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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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(A SAUDI JOINT STOCK COMPANY)

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Independent Auditors' Report
To the Shareholders of Allied Cooperative Insurance Group (ACIG)
(A Saudi Joint Stock Company)

Opinion

We have audited the financial statements of **Allied Cooperative Insurance Group (ACIG)** – (a Saudi Joint Stock Company) – (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 29.

In our opinion, the accompanying financial statements:

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

Basis for Opinion

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

Key Audit Matters

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

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To the Shareholders of Allied Cooperative Insurance Group (ACIG)
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Key Audit Matters (continued)

Valuation of ultimate claim liabilities arising from insurance contracts	
As at 31 December 2017, outstanding claims including claims incurred but not reported (IBNR) amounted to Saudi Riyals 88,108 thousands as reported in Note 14 to the financial statements.	We understood and evaluated 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.
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.	We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their relationship with the entity.
In 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.	In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR by comparing it to accounting records.
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.	In order to challenge management's methodologies and assumptions, we were assisted by our internal actuary 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 internal actuary performed the following:
The Company's policies for claims and related judgments and estimates are disclosed in notes 3 and 4 to the financial statements respectively. Liabilities for outstanding claims including IBNR, claims incurred and claims development table have been disclosed in note 14 to the financial statements. Segment wise disclosure of claim related liabilities and expense have been given in note 24 to the financial statements. The Company's approach to claim related risk management has been disclosed in note 27 to the financial statements.	- Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought sufficient justification for any significant differences. - Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We 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.

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Other Information included in the Company's 2017 Annual Report

The Board of Directors of the Company (the Directors) are responsible for the other information in the Company's annual report. Other information consists of the information included in the Company's 2017 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 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 income tax, the applicable requirements of the Companies Law, the Company's 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Independent Auditors' Report
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Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Companies Law, the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

PKF Al-Bassam & Co.
Allied Accountants

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

المحاسبون المتحالفون
ترخيص رقم
520/11/323
Licence No.
Allied Accountants

Ahmed Tayseer Ibrahim & Co.
Chartered Accountants

Ahmed Tayseer Ibrahim
Certified Public Accountant
Registration No. 213

شركة أحمد تيسير ابراهيم وشركاه
سجل مهني رقم
640/11/323
C.R. No.
Ahmed Tayseer Ibrahim & Co.

11 Rajab 1439H
28 March 2018
Jeddah, Kingdom of Saudi Arabia

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
At 31 DECEMBER 2017

	Note	31 December 2017 SR'000	31 December 2016 SR'000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	5	44,283	204,500
Term deposits	6	147,249	-
Premiums receivable, net	7	81,333	89,661
Reinsurance receivables, net		5,592	4,739
Reinsurers' share of unearned premiums	13	29,476	35,120
Reinsurers' share of outstanding claims	14	22,173	43,224
Deferred policy acquisition cost	9	15,336	17,532
Due from a related party		2,247	1,215
Prepayments and other receivables	10	33,230	28,249
Property and equipment, net	11	7,410	7,474
Total insurance operations' assets		388,329	431,714
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	33,315	54,351
Term deposit	6	37,751	-
Available-for-sale investments	8	43,723	47,682
Prepayments and other receivables	10	5,527	4,738
Accrued commission on statutory deposit		1,152	685
Statutory deposit	17	20,000	20,000
Total shareholders' assets		141,468	127,456
TOTAL ASSETS		529,797	559,170

The accompanying notes 1 to 29 form an integral part of these financial statements.

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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STATEMENT OF FINANCIAL POSITION - (continued)
At 31 DECEMBER 2017

	Note	31 December 2017 SR'000	31 December 2016 SR'000
INSURANCE LIABILITIES AND SURPLUS			
Insurance operations' liabilities			
Reinsurance payables		23,731	35,461
Unearned commission income	12	820	644
Unearned premiums	13	239,754	232,296
Other technical reserve		60	248
Accounts payable	15	13,107	16,609
Outstanding claims	14	88,108	129,420
Accrued and other payables	16	9,854	6,590
Employees' terminal benefits		8,287	6,474
Total insurance operations' liabilities		383,721	427,742
Insurance operations' surplus			
Surplus from insurance operations		4,608	3,972
Total insurance operations' liabilities and surplus		388,329	431,714
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accruals and other payables	16	254	110
Accrued zakat and income tax	18	2,128	1,510
Accrued commission on statutory deposit payable to SAMA		1,152	685
Total shareholders' liabilities		3,534	2,305
Shareholders' equity			
Share capital	19	200,000	200,000
Accumulated losses		(57,827)	(73,796)
Available-for-sale investments reserve	8	(4,239)	(1,053)
Total shareholders' equity		137,934	125,151
Total shareholders' liabilities and equity		141,468	127,456
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		529,797	559,170

The accompanying notes 1 to 29 form an integral part of these financial statements.

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

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017 SR'000	31 December 2016 SR'000
REVENUE			
Gross written premiums		429,972	510,618
Less: Premiums ceded		(58,427)	(72,342)
Excess of loss premiums		(5,628)	(6,484)
Net written premiums		365,917	431,792
Changes in net unearned premiums	13	(13,102)	3,375
Net premiums earned		352,815	435,167
Other underwriting income		13,980	10,494
Reinsurance commission earned	12	3,364	5,026
Net revenues		370,159	450,687
Cost and expenses			
Gross claims paid	14	299,436	353,566
Less: Reinsurers' share	14	(32,287)	(29,417)
Net claims paid		267,149	324,149
Changes in outstanding claims, net		(20,261)	20,566
Net claims incurred	14	246,888	344,715
Change in premium deficiency reserve		-	(6,969)
Change in other technical reserve		(188)	115
Policy acquisition cost	9	31,190	40,017
Other underwriting expense		1,767	1,918
Net cost and expenses		279,657	379,796
Net result of insurance operations		90,502	70,891
General and administrative expenses	22	(72,688)	(58,299)
Supervision and inspection fee		(2,097)	(2,459)
CCHI fee		(1,462)	(1,684)
Release of / (provision for) doubtful debts		408	(3,592)
Investment income		2,258	4,922
Other income		312	1,662
Surplus from insurance operations		17,233	11,441
Shareholders' share of insurance operations surplus		(15,510)	(10,297)
Surplus for the year		1,723	1,144
Surplus distributed during the year		(1,087)	-
Accumulated surplus at the beginning of the year		3,972	2,828
Accumulated surplus at the end of the year		4,608	3,972

The accompanying notes 1 to 29 form an integral part of these financial statements.

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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STATEMENT OF SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017 SR'000	31 December 2016 SR'000
Shareholders' share of insurance operations surplus		15,510	10,297
Realized gain / (loss) on available-for-sale investments		3,872	(1,739)
Dividends		-	385
Commission income		624	586
Total revenues		20,006	9,529
EXPENSES			
General and administrative expenses	22	(1,889)	(1,185)
Net income for the year		18,117	8,344
Weighted average number of ordinary shares outstanding ('000')	19	20,000	20,000
Basic and diluted earnings per share for the year (SR)	20	0.90	0.42

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017 SR '000	31 December 2016 SR '000
Net income for the year		**18,117**	8,344
Other comprehensive income / (expenses):			
Change in fair value of available-for-sale investments	8	**(3,186)**	1,506
Total comprehensive income for the year		**14,931**	9,850

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Accumulated losses	Available-for-sale investments reserve	Total
	SR '000	SR '000		SR '000
Balance as at 31 December 2016	200,000	(73,796)	(1,053)	125,151
Net income for the year	-	18,117	-	18,117
Change in fair value of available-for-sale investments	-	-	(3,186)	(3,186)
Zakat for the current year (note 18)	-	(2,140)	-	(2,140)
Income tax for the current year (note 18)	-	(8)	-	(8)
Balance as at 31 December 2017	**200,000**	**(57,827)**	**(4,239)**	**137,934**
Balance as at 31 December 2015	200,000	(80,482)	(2,559)	116,959
Net income for the year	-	8,344	-	8,344
Change in fair value of available-for-sale investments	-	-	1,506	1,506
Zakat for the current year (note 18)	-	(1,641)	-	(1,641)
Income tax for the current year (note 18)	-	(17)	-	(17)
Balance as at 31 December 2016	200,000	(73,796)	(1,053)	125,151

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 SR '000	31 December 2016 SR '000
Cash flows from operating activities:		
Surplus for the year from insurance operations	1,723	1,144
Adjustment for:		
Depreciation	2,729	2,340
Employees' terminal benefits, net	1,813	1,348
Release of doubtful debts provision	408	-
Provision for doubtful debts	-	3,592
Distribution of surplus to policyholders	(1,087)	-
	5,586	8,424
Changes in operating assets and liabilities:		
Premiums receivable, net	7,920	(10,761)
Reinsurance receivables, net	(853)	(3,403)
Reinsurers' share of unearned premiums	5,644	(700)
Reinsurers' share of outstanding claims	21,051	(32,591)
Deferred policy acquisition cost	2,196	391
Due from related party	(1,032)	(1,215)
Prepayments and other receivables	(4,981)	(2,339)
Reinsurance payables	(11,730)	(2,969)
Unearned commission income	176	(1,299)
Unearned premiums	7,458	(2,675)
Premium deficiency reserve	-	(6,969)
Other technical reserve	(188)	115
Accounts payable	(3,502)	(5,134)
Outstanding claims	(41,312)	53,157
Accrued and other payables	3,264	(783)
Net cash used in operating activities	(10,303)	(8,751)
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,665)	(4,362)
Investment in term deposit	(147,249)	50,000
Net cash (used in) / from investing activities	(149,914)	45,638
NET CHANGE IN CASH AND CASH EQUIVALENTS	(160,217)	36,887
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	204,500	167,613
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	44,283	204,500

STATEMENT OF SHAREHOLDERS OPERATIONS' CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017	31 December 2016
	SR'000	SR'000
OPERATING ACTIVITIES		
Net income for the year	**18,117**	8,344
Adjustment for:		
Realized loss / (gain) on available-for-sale investments	**(3,872)**	1,739
Dividend income	**-**	(385)
	14,245	9,698
Changes in operating assets and liabilities:		
Prepayments and other receivables	**(789)**	(2,903)
Accrued Commission on statutory deposit	**(467)**	(133)
Accrued and other payables	**144**	(10)
Accrued Commission on statutory deposit payable to SAMA	**467**	133
Cash generated from operations	**13,600**	6,785
Zakat paid	**(1,530)**	(896)
Net cash from operating activities	**12,070**	5,889
INVESTING ACTIVITIES		
Term deposit	**(37,751)**	-
Purchase of available-for-sale investments	**(13,635)**	(28,182)
Proceeds from sale of available-for-sale investments	**18,280**	45,708
Dividend received on FVIS investments	**-**	385
Net cash (used in) / from investing activities	**(33,106)**	17,911
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(21,036)**	23,800
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**54,351**	30,551
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**33,315**	54,351

Non Cash Transactions:

Change in fair value of available-for-sale investments	**(3,186)**	1,506

The accompanying notes 1 to 29 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. Registered Office address of the Company is Al Ruwais District, P. O. Box 7076, Jeddah 21462, Kingdom of Saudi Arabia.

During 2014, as per the shareholders' resolution dated 13 May 2014, the registered office address of the Company has changed from Jeddah to Al Malka 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 2014 and accordingly new Commercial Registration No. 1010417178 has been obtained and Articles of Association has been amended.

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 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. As per Tadawul shareholding system at 31 December 2017, the Company is owned 98.97% (2016: 98.97%) by Saudi shareholders and 1.03% (2016: 1.03%) by non-Saudi shareholders.

The Company received the approval letters from the Saudi Arabian Monetary Authority and Ministry of Commerce and Investment regarding the amendment of the Company's by-laws to be in accordance with the new companies' regulations. The Company's ordinary general assembly was held on 24 May 2017 corresponding to 28 Shabaan 1438H and accordingly the new by-laws was approved.

There are 3 registered branches as set out below:

Branch	CR	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

2. BASIS OF PREPARATION

a) Basis of measurement

The financial statements are prepared under the historical cost convention except for the measurement of available-for-sale and FVIS investments which are measured at fair value.

b) Statement of Compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB"). As per the SAMA Circular no. 381000074519 dated 11 April 2017 instead of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings. As the Company's accounting policy for zakat and tax has always been consistent with SAMA's new guidance, the adoption of the guidance has not resulted in any changes in the accounting policies, accounting treatment or amounts reported in the current or prior years.

c) Functional and presentational currency

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

2. BASIS OF PREPARATION – (continued)

d) Surplus distribution

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%
	100%

If the insurance operations result in a deficit, the entire deficit is borne by Shareholder's Operations.

In accordance with article 70 of the SAMA implementing regulations, the Company must obtain SAMA approval before distribution of policyholders surplus directly to policyholders at a time, and according to criteria set by its board of directors, provided that the customer contract is active and paid up to date at the time of settlement of the cooperative distribution account.

e) 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):

Standard	*Description*
IFRS 12	The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. This did not have any impact on the interim condensed financial statements of the Company as there is no investment in subsidiary, a joint venture or an associate.
IAS 7	Amendments to IAS 7 – "Statement of Cash flows: Disclosure Initiative", The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Company is not required to provide additional disclosures in its interim condensed financial statements, but will disclose additional information in its annual financial statements for the year ending 31 December 2017.

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

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company financial statements 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.

2. BASIS OF PREPARATION – (continued)

f) Summary of significant accounting policies – (continued)

Standard/ Interpretation	*Description*	*Effective date*
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 2	Amendments to IFRS 2 Classification and Measurement of share-based Payment transactions.	1 January 2018
IAS 40	Amendments to IAS 40 Transfers of investment property.	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance consideration.	1 January 2018
IFRS 1 and IAS 28	Annual Improvements 2016 to IFRS 2014- 2016 cycle.	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 9	Financial Instruments	1 January 2021*
IFRS 17	Insurance Contracts	1 January 2021

* IFRS 17 also introduces a temporary exemption for the implementation of IFRS 9 for reporting entities whose activities predominantly relate to insurance. The Company currently assessing the implications and application date and expects that it will be eligible for this temporary exemption. If management decides to defer the implementation of IFRS 9 until a later date, it will be no later than 1 January 2021.
The Company is currently assessing the implications of adopting the above mentioned standards, amendments or interpretations on the Company's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contracts - (continued)

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.

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 uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets (including insurance receivables) may be impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amounts as follows:

- for financial assets at amortized cost, the impairment loss is based on the difference between the present value of future anticipated cash flows and the carrying amount;
- for financial assets at fair value, the impairment loss is based on the decline in fair value; and
- for assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For presentation purposes, the resulting reserve is carried in the respective category within the statement of financial position and the related statements of insurance operations and accumulated surplus or shareholders’ operations are adjusted.

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

Significant financial difficulty of the issuer or debtor;

- A breach of contract, such as a default or delinquency in payments;
- It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets - (continued)

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

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

Direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized on a pro-rata basis based on the term of expected future premiums, except for marine cargo where the deferred portion shall be the cost incurred during the last quarter. Amortization is recorded in the statement of insurance operations and accumulated surplus.

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

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

After initial recognition, investments which are classified as "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are included in statement of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported within statement of comprehensive income is included in the statement of shareholders' operations.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 initially recorded at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis based on the following estimated useful lives:

	Years
Motor vehicles	4
Furniture, fittings and office equipment	7
Computers & software	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.

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 insurance operations and accumulated surplus or shareholders' operations.

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 insurance operations and accumulated surplus 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 insurance operations and accumulated surplus. 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.

End-of-service benefits

Employees' end-of-service benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labour Regulations on termination of their employment contracts. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. End-of-service payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of Saudi Arabia.

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
- Actual number of days for other lines of business

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 is recognized when the right to receive payment is established.

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. 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 insurance operations and accumulated surplus for that year.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 insurance operations and accumulated surplus and shareholders' operations unless required or permitted by any accounting standard or interpretation.

Leases

Operating lease payments are recognised as an expense in the statement of insurance operations and accumulated surplus on a straight-line basis over the lease term.

Zakat and income tax

In accordance with the regulations of the Department of General Authority of Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders and to income taxes attributable to the foreign shareholders. Provisions for zakat and income taxes are charged to the equity accounts of the Saudi and the foreign shareholders, respectively. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

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 insurance operations and accumulated surplus.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values of financial instruments - (continued)

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.

Offsetting financial assets and liabilities

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

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.
- 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.

Segmental reporting - (continued)

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (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 needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The 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.

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

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

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.

5. CASH AND CASH EQUIVALENTS

	2017 SR'000	2016 SR'000
Insurance operations		
Cash in hand	66	41
Cash at banks	44,217	36,340
Short term deposit	-	168,119
	44,283	204,500
Shareholders' operations		
Cash in hand and at banks	33,315	14,483
Short term deposit	-	39,868
	33,315	54,351

Cash at banks are placed with counterparties who have good credit ratings.
The carrying amounts disclosed above reasonably approximate fair value at the statement of financial position date.

6. TERM DEPOSITS

	2017 SR'000	2016 SR'000
Insurance Operations		
Term deposits	147,249	-
Shareholders' Operations		
Term deposits	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.

7. PREMIUMS RECEIVABLE, NET

	2017 SR'000	2016 SR'000
Due from policyholders	87,137	95,804
Due from policyholders - related parties (note 23)	2	71
Provision for doubtful debts	(5,806)	(6,214)
	81,333	89,661

31 December 2017	Less than 90 days	Past due but not impaired 91 to 180 days	More than 180 days	Total
Amount in SR '000				
Due from policyholders	68,168	7,285	11,684	87,137
Due from policyholders - related parties	2	-	-	2
Provision for doubtful debts	-	(1,093)	(4,713)	(5,806)
Premiums receivable, net	68,170	6,192	6,971	81,333

31 December 2016	Less than 90 days	Past due but not impaired 91 to 180 days	More than 180 days	Total
Amount in SR '000				
Due from policyholders	72,851	11,905	11,048	95,804
Due from policyholders - related parties	-	60	11	71
Provision for doubtful debts	-	(1,795)	(4,419)	(6,214)
Premiums receivable, net	72,851	10,170	6,640	89,661

Movement in provision for doubtful debts is as follows:

	2017 SR'000	2016 SR'000
Balance at the beginning of the year	6,214	2,622
Release of provision for the year	(408)	-
Provision for the year	-	3,592
Balance at the end of the year	5,806	6,214

Unimpaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customer balances accounted for approximately 15% of this balance as at 31 December 2017 (2016: 15%). Premiums receivable comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia.

8. AVAILABLE-FOR-SALE INVESTMENTS

Shareholders' operations

	2017 SR'000	2016 SR'000
Investment in Sukuk	25,000	25,000
Quoted securities	16,800	20,759
Unquoted securities	1,923	1,923
	43,723	47,682

As at 31 December 2017	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
Investment in Najm for Insurance Services Company	1,923	-	-	1,923
Investment in Sukuk	25,000	-	-	25,000
Quoted securities	20,759	(773)	(3,186)	16,800
	47,682	(773)	(3,186)	43,723

As at 31 December 2016	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
Investment in Najm for Insurance Services Company	1,923	-	-	1,923
Investment in mutual funds	19,361	(19,632)	271	-
Investment in Sukuk	26,503	(2,105)	602	25,000
Quoted securities	17,655	2,471	633	20,759
	65,442	(19,266)	1,506	47,682

Investment in Najm for Insurance Services Company is classified under level 3. Investments in mutual funds and GACA Sukuk are classified under level 2.

The unrealized loss of SR 3.186 million for the year ended 31 December 2017 (31 December 2016: unrealised gain SR 1.506 million) was recognized to the statement of changes in shareholders' equity as available-for sale investments reserve. The available-for-sale investments reserve as of 31 December 2017 is SR 4.239 million (31 December 2016: SR 1.053 million)

9. DEFERRED POLICY ACQUISITION COST

	2017 SR '000	2016 SR '000
As at 1 January	17,532	17,923
Cost incurred during the year	28,994	39,626
Charge for the year	(31,190)	(40,017)
As at 31 December	15,336	17,532

10. PREPAYMENTS AND OTHER RECEIVABLES

	2017 SR '000	2016 SR '000
Insurance operations		
Prepaid expenses	5,813	4,841
Guarantee deposits (note 25)	3,621	3,621
Staff advances	1,449	1,241
Deferred TPA fee	2,951	4,711
Others	19,396	13,835
	33,230	28,249
Shareholders' Operations		
Zakat reimbursable from shareholders	2,345	2,345
Other receivables	3,182	2,393
	5,527	4,738

11. PROPERTY AND EQUIPMENT, NET

Insurance Operations

	Motor Vehicles SR'000	furniture, fittings and office equipment SR'000	Computers & software SR'000	Leasehold Improvements SR'000	Total SR'000
Cost:					
At 1 January 2017	116	5,868	8,953	4,455	19,392
Additions	-	440	1,356	869	2,665
At 31 December 2017	116	6,308	10,309	5,324	22,057
Accumulated depreciation:					
At 1 January 2017	98	4,792	4,769	2,259	11,918
Charge for the year	7	913	1,173	636	2,729
At 31 December 2017	105	5,705	5,942	2,895	14,647
Net book value:					
At 31 December 2017	11	603	4,367	2,429	7,410
At 31 December 2016	18	1,076	4,184	2,196	7,474

12. UNEARNED COMMISSION INCOME

	2017 SR '000	2016 SR '000
As at 1 January	644	1,943
Commission received during the year	3,540	3,727
Commission earned during the year	(3,364)	(5,026)
As at 31 December	820	644

13. MOVEMENT IN UNEARNED PREMIUMS

	2017 SR '000	2016 SR '000
Gross unearned premiums as at 1 January	232,296	234,971
Gross unearned premiums as at 31 December	239,754	232,296
Movement in unearned premiums	(7,458)	2,675
Reinsurers' share of unearned premiums as at 1 January	35,120	34,420
Reinsurers' share of unearned premiums as at 31 December	29,476	35,120
Movement in reinsurance share of unearned premiums	(5,644)	700
Movement in unearned premiums, net	(13,102)	3,375

14. CLAIMS

	2017 SR'000	2016 SR'000
Gross claims paid	299,436	353,566
Gross outstanding claims at the end of the year (see note (I) below)	88,108	129,420
	387,544	482,986
Gross outstanding claims at the beginning of the year	(129,420)	(76,263)
Gross claims incurred	258,124	406,723
Reinsurance recoveries	(32,287)	(29,417)
Reinsurers' share of outstanding claims at the end of the year (see note (II) below)	(22,173)	(43,224)
	(54,460)	(72,641)
Reinsurers' share of outstanding claims at the beginning of the year	43,224	10,633
Reinsurers' share of claims	(11,236)	(62,008)
Net claims incurred	246,888	344,715

I. Gross outstanding claims as at 31 December 2017 include provision for IBNR, gross amounting to SR 50.68 million (2016: 104.97 million).

II. Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

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 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.

14 CLAIMS (continued)

CLAIMS DEVELOPMENT TABLE – (continued)

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

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

31 December 2017

Accident year	2013 & earlier	2014	2015	2016	2017	Total
Estimate of ultimate claims cost:						
At the end of accident year	274,563	141,988	311,469	377,829	284,312	
One year later	386,397	174,436	395,126	454,106	-	
Two years later	409,429	183,710	408,401	-	-	
Three years later	423,673	189,046	-	-	-	
Four years later	443,079					
Current estimate of cumulative claims	443,079	189,046	408,401	454,106	284,312	1,778,944
Cumulative payments made to date	(439,303)	(185,315)	(403,076)	(433,877)	(229,265)	(1,690,836)
Liability recognised in statement of financial position	3,776	3,731	5,325	20,229	55,047	88,108

31 December 2016

Accident year	2012 & earlier	2013	2014	2015	2016	Total
Estimate of ultimate claims cost:						
At the end of accident year	168,939	105,624	141,988	311,469	377,828	
One year later	228,283	158,114	174,436	395,126	-	
Two years later	245,800	163,629	183,710	-	-	
Three years later	253,929	169,744	-	-	-	
Four years later	264,998	-	-	-	-	
Current estimate of cumulative claims	264,998	169,744	183,710	395,126	377,828	1,391,406
Cumulative payments made to date	(263,090)	(167,134)	(180,304)	(377,997)	(273,461)	(1,261,986)
Liability recognised in statement of financial position	1,908	2,610	3,406	17,129	104,367	129,420

15. ACCOUNTS PAYABLE

Insurance operations	2017 SR '000	2016 SR '000
TPA fees	4,891	6,641
Insurance brokers	5,204	3,338
Medical providers	156	3,583
CCHI fees payable	235	323
Payables to policy holders	1,408	2,257
Others	1,213	467
	13,107	16,609

16. ACCRUED EXPENSES AND OTHER PAYABLES

	2017 SR'000	2016 SR'000
Insurance operations		
Accrued expenses	9,355	6,356
Other payables	499	234
	9,854	6,590
Shareholders' Operations	*SR'000*	*SR'000*
Accrued expenses	254	110

17. STATUTORY DEPOSIT

	2017 SR'000	2016 SR'000
Shareholders' Operations		
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.

18. ZAKAT & INCOME TAX

The current year provision is based on the following:

	2017 SR'000	2016 SR'000
Equity	200,000	200,000
Opening provision and adjustments	12,280	6,179
Net book value of long term assets	(67,815)	(69,840)
Accumulated losses	(73,796)	(80,482)
Unrealized loss on available-for-sale investments	(3,186)	(1,053)
	67,483	54,804
Adjusted income for the year	18,117	10,836
Zakat base	85,600	65,640

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

The movement in the Zakat and Income tax payable is as follows:

	2017 SR'000	2016 SR'000
Balance at the beginning of the year	1,493	748
Charge for the year	2,140	1,641
Paid during the year	(1,530)	(896)
Balance at the end of the year	2,103	1,493

18 ZAKAT AND INCOME TAX (continued)

Income Tax

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

The movement in the Income tax payable is as follows:

	2017 SR'000	2016 SR'000
Balance at the beginning of the year	17	-
Charge for the year	8	17
Balance at the end of the year	25	17

Status of assessment:

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 2015. 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 not been booked in the interim condensed financial statements. The major difference of the 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, an adverse decision was received from the Preliminary Tax Objection Committee, upon which the Company the 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 is in the process of reforming the matter to the board of grievance. In this regard, the Company have issued a letter of guarantee amounting to SR 1.83 million in favour of GAZT (See Note 26).

19. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 200 million at the year-end consisting of 20 million shares of SR 10 each.

	2017		2016	
	% holding	SR'000	% holding	SR'000
Founding shareholders	40	80,000	40	80,000
General public	60	120,000	60	120,000
Balance at the end of the year	100	200,000	100	200,000

20. 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.

21. STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. No appropriation has been made as the company has accumulated losses at the end of the year.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2017 SR'000	2016 SR'000
Insurance operations		
Employee costs	46,980	41,158
Legal and professional fees	1,647	753
Office rent	4,372	3,914
Depreciation	2,729	2,340
Office expenses	212	356
Marketing	4,332	2,433
Traveling	1,992	1,421
Other	10,424	5,924
	72,688	58,299

Shareholders' operations

	2017 SR'000	2065 SR'000
Legal and professional fees	554	508
Others	1,335	677
	1,889	1,185

23. TRANSACTIONS WITH RELATED PARTIES

Major related party transactions during the year and the related balances at the end of the year are as follows:

Insurance operations

Related party	*Nature of transaction*	*Amount of Transactions during the year*		*Closing balance Receivable / (Payable)*	
		2017	2016	2017	2016
		SR'000	*SR'000*	*SR'000*	*SR'000*
Affiliates	Premiums written	2,621	1,055	2,226	71
	Claims and payments	(131)	(207)	(201)	(200)
Board and audit committee	Meetings fee	1,461	881	-	-
Key management personnel	Short term benefits	5,185	5,230	77	10
	Long term benefits	408	310	(1,809)	(1,387)

24. SEGMENTAL INFORMATION

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

Segment results do not include general and administrative expenses and other income.

Segment assets do not include insurance operations' 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.

Operating segments

31 December 2017	Motor	Medical	General accident	Others	Total
Revenue	SR '000	SR '000	SR '000	SR '000	SR '000
Gross written premiums	271,305	115,155	21,119	22,393	429,972
Less: Premiums ceded	(106)	(27,786)	(9,006)	(21,529)	(58,427)
Excess of loss premiums	(4,450)	-	(798)	(380)	(5,628)
Net written premiums	266,749	87,369	11,315	484	365,917
Changes in net unearned premiums	(37,459)	26,508	(1,968)	(183)	(13,102)
Net premiums earned	229,290	113,877	9,347	301	352,815
Other underwriting Income	9,971	4,009	-	-	13,980
Reinsurance commission earned	18	-	1,165	2,181	3,364
Net revenues	239,279	117,886	10,512	2,482	370,159
Cost and expenses					
Gross claims paid	201,948	94,657	2,135	696	299,436
Less: Reinsurers' share	(729)	(29,563)	(1,317)	(678)	(32,287)
Net claims paid	201,219	65,094	818	18	267,149
Changes in outstanding claims, net	(18,937)	(1,541)	241	(24)	(20,261)
Net claims incurred	182,282	63,553	1,059	(6)	246,888
Change in other technical reserve	(115)	-	-	(73)	(188)
Policy acquisition cost	18,292	11,335	1,009	554	31,190
Other underwriting expense	1,112	655	-	-	1,767
Net cost and expenses	201,571	75,543	2,068	475	279,657
Net result of insurance operations	37,708	42,343	8,444	2,007	90,502
General and administrative expenses					(72,688)
Supervision and inspection fee	(1,169)	(732)	(97)	(99)	(2,097)
CCHI fee	-	(1,462)	-	-	(1,462)
Release of doubtful debts					408
Investment income					2,258
Other income					312
Surplus from insurance operations					17,233

24 SEGMENTAL INFORMATION (continued)

As at 31 December 2017	Motor	Medical	General accident	Others	Total
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Premiums and reinsurance receivables – net	30,240	31,670	315	24,700	86,925
Reinsurers' share of unearned premiums	20	11,954	3,065	14,437	29,476
Reinsurers' share of outstanding claims	4,228	6,628	3,206	8,111	22,173
Deferred policy acquisition cost	9,884	3,964	1,217	271	15,336
Unallocated assets					234,419
Total insurance operations assets					388,329
Unearned commission income	4	-	343	473	820
Unearned premiums	153,618	51,478	19,786	14,872	239,754
Outstanding claims	53,498	19,751	6,443	8,416	88,108
Other liabilities					18,141
Unallocated liabilities					41,506
Total insurance operations liabilities					388,329

31 December 2016	Motor	Medical	General accident	Others	Total
Revenue	SR '000	SR '000	SR '000	SR '000	SR '000
Gross written premiums	278,858	186,765	22,170	22,825	510,618
Less: Premiums ceded	(66)	(40,613)	(9,581)	(22,082)	(72,342)
Excess of loss premiums	(5,627)	-	(460)	(397)	(6,484)
Net written premiums	273,165	146,152	12,129	346	431,792
Changes in net unearned premiums	24,752	(17,453)	(4,220)	296	3,375
Net premiums earned	297,917	128,699	7,909	642	435,167
Other underwriting Income	10,494	-	-	-	10,494
Reinsurance commission earned	10	-	1,539	3,477	5,026
Net revenues	308,421	128,699	9,448	4,119	450,687
Cost and expenses					
Gross claims paid	275,543	75,578	740	1,705	353,566
Less: Reinsurers' share	(2,762)	(25,165)	(198)	(1,292)	(29,417)
Net claims paid	272,781	50,413	542	413	324,149
Changes in outstanding claims, net	12,519	7,237	1,069	(259)	20,566
Net claims incurred	285,300	57,650	1,611	154	344,715
Change in premium deficiency reserve	(6,969)	-	-	-	(6,969)
Change in other technical reserve	115	-	-	-	115
Policy acquisition cost	25,089	13,146	1,065	717	40,017
Other underwriting expense	538	1,380	-	-	1,918
Net cost and expenses	304,073	72,176	2,676	871	379,796
Net result of insurance operations	4,348	56,523	6,772	3,248	70,891
General and administrative expenses					(58,299)
Supervision and inspection fee	(1,518)	(736)	(88)	(117)	(2,459)
CCHI fee	-	(1,684)	-	-	(1,684)
Provision for doubtful debts					(3,592)
Investment income					4,922
Other income					1,662
Surplus from insurance operations					11,441

24 SEGMENTAL INFORMATION (continued)

As at 31 December 2016	Motor	Medical	General accident	Others	Total
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Premiums and reinsurance receivables – net	26,164	33,714	1,839	32,683	94,400
Reinsurers' share of unearned premiums	30	17,396	2,653	15,041	35,120
Reinsurers' share of outstanding claims	1,100	7,572	2,870	31,682	43,224
Deferred policy acquisition cost	4,788	11,410	1,149	185	17,532
Unallocated assets					241,438
Total insurance operations assets					431,714
Unearned commission income	1	-	344	299	644
Unearned premiums	116,168	83,428	17,405	15,295	232,296
Outstanding claims	69,307	22,237	5,872	32,004	129,420
Other liabilities					56,289
Unallocated liabilities					13,065
Total insurance operations liabilities					431,714

25. CONTINGENT LIABILITY

As at 31 December 2017, the Company has a letter of guarantee amounting to SR 1.83 million (31 December 2016: SR 1.83 million) in favour of GAZT (See Note 18). A margin of SR 1.83 million (31 December 2016: SR 1.83 million) being deposited with a bank for this purpose is included in prepayments and other receivables in the statement of financial position of insurance operations. The Company's bankers have given guarantees to non-government customers amounting to SR 1.7 million (2016: 1.7 million) in respect of motor insurance.

26. GEOGRAPHICAL DISTRIBUTION

Most of the Company's assets and liabilities are located in the Kingdom of Saudi Arabia

27. RISK MANAGEMENT

Risk governance

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

Risk management structure

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

Board of Directors

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

Senior management

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

Audit Committee and Internal Audit Function

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

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

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

27 RISK MANAGEMENT (continued)

Insurance risk management

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under such contracts is the occurrence of the insured events and the severity of reported claims. The Company's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

Underwriting and retention policies and procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local market are closely observed, reacting were necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

Sensitivities

The Company believes that claim liabilities under insurance contract (outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions.

Sensitivity of loss for the year to change in claim liabilities based on an increase / decrease of 5% in outstanding claim reserve (net of reinsurance share) is given below.

	Change in assumptions	Impact on net liabilities	Impact on net income
2017	± 5%	±3,297	±3,297
2016	± 5%	±4,310	±4,310

Frequency and Severity of Claims

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly medical, motor, fire and burglary, general accident and marine classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Fire and Burglary

Fire and burglary insurance contracts, with the main peril being fire damage and other allied perils resulting there from, are underwritten either on replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional treaties.

27 RISK MANAGEMENT (continued)

Motor

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 63% (2016: 55%) of gross written premium.

The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims. This risk is covered by per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

General Accident and Workmen's Compensation

For miscellaneous accident classes of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

Marine

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

Concentration of insurance risk

The Company does not have insurance contract covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation. The Company does not have any material claims where the amount and timing of payment is not resolved within one year of the reporting date.

Medical

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. An arrangement has been made with reinsurers through proportional treaties.

Regulatory framework risk

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

Credit risk

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

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

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

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

The Company investment portfolio is managed by the investment committee in accordance with the investment policy established by the investment committee.

The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.

27 RISK MANAGEMENT (continued)

Credit risk – (continued)

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

31 December 2017

	Insurance operations SR '000	Shareholders' Operations SR '000
Cash and cash equivalents	44,283	33,315
Available-for-sale investments	-	43,723
Premiums receivable, net	81,333	-
Reinsurance receivables, net	5,592	-
Reinsurers' share of outstanding claims	22,173	-
Prepayments and other receivables	33,230	-
	186,611	77,038

31 December 2016

	Insurance operations SR '000	Shareholders' Operations SR '000
Cash and cash equivalents	204,500	54,351
Available-for-sale investments	-	47,682
Premiums receivable, net	89,661	-
Reinsurance receivables, net	4,739	-
Reinsurers' share of outstanding claims	43,224	-
Prepayments and other receivables	28,249	-
	370,373	102,033

Liquidity risk

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

Maturity profiles

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

31 December 2017

	Up to one year SR '000	More than one year SR' 000	Total SR' 000
Insurance Operations' Financial Liabilities			
Reinsurance payables	23,731	-	23,731
Accounts payable	13,107	-	13,107
Outstanding claims	88,108	-	88,108
Accrued and other payables	9,854	-	9,854
	134,800	-	134,800
Shareholders' Financial Liabilities			
Accrued and other payables	2,382	1,152	3,534
	2,382	1,152	3,534
Total Financial Liabilities	137,182	1,152	138,334

27 RISK MANAGEMENT (continued)

Maturity profiles – (continued)

31 December 2016

	Up to one year SR '000	More than one year SR' 000	Total SR' 000
Insurance Operations' Financial Liabilities			
Reinsurance payables	35,461	-	35,461
Accounts payable	16,609	-	16,609
Outstanding claims	129,420	-	129,420
Accrued and other payables	6,590	-	6,590
	188,080	-	188,080
Shareholders' Financial Liabilities			
Accrued and other payables	1,620	685	2,305
	1,620	685	2,305
Total Financial Liabilities	189,700	685	190,385

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company principal transactions are carried out in Saudi Riyal. Management believes that there is no risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

Commission rate risk

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

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

The following table demonstrates the sensitivity of statement of Shareholders' comprehensive income to reasonably possible changes in commission rates, with all other variables held constant.

The sensitivity of the statement of shareholders' comprehensive income is the effect of the assumed changes in commission rates on the Company's income for the year, based on the floating rate financial assets and financial liabilities held as at December 31:

	Change in basis points	Effect on comprehensive income for the year SR'000
2017	50	+/- 925
2016	50	+/- 1,040

27 RISK MANAGEMENT (continued)

Market price risk

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

These investments are managed by a professional fund manager in accordance with the guidelines approved by the Board of Directors.

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

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Shareholders' operations				
Available-for-sale investments	16,800	25,000	1,923	43,723
	16,800	25,000	1,923	43,723

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Shareholders' operations				
Available-for-sale investments	20,759	25,000	1,923	47,682
	20,759	25,000	1,923	47,682

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

Capital management

Capital requirements are set and regulated by the Saudi Arabian Monetary Authority. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

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

28. COMPARATIVE FIGURES

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

29. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the board of directors on 27 February 2018 corresponding to 11 Jumaad Al Thani 1439H.