available-for-sale investments | 6 | 57,734 | 43,723 |
| Prepayments and other receivables | | 34,649 | 38,757 |
| Accrued commission on statutory deposit | | 1,386 | 1,152 |
| Statutory deposit | 14 | 20,000 | 20,000 |
| TOTAL ASSETS | | 552,216 | 529,797 |
| LIABILITIES | | | |
| Policyholders claim payable | | 8,741 | 2,517 |
| Accrued and other payables | 12 | 17,302 | 20,698 |
| Reinsurances' balances payable | | 11,505 | 23,731 |
| Unearned commission income | | 1,266 | 820 |
| Unearned premiums | 10.2 | 252,007 | 239,754 |
| Other technical reserve | 10.1 | 3,816 | 60 |
| Outstanding claims | 10.1 | 42,419 | 37,425 |
| Claims incurred but not reported | 10.1 | 55,769 | 50,683 |
| Employees' terminal benefits | 15 | 9,789 | 8,287 |
| Surplus distribution payable | 13 | 5,457 | 4,608 |
| Zakat and income tax | 20 | 5,111 | 2,128 |
| Accrued commission on statutory deposit payable to SAMA | | 1,386 | 1,152 |
| TOTAL LIABILITIES | | 414,568 | 391,863 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 21 | 200,000 | 200,000 |
| Accumulated losses | | (61,233) | (57,827) |
| Fair value reserve on investments | | (759) | (4,239) |
| Remeasurement reserve of defined benefit obligation | | (360) | - |
| TOTAL SHAREHOLDERS' EQUITY | | 137,648 | 137,934 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 552,216 | 529,797 |
| COMMITMENTS AND CONTINGENCIES | | | |

The accompanying notes 1 to 28 form an integral part of these financial statements.

ALLIED COOPERATIVE INSURANCE COMPANY (ACIG)
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

| | Notes | SAR '000 | |
|--|-------|-----------------|-----------------|
| | | 2018 | 2017 |
| REVENUES | | | |
| Gross premiums written | | 500,013 | 429,972 |
| Less: Reinsurance premium ceded | | | |
| - Local | | (4,315) | (4,812) |
| - Foreign | | (35,127) | (53,615) |
| | | (39,442) | (58,427) |
| Excess of loss premiums | | (4,559) | (5,628) |
| Net premiums written | | 456,012 | 365,917 |
| Changes in unearned premiums, net | | (18,991) | (13,102) |
| Net premiums earned | | 437,021 | 352,815 |
| Reinsurance commission earned | | 2,175 | 3,364 |
| Other underwriting income | | 11,109 | 13,980 |
| Net revenues | | 450,305 | 370,159 |
| UNDERWRITING COSTS AND EXPENSES | | | |
| Gross claims paid | | 346,972 | 299,436 |
| Less: Reinsurers' share of claims paid | | (37,211) | (32,287) |
| Net claims paid | | 309,761 | 267,149 |
| Changes in outstanding claims, net | | 7,634 | 10,045 |
| Changes in incurred but not reported, net | | 5,680 | (30,306) |
| Changes in loss adjustment expenses | | 1,796 | - |
| Net claims incurred | | 324,871 | 246,888 |
| Other technical reserves | | (60) | (188) |
| Change in premium deficiency reserve | | 2,020 | - |
| Policy acquisition costs | | 29,621 | 31,190 |
| Other underwriting expenses | | 2,868 | 1,767 |
| Total underwriting cost and expenses | | 359,320 | 279,657 |
| Net underwriting income / (loss) | | 90,985 | 90,502 |
| OTHER OPERATING (EXPENSE) / INCOME | | | |
| (Allowance for) / Reversal of doubtful debts | | (7,499) | 408 |
| General and administrative expenses | 24 | (81,254) | (78,136) |
| Commission income on deposits | | 5,016 | 2,882 |
| Realized gain on available for sale investments | | 2,137 | 3,872 |
| Impairment on available for sale investments | | (6,189) | - |
| Other income | | 11 | 312 |
| TOTAL OTHER OPERATING (EXPENSES) / INCOME | | (87,778) | (70,662) |
| Total income / (loss) for the year | | 3,207 | 19,840 |
| Surplus attributed to the insurance operations | | (849) | (1,723) |
| Total income / (loss) for the year attributable to the shareholders | | 2,358 | 18,117 |
| Earnings per share (Expressed in SAR per share) | | | |
| Basic EPS | 22 | 0.12 | 0.91 |

The accompanying notes 1 to 28 form an integral part of these financial statements.

ALLIED COOPERATIVE INSURANCE COMPANY (ACIG)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

| | Notes | SAR '000 | |
|--|-------|--------------|----------------|
| | | 2018 | 2017 |
| Total income for the year | | 3,207 | 19,840 |
| Other comprehensive income / (loss) | | | |
| <i>Items that will not be reclassified to statement of income in subsequent years</i> | | | |
| -Actuarial gains losses on defined benefit obligation | | (360) | - |
| <i>Items that are or may be reclassified to statements of income in subsequent years</i> | | | |
| - Available for sale investments: | | | |
| - Impairment on available for sale investment | | 6,189 | - |
| - Net change in fair value | | (2,709) | (3,186) |
| TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR | | 6,327 | 16,654 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE INSURANCE OPERATIONS | | (849) | (1,723) |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE SHAREHOLDERS | | 5,478 | 14,931 |



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The accompanying notes 1 to 28 form an integral part of these financial statements.

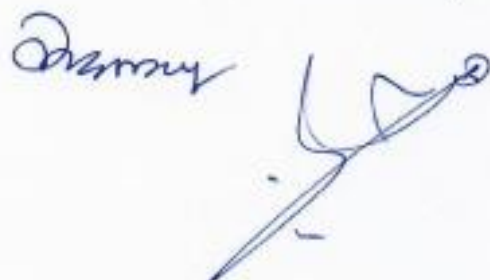
ALLIED COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(SAR in '000')

| 2018 | Notes | Share capital | Accumulated losses | Available – for - sale investments reserve | Remeasurement reserve of defined benefit obligation | Total Equity |
|--|-------|---------------|--------------------|--|---|--------------|
| Balance at the beginning of the year | | 200,000 | (57,827) | (4,239) | - | 137,934 |
| Comprehensive income/ (loss) for the year: | | | | | | |
| Total income for the year attributable to the shareholders | | - | 2,358 | - | - | 2,358 |
| Actuarial losses on defined benefits obligation | | - | - | - | (360) | (360) |
| Changes in fair values of available for sale investments | | - | - | (2,709) | - | (2,709) |
| Impairment on available for sale investments | | - | - | 5,189 | - | 5,189 |
| Zakat charge for the year | | - | (5,764) | - | - | (5,764) |
| Income tax charge for the year | | - | - | - | - | - |
| Balance at the end of the year | | 200,000 | (61,233) | (759) | (360) | 137,648 |

| 2017 | Notes | Share capital | Accumulated losses | Available – for - sale investments reserve | Total Equity |
|--|-------|---------------|--------------------|--|--------------|
| Balance at the beginning of the Year | | 200,000 | (73,796) | (1,053) | 125,151 |
| Comprehensive income/ (loss) for the year: | | | | | |
| Total income for the year attributable to the shareholders | | - | 18,117 | - | 18,117 |
| Changes in fair values of available for sale investments | | - | - | (3,186) | (3,186) |
| Zakat charge for the year | | - | (2,140) | - | (2,140) |
| Income tax charge for the year | | - | (8) | - | (8) |
| Balance at the end of the year | | 200,000 | (57,827) | (4,239) | 137,934 |

The accompanying notes 1 to 28 form an integral part of these financial statements.



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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

| | Note | 2018 | 2017 |
|--|------|-----------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Total income for the year | | 3,207 | 19,840 |
| <i>Adjustments for non-cash items:</i> | | | |
| Depreciation of property and equipment | | 1,867 | 2,137 |
| Amortization of intangible assets | | 707 | 592 |
| Net realised gain on available for sale investments | | (2,137) | (3,872) |
| Allowance for/(Reversal of) doubtful debts | | 7,499 | (408) |
| Impairment on available for sale investments | | 6,189 | - |
| Provision for end-of-service indemnities | | 1,719 | 2,036 |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Premiums and reinsurers' receivable | | (14,552) | 7,883 |
| Reinsurers' share of unearned premiums | | 6,738 | 5,644 |
| Reinsurers' share of outstanding claims | | 5,031 | (2,935) |
| Reinsurers' share of claims Incurred but not reported | | 595 | 23,986 |
| Deferred policy acquisition costs | | 3,286 | 2,196 |
| Due from related party | | (144) | (1,032) |
| Prepayments and other receivables | | 4,108 | (5,770) |
| Policyholders claim payables | | 6,224 | (3,502) |
| Reinsurers' balances payable | | (12,226) | (11,730) |
| Unearned commission income | | 446 | 176 |
| Unearned premiums | | 12,253 | 7,458 |
| Outstanding claims | | 4,994 | 12,979 |
| Claims incurred but not reported | | 5,086 | (54,291) |
| Other technical reserves | | 3,756 | (188) |
| Accrued and other payables | | (3,396) | 3,408 |
| | | 41,250 | 4,607 |
| End-of-service indemnities paid | | (577) | (223) |
| Zakat and income tax paid | | (2,781) | (1,530) |
| Surplus paid to policy holders | | - | (1,087) |
| Net cash generated from operating activities | | 37,892 | 1,767 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions in property and equipment | | (3,769) | (1,560) |
| Additions in intangible assets | | (1,406) | (1,105) |
| Proceed from sale of property and equipment | | 2 | - |
| Purchase of available for sale investments | | (19,738) | (13,635) |
| Proceed from sale of available for sale investment | | 5,155 | 18,280 |
| Sale of short term deposit | | 185,000 | - |
| Purchase of term deposits | | (187,239) | (185,000) |
| Net cash (used in) investing activities | | (21,995) | (183,020) |
| Net change in cash and cash equivalents | | 15,897 | (181,253) |
| Cash and cash equivalents, beginning of the year | | 77,598 | 258,851 |
| Cash and cash equivalents, end of the year | | 93,495 | 77,598 |
| NON-CASH INFORMATION | | | |
| Change in fair value of available for sale investments | | (2,709) | (3,186) |
| Actuarial loss on defined benefit obligation | | (360) | - |

The accompanying notes 1 to 28 form an integral part of these financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Allied Cooperative Insurance Group ("the Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030171999 dated 9 Shabaan 1428H, corresponding to 22 August 2007.

The registered office address of the Company was situated at Al Malka District, P. O. Box 40523, Riyadh 11511, Kingdom of Saudi Arabia. However, as per the Board of Directors resolution dated 30 January 2018, the registered office address of the Company has been changed to Al Heteen District P.O. Box 40523 Riyadh 11511, Kingdom of Saudi Arabia. The legal formalities to change the registered office address of the Company have been completed during the period ended 30 September 2018 and accordingly new Commercial Registration No. 1010417178 has been obtained.

The activities of the Company are to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. On 4 April 2009, the Company received a license from the Saudi Arabian Monetary Authority ("SAMA") to engage in insurance in Saudi Arabia. The Company commenced its commercial operations on 1 July 2009. The Company was listed on the Saudi Stock Exchange (Tadawul) on 27 August 2007.

There are 3 registered branches as set out below:

| Branch | Commercial Registration Number | Place of issuance | Date |
|----------------|---|--------------------------|-------------------|
| Branch of ACIG | 2051043671 | Al Khobar | 12 Ramadan 1439 H |
| Branch of ACIG | 5855035150 | Khamis Mushayt | 12 Ramadan 1439 H |
| Branch of ACIG | 4030204059 | Jeddah | 12 Ramadan 1439 H |

The Board of Directors on 7 March 2017 approved the study of a possibility of merger with Malath Cooperative Insurance Company (Malath). During the quarter ended 31 March 2018, the Board approved to extend the previously announced period by six months to sign a non-binding memorandum of understanding to conduct the technical, financial and legal studies necessary for the merger process and to present the results of the studies to the Board of Directors of the two companies. However, on 12 July 2018, the Board of Directors of ACIG decided not to continue the merger due to the failure to reach a preliminary agreement with Malath regarding the methodology used in evaluating the two companies.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of presentation

These financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of available-for-sale investments. 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 current: cash and cash equivalents, term deposits, premiums and reinsurers' receivable - net, reinsurers' share of unearned premium, reinsurers' share of outstanding claims, reinsurers' share of claims incurred but not reported, deferred policy acquisitions cost, due from related parties, prepaid expenses and other assets, policyholders claim payable, accrued and other liabilities, unearned premiums, unearned reinsurance commission, outstanding claims, claims incurred but not reported, other technical reserves, surplus distribution payable and Zakat and income tax. The following balances would generally be classified as non-current: end-of-service indemnities, investments, statutory deposit, accrued income on statutory deposit and property and equipment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

2. BASIS OF PREPARATION - CONTINUED

(b) Basis of presentation - Continued

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly (Note 26). 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 26 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.

The inclusion of separate information of the insurance operations with the financial information of the Company in the statement of financial position, the statement of income, statement of comprehensive income, cash flows as well as certain relevant notes to the financial information represents additional supplementary information required as required by the implementing regulations.

As per the by-laws of the Company, surplus arising from the Insurance Operations is distributed as follows:

| | |
|---------------------------------------|-------------|
| Transfer to Shareholders' operations | 90% |
| Transfer to Policyholders' operations | 10% |
| | <u>100%</u> |

In case of deficit, the whole deficit will be transferred to Shareholders' operations.

(c) Functional and presentation currency

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

(d) Fiscal year

The Company follows a fiscal year ending December 31.

(e) Significant accounting estimates and judgements

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

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

2. BASIS OF PREPARATION - CONTINUED

(e) Significant accounting estimates and judgements – Continued

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.

The ultimate liability arising from claims made under insurance contracts

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

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 provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Actuary had also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

Impairment losses on 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.

Deferred policy acquisition costs

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs (DAC) and are amortized in the statement of insurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus.

Reinsurance

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Company for preparation of these financial statements are consistent with those of the previous year except for the adoption of following new standards and amendments to existing standards and interpretations mentioned below which had no significant impact on the financial statements of the Company.

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):

| <u>Standard/ Interpretation</u> | <u>Description</u> | <u>Effective date</u> |
|--|--|------------------------------|
| 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 |

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's interim condensed financial information are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they are effective.

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 is permitted if both IFRS 15 "Revenue form Contracts with Customers" and IFRS 9 "Financial Instruments" have also been applied. The Company has decided not to early adopt this new standard.

IFRS 9 – "Financial Instruments", 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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 2022. 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 has decided to defer the implementation of IFRS 9.

The Company believes that IFRS 9 would have an impact on the classification of financial instruments required to be measured mandatorily at fair value. At present it is not possible to provide a reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

The significant accounting policies applied in the preparation of these financial statements are summarised below

Insurance contracts

Insurance contracts are defined as those containing insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance of existence of insurance risk. This insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this year.

Insurance contracts are principally divided into marine, property, motor, engineering and accident and liability and are principally short term insurance contracts.

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover). For property insurance contracts, the main risks are fire, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. In Saudi Arabia, it is compulsory for all vehicles to have minimum third party cover. The Company also issues comprehensive motor policies. Such motor policies cover damages to vehicles due to storm, tempest, flood, fire, theft and personal accident.

Accident insurance includes money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types (a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs. (b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Insurance Contracts - continued

Medical insurance is designed to compensate holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers with a large population to be covered under the policy.

Claim and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

Reinsurance

In the ordinary course of business, the Company cedes insurance premiums and risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' statement of financial position representing premiums due to reinsurers, net of commission income which represents income earned from reinsurance companies, or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties.

The Company assesses its reinsurance assets, if any, for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the impairment loss in the statement of insurance operations and accumulated surplus. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for insurance and other receivables. The impairment loss is also calculated following the same method used for these financial assets.

Impairment and un-collectability of financial assets

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

Evidence of impairment may include:

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Impairment and un-collectability of financial assets - continued

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

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

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

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

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

Impairment of non-financial assets

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

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

Deferred policy acquisition costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred policy acquisition costs - continued

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

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

Investments

All investments are initially recognised at cost, being the fair value consideration given including acquisition charges associated with the investment. Financial assets are initially recognised at fair values plus, in the case of all financial assets not carried at fair value through income statement, transaction costs that are directly attributable to their acquisition.

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

a) FVIS Investments

Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investments classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the statement of shareholders' operations and statement of insurance operations and accumulated surplus.

b) Available-for-sale investments

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments – continued

Reclassification:

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

Trade date accounting

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

Cash and cash equivalents

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

Property and equipment

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

:

| | Years |
|--|--------------|
| Motor vehicles | 4 |
| Furniture, fittings and office equipment | 7 |
| Computers | 4 |
| Leasehold improvements | 7 |

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of insurance operations and accumulated surplus.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of shareholders' operations as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Intangible assets

Computer software are shown at historical cost. They have a finite useful life and are subsequent carried at cost less accumulated amortization and impairment losses. The Company amortizes computer software with a limited useful life using straight-line method over the following periods:

| | Years |
|-----------------------------|--------------|
| IT development and software | 4 |

Provisions for obligations

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

Trade and other payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Liabilities are recognized for amounts to be paid for services received, whether or not billed to the Company

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement of such transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are included in the statement of income.

Liability adequacy test

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

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Insurance and other receivables

Insurance and other receivable are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Subsequent recoveries, of amounts previously written off are credited in the statement of insurance operations and accumulated surplus. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

End-of-service benefits

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

Revenue recognition

Recognition of premiums and commission revenue

Gross premiums and commissions on insurance contracts are recognized when the insurance policy is issued. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents last three months of the premiums written during the current financial period.

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

- Last three month of premiums for marine cargo business
- Predefined calculation for engineering line of business for risks undertaken that extend beyond a single year.
- Actual number of days for other lines of business

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

Commission income

Commission income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable.

Dividend income

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

Investment income

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

Claims

Gross claims consist of benefits and claims paid to policyholders, changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses net of salvage recoveries.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on Management's judgment and the Company's experience is maintained for the cost of settling claims incurred but not reported (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Claims - continued

Any difference between the provisions at the statement of financial position date and settlements and provisions in the following period is included in the statement of income for that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

Salvage and subrogation reimbursements

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

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvaged vehicles or property acquired are recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the vehicle or property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

De-recognition of financial instruments

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

Offsetting

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation.

Leases

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

Impairment of non-financial assets

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

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

Zakat and income tax

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Zakat and income tax - *continued*

Company amended its accounting policy to charge zakat and tax directly into retained earnings in the statement of changes in equity instead of statement of income.

Unearned commission income

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

Fair values of financial instruments

Financial instruments comprise cash and cash equivalents, premiums receivable, reinsurance receivables, investments, outstanding claims, reinsurance payables and certain other assets and liabilities.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or based on the expected discounted cash flows.

The fair values of financial assets and liabilities are not materially different from their carrying values at the reporting date.

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

Cash flow statement

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

Premium deficiency reserve

The Company carries out an analysis of loss/combined ratios for the expired period. Such ratios are being calculated by taking into account the relevant incurred but not reported provision and then used for the determination of premium deficiency reserve for each class of business.

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 information 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:

- Motor Insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Medical insurance, which covers medical costs, medicines, and all other medical services and supplies. General accident, which covers miscellaneous accident classes of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity.
- Other classes, which covers any other classes of insurance not included above.

Shareholders' income is a non-operating segment. Income earned from short term deposits, 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 profit 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.

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018–(continued)
4. Property and equipment, net

| | Motor Vehicles | Furniture, fittings and office equipment | Computer Equipment | Leasehold improvements | Total 2018 | Total 2017 |
|-----------------------|-------------------|---|-----------------------|---------------------------|---------------|---------------|
| Cost: | | | | | | |
| January 1 | 116 | 6,308 | 3,624 | 5,324 | 15,372 | 13,866 |
| Additions | - | 525 | 1,026 | 2,218 | 3,769 | 1,506 |
| Disposals | - | (2) | - | - | (2) | - |
| Transfers | - | - | - | - | - | - |
| December 31 | 116 | 6,831 | 4,650 | 7,542 | 19,139 | 15,372 |
| Accumulated | | | | | | |
| Depreciation: | | | | | | |
| January 1 | 105 | 5,705 | 3,122 | 2,895 | 11,827 | 9,736 |
| Charge for the year | 6 | 540 | 862 | 459 | 1,867 | 2,091 |
| Disposals | - | - | - | - | - | - |
| December 31 | 111 | 6,245 | 3,984 | 3,354 | 13,694 | 11,827 |
| Net book value | | | | | | |
| December 31, 2018 | 5 | 586 | 666 | 4,188 | 5,445 | |
| December 31, 2017 | 11 | 603 | 502 | 2,429 | | 3,545 |

5. Intangible assets

| | Software | Total 2018 | Total 2017 |
|---------------------------------|----------|---------------|---------------|
| Cost: | | | |
| January 1 | 6,685 | 6,685 | 5,580 |
| Additions | 1,406 | 1,406 | 1,105 |
| Disposals | - | - | - |
| December 31 | 8,091 | 8,091 | 6,685 |
| Accumulated amortisation | | | |
| January 1 | 2,820 | 2,820 | 2,182 |
| Amortisation charge | 707 | 707 | 638 |
| Disposals | - | - | - |
| December 31 | 3,527 | 3,527 | 2,820 |
| Net book value | | | |
| December 31, 2018 | 4,564 | 4,564 | |
| December 31, 2017 | 3,865 | | 3,865 |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018--(continued)
6. Investments

i) Shareholders' operations

Investments of the insurance operations comprise the following:

| | 2018 | 2017 |
|--------------------------|---------|--------|
| | SAR'000 | |
| Available for sale "AFS" | 57,734 | 43,723 |
| Total | 57,734 | 43,723 |

a) Investment securities are classified as follows:

i) Available-for-sale investments

| | Domestic | | International | | Total | |
|--|---------------|---------------|---------------|--------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | SAR' | SAR' | SAR' | SAR' | SAR' | SAR' |
| | 000 | 000 | 000 | 000 | 000 | 000 |
| Investment in sukuk | 25,000 | 25,000 | - | - | 25,000 | 25,000 |
| Quoted securities | 15,755 | 10,944 | 4,957 | 5,856 | 20,712 | 16,800 |
| Unquoted securities | 1,923 | 1,923 | - | - | 1,923 | 1,923 |
| Units in quoted local real estate fund | 10,099 | - | - | - | 10,099 | - |
| Available for sale | 52,777 | 37,867 | 4,957 | 5,856 | 57,734 | 43,723 |

Movements in available for sale investments are as follows:

| | Investment in sukuk | Quoted securities | Unquoted Securities | Units in quoted local real estate fund | Total |
|---|------------------------|----------------------|------------------------|---|----------------|
| | SAR'000 | | | | |
| As at January 1, 2017 | 25,000 | 20,759 | 1,923 | - | 47,682 |
| Purchases | - | 13,635 | - | - | 13,635 |
| Disposals | - | (18,280) | - | - | (18,280) |
| Changes in fair value of investments | - | 686 | - | - | 686 |
| As at December 31, 2017 | 25,000 | 16,800 | 1,923 | - | 43,723 |
| As of January 1, 2018 | 25,000 | 16,800 | 1,923 | - | 43,723 |
| Purchases | - | 9,746 | - | 9,992 | 19,738 |
| Disposals | - | (3,018) | - | - | (3,018) |
| Changes in fair value of investments | - | (2,816) | - | 107 | (2,709) |
| As at December 31, 2018 | 25,000 | 20,712 | 1,923 | 10,099 | 57,734 |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)
7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following:

| | Insurance operations | |
|------------------------|------------------------------|--------------------------|
| | December 31, 2018 | December 31, 2017 |
| SAR'000 | | |
| Bank balances and cash | 83,409 | 44,283 |
| Total | 83,409 | 44,283 |

| | Shareholders' operations | |
|------------------------|---------------------------------|--------------------------|
| | December 31, 2018 | December 31, 2017 |
| SAR'000 | | |
| Bank balances and cash | 10,086 | 33,315 |
| Total | 10,086 | 33,315 |

8. TERM DEPOSITS

| | December 31, 2018 SR'000 | December, 31 2017 SR'000 |
|---------------------------------|---|---|
| Insurance Operations | | |
| Term deposits | 138,256 | 147,249 |
| Shareholders' Operations | | |
| Term deposits | 48,983 | 37,751 |

The term deposits are held with the commercial banks. These term deposits are denominated in Saudi Arabian Riyals and have been an original maturity of more than three months and less than twelve months. The carrying amounts of these term deposits reasonably approximate their fair values at the reporting date.

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018–(continued)

9. Premiums and reinsurers' receivable - net

Receivables comprise amounts due from the following:

| SAR'000 | Insurance operations | |
|--|----------------------|-------------------|
| | December 31, 2018 | December 31, 2017 |
| Due from policyholders | 75,050 | 60,263 |
| Due from policyholders – related parties | 3,752 | 2,234 |
| Due from Brokers and agents | 22,590 | 24,642 |
| Receivables from reinsurers | 5,891 | 5,592 |
| | 107,283 | 92,731 |
| Provision for doubtful debts | (13,305) | (5,806) |
| Premiums and reinsurers' receivable – net | 93,978 | 86,925 |

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

| | 2018 | 2017 |
|--------------------------------------|---------|-------|
| | SAR'000 | |
| Balance at the beginning of the year | 5,806 | 6,214 |
| Provision for the year | 7,499 | - |
| Reversal for the year | - | (408) |
| Write-offs | - | - |
| Balance at the end of the year | 13,305 | 5,806 |

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

| | Total | Neither past due nor impaired | Past due but not impaired | | | Past due and impaired | |
|---|---------------|--|---------------------------|-----------------|------------------|-----------------------|-----------------------|
| | | | Less than 30 days | 31 - 90 days | 91 - 180 days | 181 - 360 days | More than 360 days |
| Premium and reinsurance receivables, net | | | | | | | |
| -Due from policyholders | 75,050 | - | 42,396 | 3,181 | 11,192 | 15,414 | 2,867 |
| -Due from policyholders – related parties | 3,752 | - | 2,930 | 83 | 86 | 312 | 341 |
| -Due from Brokers and agents | 22,590 | - | 5,380 | 3,061 | 5,231 | 7,832 | 1,086 |
| -Receivables from reinsurers | 5,891 | - | 841 | 5,050 | - | - | - |
| -Provision for doubtful debts | (13,305) | - | - | - | (2,476) | (7,608) | (3,221) |
| 2018 | 93,978 | - | 51,547 | 11,375 | 14,033 | 15,950 | 1,073 |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018--(continued)

**Premium and reinsurance
receivables, net**

| | | | | | | | |
|--|---------|---|--------|--------|---------|---------|---------|
| -Due from policyholders | 60,263 | - | 46,134 | 2,131 | 1,431 | 7,730 | 2,837 |
| -Due from policyholders – related parties | 2,234 | - | 94 | 2,089 | 51 | - | - |
| -Due from Brokers and agents | 24,642 | - | 15,512 | 2,215 | 5,803 | 361 | 751 |
| -Receivables from reinsurers | 5,592 | - | - | 5,592 | - | - | - |
| -Provision for doubtful debts | (5,806) | - | - | - | (1,093) | (2,022) | (2,691) |
| 2017 | 86,925 | - | 61,740 | 12,027 | 6,192 | 6,069 | 897 |

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

The five largest customers accounts for 14% (December 31, 2017: 12%) of the premiums receivable as at December 31, 2018.

10. Technical reserves (insurance operations)

10.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

| SAR'000 | December 31, 2018 | December 31, 2017 |
|---|------------------------------|------------------------------|
| Claims payable to policyholders | | |
| Gross outstanding claims | 42,419 | 37,425 |
| Less: Realizable value of salvage and subrogation | - | - |
| | 42,419 | 37,425 |
| Claims incurred but not reported | 55,769 | 50,683 |
| Additional premium reserves | 2,020 | - |
| Other technical reserves | 1,796 | 60 |
| | 102,004 | 88,168 |
| Less: | | |
| - Reinsurers' share of outstanding claims | (10,543) | (15,574) |
| - Reinsurers' share of claims Incurred but not reported | (6,004) | (6,599) |
| | (16,547) | (22,173) |
| Net outstanding claims and reserves | 85,457 | 65,995 |

10.2 Movement in unearned premiums

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

Movement in unearned premiums comprise of the following:

| | For the year ended December 31, 2018 | | |
|---|---|--------------------|------------|
| SAR'000 | Gross | Reinsurance | Net |
| Balance as at the beginning of the year | 239,754 | (29,476) | 210,278 |
| Premium written during the year | 500,013 | (44,001) | 456,012 |
| Premium earned during the year | (487,760) | 50,739 | (437,021) |
| Balance as at the end of the year | 252,007 | (22,738) | 229,269 |

| | For the year ended December 31, 2017 | | |
|---|---|--------------------|------------|
| SAR'000 | Gross | Reinsurance | Net |
| Balance as at the beginning of the year | 232,296 | (35,120) | 197,176 |
| Premium written during the year | 429,972 | (64,055) | 365,917 |
| Premium earned during the year | (422,514) | 69,699 | (352,815) |
| Balance as at the end of the year | 239,754 | (29,476) | 210,278 |

10.3 Movement in deferred policy acquisition costs

| | For the year ended December 31, 2018 | | |
|---------------------------|---|--------------------|------------|
| SAR'000 | Gross | Reinsurance | Net |
| Balance, January 1 | 15,336 | - | 15,336 |
| Incurred during the year | 29,621 | - | 29,621 |
| Amortized during the year | (32,907) | - | (32,907) |
| Balance, December 31 | 12,050 | - | 12,050 |

| | For the year ended December 31, 2017 | | |
|---------------------------|---|--------------------|------------|
| SAR'000 | Gross | Reinsurance | Net |
| Balance, January 1 | 17,923 | - | 17,923 |
| Incurred during the year | 39,626 | - | 39,626 |
| Amortized during the year | (42,213) | - | (42,213) |
| Balance, December 31 | 15,336 | - | 15,336 |

11. Commitments and contingencies

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018--(continued)

a) The Company's commitments and contingencies are as follows:

| SAR'000 | December 31, 2018 | December 31, 2017 |
|----------------------|------------------------------|------------------------------|
| Letters of guarantee | 2,941 | 3,621 |
| Total | 2,941 | 3,621 |

12. Accrued expenses and other liabilities

| | 2018 | 2017 |
|------------------|----------------|---------------|
| | SAR'000 | |
| Accrued expenses | 3,198 | 2,479 |
| Other payable | 4,391 | 5,639 |
| Brokers payable | 6,769 | 5,204 |
| VAT payable | 1,130 | - |
| Others | 1,814 | 7,376 |
| | 17,302 | 20,698 |

13. Surplus distribution payable

| | 2018 | 2017 |
|---|----------------|--------------|
| | SAR'000 | |
| Opening surplus distribution payable as at January 1 | 4,608 | 3,972 |
| Total income attributed to the insurance operations during the year | 849 | 1,723 |
| Surplus paid to policy holders | - | (1,087) |
| Closing surplus distribution payable as at December 31 | 5,457 | 4,608 |

14. STATUTORY DEPOSIT

| | 2018 | 2017 |
|--------------------------------|----------------|---------------|
| | SAR'000 | |
| Shareholders' operation | | |
| Statutory deposit | 20,000 | 20,000 |

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 20 million in a bank designated by the Saudi Arabian Monetary Authority (SAMA). The Company cannot withdraw this deposit without SAMA's approval.

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

15. Employee end of service benefits

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

15.1 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:

| | 2018 | 2017 |
|---|--------------|--------------|
| | SAR'000 | |
| Present value of defined benefit obligation | 9,789 | 8,287 |
| | <u>9,789</u> | <u>8,287</u> |

15.2 Movement of defined benefit obligation

| | 2018 | 2017 |
|---|--------------|--------------|
| | SAR'000 | |
| Opening balance | 8,287 | 6,474 |
| Charge to statement of income | 1,719 | 2,036 |
| Charge to statement of other comprehensive income | 360 | - |
| Payment of benefits during the year | (577) | (223) |
| Closing balance | <u>9,789</u> | <u>8,287</u> |

15.3 Reconciliation of present value of defined benefit obligation

| | 2018 | 2017 |
|---|--------------|--------------|
| | SAR'000 | |
| Present value of defined benefit obligation as at January 1 | 8,287 | 6,474 |
| Current service costs | 1,404 | 2,036 |
| Financial costs | 315 | - |
| Actuarial (loss)/ gain from experience adjustments | 360 | - |
| Benefits paid during the year | (577) | (223) |
| Present value of defined benefit obligation as at December 31 | <u>9,789</u> | <u>8,287</u> |

15.4 Principal actuarial assumptions

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

| | 2018 | 2017 |
|--|-------|------|
| Valuation discount rate | 4.50% | - |
| Expected rate of increase in salary level across different age bands | 2.5% | - |

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

| | 2018 | 2017 |
|--|--------------------------------------|------|
| | Impact on defined benefit obligation | |
| Valuation discount rate | | |
| - Increase by 1% | 9,121 | - |
| - Decrease by 1% | 10,554 | - |
| Expected rate of increase in salary level across different age bands | | |
| - Increase by 1% | 10,616 | - |
| - Decrease by 1% | 9,147 | - |
| Mortality rate | | |
| - 1 year Mortality age set back | 9,786 | - |
| - 1 year Mortality age set forward | 9,792 | - |
| Withdrawal turnover | | |
| - Increase by 10% | 9,778 | - |
| - Decrease by 10% | 9,794 | - |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)**(A SAUDI JOINT STOCK COMPANY)****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)****16. Claims development table**

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the periods beginning from year 2013 and earlier onwards whose claim experience has not been fully developed.

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

Claims development table gross of reinsurance:

| 2018 | | | | | | | |
|---|---------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Accident year or Underwriting year | 2013 & Earlier | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
| SAR '000 | | | | | | | |
| Estimate of ultimate claims cost gross of reinsurance: | | | | | | | |
| At the end of accident year | 156,406 | 141,498 | 287,332 | 351,010 | 267,868 | 331,435 | 1,535,549 |
| One year later | 180,014 | 157,746 | 317,234 | 328,798 | 266,333 | - | 1,250,124 |
| Two years later | 185,650 | 159,743 | 311,082 | 325,167 | - | - | 981,643 |
| Three years later | 189,466 | 155,957 | 317,782 | - | - | - | 663,205 |
| Four years later | 194,238 | 155,498 | - | - | - | - | 349,736 |
| Five years later | 196,493 | - | - | - | - | - | 196,493 |
| Current estimate of cumulative claims | 196,493 | 155,498 | 317,782 | 325,167 | 266,333 | 331,435 | 1,592,708 |
| Cumulative payments to date | (193,217) | (154,344) | (314,048) | (318,974) | (255,926) | (258,011) | (1,494,520) |
| Liability recognized in statement of financial position | 3,276 | 1,154 | 3,734 | 6,193 | 10,407 | 73,424 | 98,188 |
| Salvage and subrogation | - | - | (11) | 31 | 159 | 3 | 182 |
| Premium deficiency reserve | - | - | - | - | - | 2,020 | 2,020 |
| Outstanding claims and reserves | 3,186 | 954 | 2,221 | 2,949 | 4,797 | 28,312 | 42,419 |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018--(continued)
16. Claims development table (continued)

2017

| Accident year or Underwriting year | 2013 & Prior | 2014 | 2015 | 2016 | 2017 | Total |
|---|--------------|-----------|-----------|-----------|-----------|-------------|
| SAR '000 | | | | | | |
| Estimate of ultimate claims cost gross of reinsurance: | | | | | | |
| At the end of accident year | 156,406 | 141,498 | 287,332 | 351,010 | 267,868 | 1,204,114 |
| One year later | 180,014 | 157,746 | 317,234 | 328,798 | - | 983,791 |
| Two years later | 185,650 | 159,743 | 311,082 | - | - | 656,476 |
| Three years later | 189,466 | 155,957 | - | - | - | 345,423 |
| Four years later | 194,238 | - | - | - | - | 194,238 |
| Current estimate of cumulative claims | 194,238 | 155,957 | 311,082 | 328,798 | 267,868 | 1,257,943 |
| Cumulative payments to date | (190,584) | (152,463) | (305,760) | (309,721) | (211,307) | (1,169,835) |
| Liability recognized in statement of financial position | 3,654 | 3,494 | 5,322 | 19,077 | 56,561 | 88,108 |
| Salvage and subrogation | - | - | 2 | 89 | 183 | 274 |
| Outstanding claims and reserves | 2,675 | 3,526 | 1,932 | 9,939 | 19,353 | 37,425 |

Claims development table net of reinsurance:

2018

| Accident year or Underwriting year | 2013 & Earlier | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|----------------|-----------|-----------|-----------|-----------|-----------|-------------|
| SAR '000 | | | | | | | |
| Estimate of ultimate claims cost net of reinsurance: | | | | | | | |
| At the end of accident year | 151,745 | 135,778 | 263,384 | 296,603 | 234,163 | 296,948 | 1,378,621 |
| One year later | 173,726 | 148,040 | 290,006 | 295,520 | 234,837 | - | 1,139,129 |
| Two years later | 178,299 | 147,709 | 287,832 | 293,618 | - | - | 907,458 |
| Three years later | 180,944 | 145,718 | 290,677 | - | - | - | 617,339 |
| Four years later | 184,913 | 144,897 | - | - | - | - | 329,810 |
| Five years later | 187,184 | - | - | - | - | - | 187,184 |
| Current estimate of cumulative claims | 187,184 | 144,897 | 290,677 | 293,618 | 234,837 | 296,948 | 1,448,161 |
| Cumulative payments to date | (185,324) | (145,356) | (287,753) | (289,918) | (224,780) | (233,389) | (1,366,520) |
| Liability recognized in statement of financial position | 1,860 | (459) | 2,924 | 3,700 | 10,057 | 63,559 | 81,641 |
| Salvage and subrogation | - | - | (11) | 31 | 159 | 3 | 182 |
| Premium deficiency reserve | - | - | - | - | - | 2,020 | 2,020 |
| Outstanding claims and reserves | 1,770 | (631) | 1,568 | 926 | 4,466 | 23,777 | 31,876 |

16. Claims development table (continued)

| 2017 | | | | | | |
|---|--------------|-----------|-----------|-----------|-----------|-------------|
| Accident year or Underwriting year | 2013 & Prior | 2014 | 2015 | 2016 | 2017 | Total |
| | SAR '000 | | | | | |
| Estimate of ultimate claims cost net of reinsurance: | | | | | | |
| At the end of accident year | 151,754 | 135,778 | 263,384 | 296,603 | 234,163 | 1,081,673 |
| One year later | 173,726 | 148,040 | 290,006 | 292,520 | - | 904,292 |
| Two years later | 178,299 | 147,709 | 287,832 | - | - | 613,840 |
| Three years later | 180,944 | 145,718 | - | - | - | 326,662 |
| Four years later | 184,913 | - | - | - | - | 184,913 |
| Current estimate of cumulative claims | 184,913 | 145,718 | 287,832 | 292,520 | 234,163 | 1,145,146 |
| Cumulative payments to date | (183,017) | (143,474) | (283,038) | (280,763) | (188,919) | (1,079,211) |
| Liability recognized in statement of financial position | 1,896 | 2,244 | 4,794 | 11,757 | 45,244 | 65,935 |
| Salvage and subrogation | - | - | 2 | 89 | 183 | 274 |
| Outstanding claims and reserves | 1,360 | 1,943 | 1,458 | 3,056 | 14,034 | 21,851 |

17. Fair value of financial instruments

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

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

The management assessed that cash and short-term deposits, receivables from related parties, loans to related parties, trade and other payables, bank overdrafts, variable rate loans and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

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a. Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation to fair value.

| | | Fair value | | | |
|----------------------------------|----------------|------------|---------|---------|--------|
| SAR'000s | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| December 31, 2018 | | | | | |
| - Available for sale investments | | | | | |
| Debt instrument | 25,000 | - | 25,000 | - | 25,000 |
| Equities | 20,712 | 20,712 | - | - | 20,712 |
| Other | 12,022 | 10,099 | - | 1,923 | 12,022 |
| | 57,734 | 30,811 | 25,000 | 1,923 | 57,734 |

| | | Fair value | | | |
|----------------------------------|----------------|------------|---------|---------|--------|
| SAR'000s | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| December 31, 2017 | | | | | |
| - Available for sale investments | | | | | |
| Debt instrument | 25,000 | - | 25,000 | - | 25,000 |
| Equities | 16,800 | 16,800 | - | - | 16,800 |
| Other | 1,923 | - | - | 1,923 | 1,923 |
| | 43,723 | 16,800 | 25,000 | 1,923 | 43,723 |

| SAR'000s | Carrying value | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------|----------|---------------|---------------|
| December 31, 2018 | | | | | |
| Financial liabilities not measured at fair value | | | | | |
| - Policy Holders | 29,673 | - | - | 29,673 | 29,673 |
| | 29,673 | - | - | 29,673 | 29,673 |

| | | Fair value | | | |
|--|----------------|------------|---------|---------|--------|
| SAR'000s | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| December 31, 2017 | | | | | |
| Financial liabilities not measured at fair value | | | | | |
| - Policy Holders | 36,838 | - | - | 36,838 | 36,838 |
| | 36,838 | - | - | 36,838 | 36,838 |

i. Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values at December 31, 2018 and December 31, 2017, as well as the significant unobservable inputs used.

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|--|---|---|--|
| Available for sale equity securities (unquoted)/ Investments held as FVSI (unquoted) | <i>Market comparison technique:</i> The valuation model is based on market multiples derived from quoted prices of companies comparable to investee and the expected EBITDA of the investee. This estimate is adjusted for the effect of non-marketability of the equity securities. | <ul style="list-style-type: none"> • Forecast annual revenue growth rate • Forecast EBITDA margin • Adjusted market multiple | <p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • The annual revenue growth rate were higher (lower); • The EBITDA margin were higher (lower); or • The adjusted market multiple were lower (higher). <p>Generally, a change in the annual revenue growth is accompanied by a directionally similar change in EBITDA margin.</p> |
| Corporate debt securities / Held to maturity investments | <i>Market comparison technique:</i> The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. | Not applicable. | Not applicable. |

18. Segmental Information

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

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

Segment results do not include general and administrative expenses, provision for doubtful debts and other income.

Segment assets do not include cash and cash equivalents, investments, prepayments and other receivables, and property and equipment, net.

Segment liabilities do not include reinsurance payables, accrued expenses and other liabilities, due to shareholders' operations and employees' terminal benefits.

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These unallocated assets and liabilities are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

The segment information provided to the Company's Board of Directors for the reportable segments for the Company's total assets and liabilities at December 31, 2018 and December 31, 2017, its total revenues, expenses, and net income for the year then ended, are as follows:

| As at December 31, 2018 | | | | | | | |
|---|----------------------|----------------|------------------|---------------|------------------------------|-------------------------|----------------|
| Operating segments | Insurance operations | | | | Total - Insurance operations | Shareholders operations | Total |
| | Medical | Motor | General Accident | Others | SAR'000 | | |
| Assets | | | | | | | |
| Cash and cash equivalents | - | - | - | - | 83,409 | 10,086 | 93,495 |
| Term Deposits | - | - | - | - | 138,256 | 48,983 | 187,239 |
| Premiums and reinsurers' receivable - net | - | - | - | - | 93,978 | - | 93,978 |
| Reinsurers' share of unearned premiums | 9,074 | 29 | 2,701 | 10,934 | 22,738 | - | 22,738 |
| Reinsurers' share of outstanding claims | 4,120 | 2,869 | 3,027 | 527 | 10,543 | - | 10,543 |
| Reinsurers' share of claims Incurred but not reported | 3,492 | - | 1,054 | 1,458 | 6,004 | - | 6,004 |
| Deferred policy acquisition costs | 4,824 | 5,874 | 964 | 388 | 12,050 | - | 12,050 |
| Unallocated assets | - | - | - | - | 40,447 | 85,722 | 126,169 |
| Total assets | 21,510 | 8,772 | 7,746 | 13,307 | 407,425 | 144,791 | 552,216 |
| Liabilities | | | | | | | |
| Policyholders claims payable | - | - | - | - | 8,741 | - | 8,741 |
| Reinsurers' balances payable | - | - | - | - | 11,505 | - | 11,505 |
| Unearned reinsurance commission | - | 6 | 356 | 904 | 1,266 | - | 1,266 |
| Unearned premiums | 61,257 | 164,538 | 14,742 | 11,470 | 252,007 | - | 252,007 |
| Other technical reserves | 2,188 | 1,371 | 201 | 56 | 3,816 | - | 3,816 |
| Outstanding claims | 18,504 | 17,523 | 5,690 | 702 | 42,419 | - | 42,419 |
| Claims incurred but not reported | 15,075 | 36,798 | 2,323 | 1,573 | 55,769 | - | 55,769 |
| Unallocated liabilities and equity | - | - | - | - | 31,902 | 144,791 | 176,693 |
| Total liabilities | 97,024 | 220,236 | 23,312 | 14,705 | 407,425 | 144,791 | 552,216 |

The accompanying notes 1 to 28 form an integral part of these financial statements.

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| As at December 31, 2017 | | | | | | |
|---|----------------------|----------------|------------------|---------------|------------------------------|----------------|
| Operating segments | Insurance operations | | | | Shareholders operations | Total |
| | Medical | Motor | General Accident | Others | Total - Insurance operations | |
| | SAR'000 | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | - | - | - | - | 44,283 | 77,598 |
| Term Deposits | - | - | - | - | 147,249 | 185,000 |
| Premiums and reinsurers' receivable - net | 31,670 | 30,240 | 315 | 24,700 | 86,925 | 86,925 |
| Reinsurers' share of unearned premiums | 11,954 | 20 | 3,065 | 14,437 | 29,476 | 29,476 |
| Reinsurers' share of outstanding claims | 3,816 | 4,228 | 1,632 | 5,898 | 15,574 | 15,574 |
| Reinsurers' share of claims Incurred but not reported | 2,812 | - | 1,574 | 2,213 | 6,599 | 6,599 |
| Deferred policy acquisition costs | 3,964 | 9,884 | 1,217 | 271 | 15,336 | 15,336 |
| Unallocated assets | - | - | - | - | 42,887 | 113,289 |
| Total assets | 54,216 | 44,372 | 7,803 | 47,519 | 388,329 | 529,797 |
| Liabilities | | | | | | |
| Policyholders claims payable | - | - | - | - | 2,517 | 2,517 |
| Reinsurers' balances payable | - | - | - | - | 23,731 | 23,731 |
| Unearned reinsurance commission | - | 4 | 343 | 473 | 820 | 820 |
| Unearned premiums | 51,478 | 153,618 | 19,786 | 14,872 | 239,754 | 239,754 |
| Other technical reserves | - | - | - | 60 | 60 | 60 |
| Outstanding claims | 11,420 | 16,352 | 3,591 | 6,062 | 37,425 | 37,425 |
| Claims incurred but not reported | 8,331 | 37,146 | 2,852 | 2,354 | 50,683 | 50,683 |
| Unallocated liabilities and equity | - | - | - | - | 33,339 | 174,807 |
| Total liabilities | 71,229 | 207,120 | 26,572 | 23,821 | 388,329 | 529,797 |

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FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

For the year ended December 31, 2018

| Operating segments | Medical | Motor | General Accident | Others | Total |
|--|----------------|----------------|---------------------|--------------|-----------------|
| REVENUES | | | | | |
| Gross premiums written | | | | | |
| - Direct | 152,751 | 323,683 | 9,360 | 14,219 | 500,013 |
| Less: Reinsurance premiums ceded | | | | | |
| -Local | (3,012) | - | (94) | (1,209) | (4,315) |
| - Foreign | (19,615) | (84) | (4,018) | (11,410) | (35,127) |
| Excess of loss premiums | - | (3,272) | (935) | (352) | (4,559) |
| Net written premiums | 130,124 | 320,327 | 4,313 | 1,248 | 456,012 |
| Changes in net unearned premiums | (12,660) | (10,912) | 4,680 | (99) | (18,991) |
| Net premiums earned | 117,464 | 309,415 | 8,993 | 1,149 | 437,021 |
| Other Underwriting Income | 4,708 | 6,401 | - | - | 11,109 |
| Reinsurance Commission earned | - | 15 | 607 | 1,553 | 2,175 |
| TOTAL REVENUES | 122,172 | 315,831 | 9,600 | 2,702 | 450,305 |
| UNDERWRITING COSTS AND EXPENSES | | | | | |
| Gross claims paid and loss adjustment expenses | 120,571 | 225,217 | 573 | 611 | 346,972 |
| Less: Reinsurers' share of claims paid | (32,889) | (3,804) | (30) | (488) | (37,211) |
| Net claims paid | 87,682 | 221,413 | 543 | 123 | 309,761 |
| Changes in outstanding claims, net | 6,781 | 138 | 704 | 11 | 7,634 |
| Changes in IBNR, net | 6,064 | (348) | (10) | (26) | 5,680 |
| Change in loss adjustment expenses | 168 | 1,371 | 201 | 56 | 1,796 |
| Net claims incurred | 100,695 | 222,574 | 1,438 | 164 | 324,871 |
| Change in PDR | 2,020 | - | - | - | 2,020 |
| Other technical reserves | - | - | - | (60) | (60) |
| Policy acquisition costs | 11,404 | 16,592 | 878 | 747 | 29,621 |
| Other underwriting expenses | 1,150 | 1,718 | - | - | 2,868 |
| TOTAL UNDERWRITING COSTS AND EXPENSES | 115,269 | 240,884 | 2,316 | 851 | 359,320 |
| NET UNDERWRITING (LOSS)/ INCOME | 6,903 | 74,947 | 7,284 | 1,851 | 90,985 |
| OTHER OPERATING (EXPENSES)/ INCOME | | | | | |
| General and administrative expenses | | | | | (81,254) |
| Realized gain on available for sale investments | | | | | 2,137 |
| Allowance for doubtful debts | | | | | (7,498) |
| Investment income | | | | | 5,015 |
| Impairment on available for sale investments | | | | | (6,189) |
| Other income | | | | | 11 |
| TOTAL OTHER OPERATING (EXPENSES)/ INCOME | | | | | (87,778) |
| NET SURPLUS | | | | | 3,207 |
| Shareholders' absorption of deficit/ (Surplus transferred to Shareholders) | | | | | (2,358) |
| NET RESULT AFTER SHAREHOLDERS' ABSORPTION OF DEFICIT/ TRANSFER OF SURPLUS TO SHAREHOLDERS | | | | | 849 |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

For the year ended December 31, 2017

| Operating segments | Medical | Motor | General Accident | Others | Total |
|--|----------------|----------------|---------------------|--------------|-----------------|
| REVENUES | | | | | |
| Gross premiums written | | | | | |
| - Direct | 115,155 | 271,305 | 21,119 | 22,393 | 429,972 |
| Less: Reinsurance premiums ceded | | | | | |
| -Local | (3,635) | - | (55) | (1,122) | (4,812) |
| - Foreign | (24,151) | (106) | (8,951) | (20,407) | (53,615) |
| Excess of loss premiums | - | (4,450) | (798) | (380) | (5,628) |
| Net written premiums | 87,369 | 266,749 | 11,315 | 484 | 365,917 |
| Changes in net unearned premiums | 26,508 | (37,459) | (1,968) | (183) | (13,102) |
| Net premiums earned | 113,877 | 229,290 | 9,347 | 301 | 352,815 |
| Other Underwriting Income | 4,009 | 9,971 | - | - | 13,980 |
| Reinsurance Commission earned | - | 18 | 1,165 | 2,181 | 3,364 |
| TOTAL REVENUES | 117,886 | 239,279 | 10,512 | 2,482 | 370,159 |
| UNDERWRITING COSTS AND EXPENSES | | | | | |
| Gross claims paid and loss adjustment expenses | 94,657 | 201,948 | 2,135 | 696 | 299,436 |
| Less: Reinsurers' share of claims paid | (29,563) | (729) | (1,317) | (678) | (32,287) |
| Net claims paid | 65,094 | 201,219 | 818 | 18 | 267,149 |
| Changes in outstanding claims, net | (724) | 10,592 | 58 | 119 | 10,045 |
| Changes in IBNR, net | (817) | (29,529) | 183 | (143) | (30,306) |
| Net claims incurred | 63,553 | 182,282 | 1,059 | (6) | 246,888 |
| Changes in PDR | - | - | - | - | - |
| Other technical reserves | - | (115) | - | (73) | (188) |
| Policy acquisition costs | 11,335 | 18,292 | 1,009 | 554 | 31,190 |
| Other underwriting expenses | 655 | 1,112 | - | - | 1,767 |
| TOTAL UNDERWRITING COSTS AND EXPENSES | 75,543 | 201,571 | 2,068 | 475 | 279,657 |
| NET UNDERWRITING (LOSS)/ INCOME | 42,343 | 37,708 | 8,444 | 2,007 | 90,502 |
| OTHER OPERATING (EXPENSES)/ INCOME | | | | | |
| General and administrative expenses | | | | | (78,136) |
| Realized gain on available for sale investments | | | | | 3,872 |
| Allowance for doubtful debts | | | | | 408 |
| Investment income | | | | | 2,882 |
| Impairment on available for sale investments | | | | | - |
| Other income | | | | | 312 |
| TOTAL OTHER OPERATING (EXPENSES)/ INCOME | | | | | (70,662) |
| NET (DEFICIT)/ SURPLUS | | | | | 19,840 |
| Shareholders' absorption of deficit/ (Surplus transferred to Shareholders) | | | | | 18,117 |
| NET RESULT AFTER SHAREHOLDERS' ABSORPTION OF DEFICIT/ TRANSFER OF SURPLUS TO SHAREHOLDERS | | | | | 1,723 |

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FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)
19. Related party transactions and balances

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors. The following are the details of the major related party transactions during the period and the related balances:

| <i>Related party</i> | <i>Nature of transaction</i> | <i>Transactions for the year ended</i> | | <i>Closing balance Receivable / (Payable)</i> | |
|------------------------------------|------------------------------|--|-------------------------------------|---|-------------------------------------|
| | | December 31, 2018 SR'000 | December 31, 2017 SR'000 | December 31, 2018 SR'000 | December 31, 2017 SR'000 |
| Abiat (Affiliate) | Premiums written | 58 | - | 75 | 61 |
| | Claims paid | 106 | - | (13) | - |
| Fuji Saudi Arabia (Affiliate) | Premiums written | 928 | - | 1,275 | 652 |
| | Claims paid | 713 | - | (180) | - |
| GEEC (Affiliate) | Premiums written | 372 | 178 | 575 | 417 |
| | Claims paid | 232 | 12 | (50) | - |
| Mayar Holding (Affiliate) | Premiums written | 229 | - | 200 | 48 |
| | Claims paid | 84 | - | (11) | - |
| Taya Feed Mill Factory (Affiliate) | Premiums written | 262 | - | 258 | 121 |
| | Claims paid | 85 | - | (4) | - |
| Taya Real Estate (Affiliate) | Premiums written | 214 | 45 | 99 | 132 |
| | Claims paid | 26 | 16 | (3) | - |
| Taya Holding (Affiliate) | Premiums written | 220 | - | 300 | 184 |
| | Claims paid | 307 | - | (13) | - |
| GCP Co. (Affiliate) | Premiums written | 113 | - | 122 | 91 |
| | Claims paid | 135 | - | (12) | - |

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018--(continued)

| | | | | | |
|--|------------------|-----|----|-------|-------|
| Al Huda Charity Trust (Affiliate) | Premiums written | 50 | - | 35 | - |
| | Claims paid | 27 | - | (1) | - |
| Saudi Wings Co. (Affiliate) | Premiums written | 17 | - | 12 | 16 |
| | Claims paid | 8 | - | - | - |
| Taya Agriculture Co. (Affiliate) | Premiums written | 406 | - | 300 | 258 |
| | Claims paid | 161 | - | (22) | - |
| Bakri and sons Holding Co. (Affiliate) | Premiums written | - | 2 | - | 2 |
| | Claims paid | - | 15 | (200) | (200) |
| Saudi Drip Irrigation system Co. (Affiliate) | Premiums written | 300 | 32 | 28 | 4 |
| | Claims paid | 174 | 7 | (13) | - |
| Red Sea Marine Services Co. (Affiliate) | Premiums written | 24 | - | 26 | - |
| | Claims paid | - | - | - | - |
| Solaiman A.El Khereiji consultant (SAK) (Affiliate) | Premiums written | 49 | - | - | - |
| | Claims paid | 7 | - | - | - |
| M/s Arabian Gulf Co. For Maintenance & Contracting (Affiliate) | Premiums written | 68 | 62 | 65 | - |
| | Claims paid | 46 | - | - | - |
| Abdullah Al Rayes EST (Affiliate) | Premiums Written | 4 | 18 | 4 | - |
| | Claims paid | 1 | - | (8) | - |
| M/s Al Bihar International Company Limited (Affiliate) | Premiums written | 24 | 24 | - | - |
| | Claims paid | - | - | - | - |

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018--(continued)

| | | | | | |
|--|---|--------------|------------|--------------|--------------|
| M/s Edama Co Medical | Premiums written | <u>26</u> | <u>-</u> | <u>19</u> | <u>-</u> |
| | Claims paid | <u>8</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| M/s Nama Real Estate | Premiums written | <u>29</u> | <u>-</u> | <u>21</u> | <u>-</u> |
| | Claims paid | <u>10</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| M/s Valie Real Estate | Premiums written | <u>18</u> | <u>-</u> | <u>13</u> | <u>-</u> |
| | Claims paid | <u>5</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Dr Yousef Basodan | Premiums written | <u>5</u> | <u>2</u> | <u>-</u> | <u>-</u> |
| | Claims paid | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Engr. Thamer bin Abdallah bin Rayes | Premiums written | <u>3</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | Claims paid | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Dr. Abdullatif Al-Sheikh | Premiums written | <u>1</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | Claims paid | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Mr. Hesham Mohammed Abdullah Al Shareef and family | Premiums written | <u>41</u> | <u>31</u> | <u>-</u> | <u>-</u> |
| | Claims paid | <u>-</u> | <u>-</u> | <u>(5)</u> | <u>-</u> |
| ACIG Bahrain (Shareholder) | Claims paid on behalf of ACIG Bahrain | <u>(144)</u> | <u>590</u> | <u>2,391</u> | <u>2,247</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

Remuneration and compensation of BOD Members and Top Executives *(Disclose number of top executives)*

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

| 2018 | BOD members (Non-Executive) SAR'000 | Top Executives including the CEO and CFO |
|----------------------------|--|---|
| Salaries and compensation | - | 5,051 |
| Allowances | 181 | - |
| Annual remuneration | 1,070 | 120 |
| End of service indemnities | - | 410 |
| Total | 1,251 | 5,581 |

| 2017 | BOD members (Non- Executive) SAR '000 | Top Executives including the CEO and CFO |
|----------------------------|--|---|
| Salaries and compensation | - | 5,041 |
| Allowances | 273 | - |
| Motivational plans | - | - |
| Annual remuneration | 1,118 | 144 |
| End of service indemnities | - | 408 |
| Total | 1,391 | 5,593 |

20. Zakat and income tax

Zakat

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

| | 2018 | 2017 |
|---|----------------|---------------|
| | SAR'000 | |
| Equity | 200,000 | 200,000 |
| Opening provisions and other adjustments | 14,093 | 12,280 |
| Net book value of long term assets | (10,009) | (67,815) |
| Accumulated losses | (57,827) | (73,796) |
| Statutory deposit | (20,000) | |
| Unrealised loss on available for sale investments | (57,734) | (3,186) |
| | 68,523 | 67,483 |
| Adjusted income for the year | 11,847 | 18,117 |
| Zakat base at 2.5% | 80,370 | 85,600 |

| | 2018 | 2017 |
|--------------------------|----------------|--------------|
| | SAR'000 | |
| Balance, January 1 | 2,103 | 1,493 |
| Provided during the year | 5,764 | 2,140 |
| Payments during the year | (2,781) | (1,530) |
| Balance, December 31 | 5,086 | 2,103 |

The differences between the financial and the zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

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Zakat base has been computed based on the Company's understanding of the Zakat regulations enforced in the Kingdom of Saudi Arabia. The Zakat regulations in Saudi Arabia are subject to different interpretations, and the assessments to be raised by the GAZT could be different from the declarations filed by the Company.

Income tax:

Foreign shareholder, being Islamic Development Bank (IDB) is exempted from income tax.

| | 2018 | 2017 |
|--------------------------|---------|------|
| | SAR'000 | |
| Balance, January 1 | 25 | 17 |
| Provided during the year | - | 8 |
| Payments during the year | - | - |
| Balance, December 31 | 25 | 25 |

Status of assessments

Zakat and income tax returns have been filed with the General Authority of Zakat and Tax ("GAZT") for the years ended up to 31 December 2017. Final certificate has been received from GAZT for the year ended 31 December 2008. However, GAZT has raised an additional assessment in respect of the returns filed for the years ended 31 December 2008, 2009 and 2010 amounting to SR 1.86 million which has been paid. The major difference of additional assessment relates to disallowance of a portion of pre incorporation expenses and withholding tax. The Company has filed an objection against this additional assessment with the preliminary tax objection Committee subsequent to the year end, as adverse decision was received from the preliminary Tax Objection Committee, upon which the Company filed appeal with the Higher Objection Committee. The high appeal committee issued its decision in favour of the Company with respect to Zakat and rejected the appeal related to withholding tax. The Company has referred the matter to the board of grievance. In this regard, the Company has issued a letter of guarantee amounting to SAR 1.83 million in favour of GAZT (see contingency and commitment notes). And they have paid the amount of tax SAR 1,274,012. The company has raised an objection for unfavourable assessment raised by GAZT for the years 31 December 2013 till 2015 with the amount of SAR 4,981,048. The objection is currently under study by GAZT.

21. Share capital

The authorized, issued and paid up capital of the Company was SAR 200 Million at December 31, 2018 (December 31, 2017: SAR 200 Million) consisting of 20 Million shares (December 31, 2017: 20 Million shares) of SAR 10 each.

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

| | December 31, 2018 | | |
|-----------------------|-----------------------|---------|---------|
| | Authorized and issued | Paid up | |
| | No. of Shares | SAR'000 | |
| Founding Shareholders | 800 | 80,000 | 80,000 |
| General Public | 1,200 | 120,000 | 120,000 |
| | 2,000 | 200,000 | 200,000 |

| | December 31, 2017 | | |
|-----------------------|-----------------------|---------|---------|
| | Authorized and issued | Paid up | |
| | No. of Shares | SAR'000 | |
| Founding Shareholders | 800 | 80,000 | 80,000 |
| General Public | 1,200 | 120,000 | 120,000 |
| | 2,000 | 200,000 | 200,000 |

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22. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share for the year have been calculated by dividing the net income for the year by the weighted average number of issued and outstanding shares for the year.

23. CAPITAL MANAGEMENT

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

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

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

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

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

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at December 31, 2018 consists of paid-up share capital of SAR 200 million and accumulated losses of SAR 61.23 million (December 31, 2017: paid-up share capital of SAR 200 million and accumulated losses of SAR 57.827 million.) in the statement of financial position.

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

24. General and administrative expenses

| | 2018 | 2017 |
|----------------------------------|---------------|---------------|
| | SAR'000 | |
| Employee costs | 49,340 | 46,980 |
| Legal and professional fees | 1,310 | 1,647 |
| Office rent | 4,939 | 4,372 |
| Depreciation and amortization | 2,574 | 2,729 |
| Office expenses | 2,721 | 1,996 |
| Marketing | 9,043 | 7,284 |
| Traveling | 2,104 | 1,992 |
| Other | 7,119 | 9,247 |
| Audit Expense | 343 | 308 |
| Share transfer – Tadawul expense | 258 | 246 |
| Directors remuneration | 1,460 | 1,260 |
| General Assembly Expense | 43 | 75 |
| | <u>81,254</u> | <u>78,136</u> |

25. Risk management

(a) Insurance

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

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 36% of total reinsurance assets at the reporting date.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 15% of shareholders' equity on a gross basis and 3% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 5% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

Concentration of insurance risk

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

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

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

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FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)

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. Claims are payable to Policyholders and third parties depending upon the terms of the contract as contained in policy terms and conditions. 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.

Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. For details please refer note 2(e).

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.

Sensitivity analysis

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

A hypothetical 2% change in the claim ratio, net of reinsurance, would impact net underwriting income/ (loss) as follows;

| | Income from insurance operations | |
|--|---|---------------|
| | 2018 | 2017 |
| | SAR'000 | |
| Impact of change in claim ratio by - 2% | | |
| Medical | 8,916 | 44,574 |
| Motor | 80,856 | 42,289 |
| General Accident | 7,507 | 8,649 |
| Others | 1,989 | 2,018 |
| | 99,268 | 97,530 |
| | Income from insurance operations | |
| | 2018 | 2017 |
| | SAR'000 | |
| Impact of change in claim ratio by + 2% | | |
| Medical | 4,980 | 40,112 |
| Motor | 68,836 | 33,127 |
| General Accident | 7,061 | 8,239 |
| Others | 1,713 | 1,996 |
| | 82,590 | 83,474 |

(a) Reinsurance risk

In order to limit the financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsuring its exposures.

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

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

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

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

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

(b) Market Risk

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

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Board Investment Committee and Risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders and shareholders which are in line with their expectations.
- The Company stipulates diversification benchmarks by type of instrument and geographical area, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.
- There is strict control over hedging activities (e.g., equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

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

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

Currency Risk

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

The currency exposures of available-for-sale investments are set out below and all are in Saudi Arabian Riyals and GCC currencies:

Shareholders Operations

| | 2018 | 2017 |
|---------------------|---------------|---------------|
| | SAR'000 | |
| Sukuk | 25,000 | 25,000 |
| Listed Equity | 20,712 | 16,800 |
| REIT | 10,099 | - |
| Unlisted securities | 1,923 | 1,923 |
| | 57,734 | 43,723 |

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

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Commission Rate Risk

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

An increase or decrease of 50 basis points in interest yields would result in a change in the income for the year of SAR 9.36 million (2017: SAR 9.25 million).

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

| | Less than 1 year | More than 1 year | Non-commission bearing | Total |
|--------------------------------|------------------|------------------|------------------------|----------------|
| Insurance Operations | | | SAR'000 | |
| 2018 | 138,256 | - | - | 138,256 |
| 2017 | 147,249 | - | - | 147,249 |
| Shareholders Operations | | | | |
| 2018 | 48,983 | 25,000 | - | 73,983 |
| 2017 | 37,751 | 25,000 | - | 62,751 |

Other Price Risk

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

The Company's investments amounting to SAR 30.8 million (2017: SAR 16.8 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

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

| | Fair value change | Effect on Company's profit SAR'000 |
|--------------------------|-------------------|---------------------------------------|
| December 31, 2018 | + / - 10% | +/- 3.080 |
| December 31, 2017 | + / - 10% | +/- 1.680 |

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

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(c) Credit Risk

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

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

| | 2018 | 2017 |
|--|---------|---------|
| | SAR'000 | |
| ASSETS - INSURANCE OPERATIONS | | |
| Cash and cash equivalents | 83,409 | 44,283 |
| Available-for-sale investments | - | - |
| Premium receivables, net | 88,087 | 81,333 |
| Reinsurance receivables, net | 5,891 | 5,592 |
| Reinsurers' share of outstanding claims | 16,547 | 22,173 |
| Prepayments and other receivables | 28,047 | 33,230 |
| Total | 221,981 | 186,611 |
| | 2018 | 2017 |
| | SAR'000 | |
| ASSETS - SHAREHOLDERS' OPERATIONS | | |
| Cash and cash equivalents | 10,086 | 33,315 |
| Available-for-sale investments | 57,734 | 43,723 |
| Total | 67,820 | 77,038 |

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Approximately 100% (2017: approximately 100%) of the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Credit risk exposure

| | 2018 SAR' 000 | 2017 SAR' 000 | 2018 SAR' 000 | 2017 SAR' 000 | 2018 SAR' 000 | 2017 SAR' 000 |
|--|---------------------|------------------|----------------------|------------------|------------------|------------------|
| | Investment grade | | Non-investment grade | | Unrated | |
| Investments: | | | | | | |
| - Available for sale | | | | | | |
| Debt instruments | - | - | 25,000 | 25,000 | - | - |
| Equities | 20,712 | 16,800 | - | - | - | - |
| Other | 10,099 | - | - | - | 1,923 | 1,923 |
| Premium and reinsurance balances receivable | | | | | | |
| Policyholders' | - | - | - | - | 88,087 | 81,333 |
| Due from a related party | - | - | - | - | 2,391 | 2,247 |
| Reinsurance receivables | - | - | - | - | 5,891 | 5,592 |
| Total | 30,811 | 16,800 | 25,000 | 25,000 | 98,292 | 91,095 |

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(d) Liquidity Risk

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

- The Company's liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.
- Contingency funding plans are in place, which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.
- The Company's catastrophe excess-of-loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

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

| Maturity Profile | 2018 SAR '000 | | | 2017 SAR '000 | | |
|--------------------------------------|-------------------------------|---------------------------------------|--------------|-------------------------------|---------------------------------------|--------------|
| | Less than one year | More than one year | Total | Less than one year | More than one year | Total |
| <u>ASSETS</u> | | | | | | |
| <u>INSURANCE OPERATIONS</u> | | | | | | |
| Short term deposit | 138,256 | - | 138,256 | 147,249 | - | 147,249 |
| <u>SHAREHOLDER OPERATIONS</u> | | | | | | |
| Short term deposit | 48,983 | - | 48,983 | 37,751 | - | 37,751 |
| SUKUK | - | 25,000 | 25,000 | - | 25,000 | 25,000 |
| Total | 187,239 | 25,000 | 212,239 | 185,000 | 25,000 | 210,000 |
| <u>LIABILITIES</u> | | | | | | |
| <u>INSURANCE OPERATIONS</u> | | | | | | |
| Reinsurance payables | 11,505 | - | 11,505 | 23,731 | - | 23,731 |
| Accounts payable | 17,038 | - | 17,038 | 13,107 | - | 13,107 |
| Outstanding claims | 98,188 | - | 98,188 | 88,108 | - | 88,108 |
| Accrued and other payables | 7,589 | - | 7,589 | 9,854 | - | 9,854 |
| <u>SHAREHOLDER OPERATIONS</u> | | | | | | |
| Accrued and other payables | 5,397 | 1,386 | 6,783 | 2,382 | 1,152 | 3,534 |
| Total | 139,717 | 1,386 | 141,103 | 137,182 | 1,152 | 138,334 |

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

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

- Deposits are expected to be matured within 6 months from the date of placement.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims majorly pertain to property and casualty segment and are generally realized within 6 to 12 months based on settlement of balances with reinsurers.

NOTES TO THE FINANCIAL STATEMENTS

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

- Reinsurers' balances payable are settled on a quarterly basis as per terms of reinsurance agreements.
- As per the Regulation, all insurance claims need to be settled within the time limits specified in this regard. Majority of gross outstanding claims are expected to be settled within the time limits set in this regard subject to meeting all the documentation requirements. Property and casualty policies due to the inherent nature are generally settled within 45 days from the date of receipt of loss adjustor report
- The claims payable, accrued expenses and other liabilities are expected to settle within a period of 1-3 months from the period end date.
- Surplus distribution payable is to be settled within 6 months of annual general meeting in which financial statements are approved.

(e) Operational Risk

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

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

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

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

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26. Supplementary information
Statement of financial position

| | SAR '000 | | | | | |
|---|----------------------|---------------------------|----------------|----------------------|---------------------------|----------------|
| | December 31, 2018 | | | December 31, 2017 | | |
| | Insurance operations | Share-holders' operations | Total | Insurance operations | Share-holders' operations | Total |
| ASSETS | | | | | | |
| Cash and cash equivalents | 83,409 | 10,086 | 93,495 | 44,283 | 33,315 | 77,598 |
| Term deposits | 138,256 | 48,983 | 187,239 | 147,249 | 37,751 | 185,000 |
| Premiums and reinsurers' receivable – net | 93,978 | - | 93,978 | 86,925 | - | 86,925 |
| Reinsurers' share of unearned premium | 22,738 | - | 22,738 | 29,476 | - | 29,476 |
| Reinsurers' share of outstanding claims | 10,543 | - | 10,543 | 15,574 | - | 15,574 |
| Reinsurers' share of claims incurred but not reported | 6,004 | - | 6,004 | 6,599 | - | 6,599 |
| Deferred policy acquisition cost | 12,050 | - | 12,050 | 15,336 | - | 15,336 |
| Due from a related party | 2,391 | - | 2,391 | 2,247 | - | 2,247 |
| Prepaid expenses and other receivables | 28,047 | 6,602 | 34,649 | 33,230 | 5,527 | 38,757 |
| Property and equipment, net | 10,009 | - | 10,009 | 7,410 | - | 7,410 |
| Available for sale Investments | - | 57,734 | 57,734 | - | 43,723 | 43,723 |
| Accrued income on statutory deposit | - | 1,386 | 1,386 | - | 1,152 | 1,152 |
| Statutory deposit | - | 20,000 | 20,000 | - | 20,000 | 20,000 |
| TOTAL ASSETS | 407,425 | 144,791 | 552,216 | 388,329 | 141,468 | 529,797 |
| | December 31, 2018 | | | December 31, 2017 | | |
| | Insurance operations | Shareholders' operations | Total | Insurance operations | Shareholders' operations | Total |
| LIABILITIES | | | | | | |
| Policyholders claims payable | 8,741 | - | 8,741 | 2,517 | - | 2,517 |
| Accrued and other payables | 17,016 | 286 | 17,302 | 20,444 | 254 | 20,698 |
| Reinsurers' balances payable | 11,505 | - | 11,505 | 23,731 | - | 23,731 |
| Unearned reinsurance commission income | 1,266 | - | 1,266 | 820 | - | 820 |
| Unearned premiums | 252,007 | - | 252,007 | 239,754 | - | 239,754 |
| Other technical reserves | 3,816 | - | 3,816 | 60 | - | 60 |
| Outstanding claims | 42,419 | - | 42,419 | 37,425 | - | 37,425 |
| Claims incurred but not reported | 55,769 | - | 55,769 | 50,683 | - | 50,683 |
| Employees' terminal benefits | 9,789 | - | 9,789 | 8,287 | - | 8,287 |
| Surplus distribution payable | 5,457 | - | 5,457 | 4,608 | - | 4,608 |
| Zakat and income tax | - | 5,111 | 5,111 | - | 2,128 | 2,128 |
| Accrued commission on statutory deposit payable to SAMA | - | 1,386 | 1,386 | - | 1,152 | 1,152 |
| TOTAL LIABILITIES | 407,785 | 6,783 | 414,568 | 388,329 | 3,534 | 391,863 |
| SHAREHOLDER'S EQUITY | | | | | | |
| Share capital | - | 200,000 | 200,000 | - | 200,000 | 200,000 |
| Accumulated losses | - | (61,233) | (61,233) | - | (57,827) | (57,827) |
| Fair value reserve on investments | - | (759) | (759) | - | (4,239) | (4,239) |
| Actuarial reserve for end of service benefits | - | (360) | (360) | - | - | - |
| TOTAL SHAREHOLDERS' EQUITY | - | 137,648 | 137,648 | - | 137,934 | 137,934 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 407,785 | 144,431 | 552,216 | 388,329 | 141,468 | 529,797 |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018--(continued)
Statement of income

| | SAR '000 | | | | | |
|---|----------------------|--------------------------|----------|----------------------|--------------------------|----------|
| | 2018 | | | 2017 | | |
| | Insurance operations | Shareholders' operations | Total | Insurance operations | Shareholders' operations | Total |
| REVENUES | | | | | | |
| Gross premiums written | 500,013 | - | 500,013 | 429,972 | - | 429,972 |
| Less: Reinsurance premiums ceded | | | | | | |
| -Local | (4,315) | - | (4,315) | (4,812) | - | (4,812) |
| -Foreign | (35,127) | - | (35,127) | (53,615) | - | (53,615) |
| Excess of loss expenses | (4,559) | - | (4,559) | (5,628) | - | (5,628) |
| Net written premiums | 456,012 | - | 456,012 | 365,917 | - | 365,917 |
| Changes in unearned premiums, net | (18,991) | - | (18,991) | (13,102) | - | (13,102) |
| Net premiums earned | 437,021 | - | 437,021 | 352,815 | - | 352,815 |
| Other underwriting income | 11,109 | - | 11,109 | 13,980 | - | 13,980 |
| Reinsurance commission earned | 2,175 | - | 2,175 | 3,364 | - | 3,364 |
| TOTAL REVENUES | 450,305 | - | 450,305 | 370,159 | - | 370,159 |
| UNDERWRITING COSTS AND EXPENSES | | | | | | |
| Gross claims paid | 346,972 | - | 346,972 | 299,436 | - | 299,436 |
| Less: Reinsurers' share of claims paid | (37,211) | - | (37,211) | (32,287) | - | (32,287) |
| Net claims and other benefits paid | 309,761 | - | 309,761 | 267,149 | - | 267,149 |
| Changes in outstanding claims, net | 7,634 | - | 7,634 | 10,045 | - | 10,045 |
| Changes in IBNR, net | 5,680 | - | 5,680 | (30,306) | - | (30,306) |
| Changes in loss adjustment expenses | 1,796 | - | 1,796 | - | - | - |
| Net claims and other benefits incurred | 324,871 | - | 324,871 | 246,888 | - | 246,888 |
| Changes in PDR | 2,020 | - | 2,020 | - | - | - |
| Other technical reserves | (60) | - | (60) | (188) | - | (188) |
| Policy acquisition costs | 29,621 | - | 29,621 | 31,190 | - | 31,190 |
| Other underwriting expenses | 2,868 | - | 2,868 | 1,767 | - | 1,767 |
| TOTAL UNDERWRITING COSTS AND EXPENSES | 359,320 | - | 359,320 | 279,657 | - | 279,657 |
| NET UNDERWRITING (LOSS)/ INCOME | 90,985 | - | 90,985 | 90,502 | - | 90,502 |
| General and administrative expenses | (79,150) | (2,104) | (81,254) | (76,247) | (1,889) | (78,136) |
| Realized gain on available for sale investments | | 2,137 | 2,137 | | 3,872 | 3,872 |
| Allowance for doubtful debts | (7,499) | | (7,499) | 408 | | 408 |
| Investment income | 4,146 | 870 | 5,016 | 2,258 | 624 | 2,882 |
| Impairment on available for sale investments | | (6,189) | (6,189) | | - | - |
| Other income | 11 | - | 11 | 312 | - | 312 |
| TOTAL OTHER OPERATING (EXPENSES)/ INCOME | (82,492) | (5,286) | (87,778) | (73,269) | 2,607 | (70,662) |
| Total income / (loss) for the year | 8,493 | (5,286) | 3,207 | 17,233 | 2,607 | 19,840 |
| Surplus/ (deficit) transferred to shareholders operations | (7,644) | 7,644 | - | (15,510) | 15,510 | - |
| Net income/ (loss) or the year after transfer of insurance operation surplus / (deficit) to the shareholders | 849 | 2,358 | 3,207 | 1,723 | 18,117 | 19,840 |
| Earnings per share (Expressed in SAR) | | | | | | |
| Basic EPS | - | 0.12 | 0.12 | - | 0.91 | 0.91 |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018—(continued)
Statement of comprehensive income

| | SAR '000 | | | | | |
|--|----------------------|--------------------------|--------------|---------------------|--------------------------|---------------|
| | 2018 | | | 2017 | | |
| | Insurance operations | Shareholders' operations | Total | Insurance operation | Shareholders' operations | Total |
| Net income/ (loss) for the year after transfer of surplus/ (deficit) | 849 | 2,358 | 3,207 | 1,723 | 18,117 | 19,840 |
| Other comprehensive income/(loss) | | | | | | |
| Actuarial gain / (losses) on defined benefit obligation | - | (360) | (360) | - | - | - |
| <i>Items that are or may be reclassified to statement of income in subsequent periods</i> | | | | | | |
| - Impairment on available for sale investments | - | 6,189 | 6,189 | - | - | - |
| - Available for sale investments: | | | | | | |
| - Net change in fair value | - | (2,709) | (2,709) | - | (3,186) | (3,186) |
| <u>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</u> | 849 | 5,478 | 6,327 | 1,723 | 14,931 | 16,654 |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018--(continued)

Statement of cash flows

| | Note | Insurance operations | Shareholders' operations | Total | Insurance operations | Shareholders' operations | Total |
|--|------|-------------------------|-----------------------------|-----------|-------------------------|-----------------------------|-----------|
| | | 2018 | 2018 | | 2017 | 2017 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | |
| Total income / (loss) for the year | | 849 | 2,358 | 3,207 | 1,723 | 18,117 | 19,840 |
| <i>Adjustments for non-cash items:</i> | | | | | | | |
| Depreciation of property and equipment | | 1,867 | - | 1,867 | 2,137 | - | 2,137 |
| Amortization of intangible assets | | 707 | - | 707 | 592 | - | 592 |
| Net realised gain on available for sale investments | | - | (2,137) | (2,137) | - | (3,872) | (3,872) |
| Allowance for/(Reversal of) doubtful debts | | 7,499 | - | 7,499 | (408) | - | (408) |
| Impairment on available for sale investments | | - | 6,189 | 6,189 | - | - | - |
| Provision for end-of-service indemnities | | 1,719 | - | 1,719 | 2,036 | - | 2,036 |
| <i>Changes in operating assets and liabilities:</i> | | | | | | | |
| Premiums and reinsurers' receivable | | (14,552) | - | (14,552) | 7,883 | - | 7,883 |
| Reinsurers' share of unearned premiums | | 6,738 | - | 6,738 | 5,644 | - | 5,644 |
| Reinsurers' share of outstanding claims | | 5,031 | - | 5,031 | (2,935) | - | (2,935) |
| Reinsurers' share of claims Incurred but not reported | | 595 | - | 595 | 23,986 | - | 23,986 |
| Deferred policy acquisition costs | | 3,286 | - | 3,286 | 2,196 | - | 2,196 |
| Due from related party | | (144) | - | (144) | (1,032) | - | (1,032) |
| Prepayments and other receivables | | 5,183 | (1,075) | 4,108 | (4,981) | (789) | (5,770) |
| Policyholders claim payables | | 6,224 | - | 6,224 | (3,502) | - | (3,502) |
| Reinsurers' balances payable | | (12,226) | - | (12,226) | (11,730) | - | (11,730) |
| Unearned commission income | | 446 | - | 446 | 176 | - | 176 |
| Unearned premiums | | 12,253 | - | 12,253 | 7,458 | - | 7,458 |
| Outstanding claims | | 4,994 | - | 4,994 | 12,979 | - | 12,979 |
| Claims incurred but not reported | | 5,086 | - | 5,086 | (54,291) | - | (54,291) |
| Other technical reserves | | 3,756 | - | 3,756 | (188) | - | (188) |
| Accrued and other payables | | (3,428) | 32 | (3,396) | 3,264 | 144 | 3,408 |
| | | 35,883 | 5,367 | 41,250 | (8,993) | 13,600 | 4,607 |
| End-of-service indemnities paid | | (577) | - | (577) | (223) | - | (223) |
| Zakat and income tax paid | | - | (2,781) | (2,781) | - | (1,530) | (1,530) |
| Surplus paid to policy holders | | - | - | - | (1,087) | - | (1,087) |
| Net cash generated from operating activities | | 35,306 | 2,586 | 37,892 | (10,303) | 12,070 | 1,767 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | |
| (Additions) in property and equipment | | (3,769) | - | (3,769) | (1,560) | - | (1,560) |
| (Additions) in intangible assets | | (1,406) | - | (1,406) | (1,105) | - | (1,105) |
| Proceed from sale of property and equipment | | 2 | - | 2 | - | - | - |
| Purchase of available for sale investments | | - | (19,738) | (19,738) | - | (13,635) | (13,635) |
| Proceed from sale of available for sale investment | | - | 5,155 | 5,155 | - | 18,280 | 18,280 |
| Sale of short term deposit | | 147,249 | 37,751 | 185,000 | - | - | - |
| Purchase of investments | | (138,256) | (48,983) | (187,239) | (147,249) | (37,751) | (185,000) |
| Net cash (used in) investing activities | | 3,820 | (25,815) | (21,995) | (149,914) | (33,106) | (183,020) |
| Net change in cash and cash equivalents | | | | 15,897 | (160,217) | (21,036) | (181,253) |
| Cash and cash equivalents, beginning of the year | | 44,283 | 33,315 | 77,598 | 204,500 | 54,351 | 258,851 |
| Cash and cash equivalents, end of the year | | 83,409 | 10,086 | 93,495 | 44,283 | 33,315 | 77,598 |
| NON-CASH INFORMATION | | | | | | | |
| Change in fair value of available for sale investments | | - | (2,709) | (2,709) | - | (3,186) | (3,186) |
| Actuarial loss on defined benefit obligation | | - | (360) | (360) | - | - | - |

27. Comparative figures

Certain prior period figures have been reclassified to conform to current period presentation (if applicable).

28. Approval of the financial statements

The financial statements have been approved by the Board of Directors on 11th Rajab, 1440H, corresponding to March 18, 2019.