THE COMPANY FOR COOPERATIVE INSURANCE

(A SAUDI JOINT STOCK COMPANY)

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

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BDO الدكتور محمد العمري وشركاه
Dr. Mohamed Al-Amri & Co.

INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS' OF THE COMPANY FOR COOPERATIVE INSURANCE (A SAUDI JOINT STOCK COMPANY)

Opinion

We have audited the financial statements of The Company for Cooperative Insurance (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statement of income - insurance operations and accumulated surplus, statements of comprehensive income - insurance and shareholders' operations, statements of changes in shareholders' equity and cash flows for insurance and shareholders' operations for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 35.

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 financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting for 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.

Overview of audit

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of the 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 key audit matter, a description of how our audit addressed the matter is set out below:

Key audit matters	**How the matter was addressed in our audit**
Valuation of ultimate claim liabilities arising from insurance contracts	
As at 31 December 2017, gross outstanding claims and reserves including claims incurred but not reported (IBNR) amounted to Saudi Riyals 4.2 billion as compared to Saudi Riyals 3.6 billion as at 31 December 2016. There was a significant increase in insurance claim liabilities mainly in the medical segment during the year.	We understood, evaluated and tested key controls over the claim liabilities processes of the Company. We evaluated the competence, capabilities and objectivity of the management's experts by examining their professional qualifications and experience and assessing their relationship with the entity.
The estimation of ultimate insurance contract liabilities involves a significant degree of judgments. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs.	In 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 utilised by the Company's actuaries in estimating the IBNR by comparing it to accounting records.
In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgments and uncertainties relating to ultimate claim rejections including volatility in the claim patterns making it difficult to predict future outcomes. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method were used by the actuaries to determine these provisions. Further, during the year, there were certain changes in actuarial methods and assumptions used and the actuary used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.	In order to challenge management's methodologies and assumptions, we were assisted by our actuary to understand and evaluate the Company's actuarial practices and provisions established. In order to gain comfort over the actuarial report issued by management's experts, our actuary performed the following: • Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for significant differences including those for recent trends; • 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; and • Reviewed the appropriateness of the calculation methods and approach along with the

Key audit matters	How the matter was addressed in our audit
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. *Refer to notes 2 and 3 to the financial statements which explain the valuation methodology used by the Company and critical judgments and estimates. Also refer note 9 for further details.*	assumptions used and sensitivity analysis performed.
Valuation of available-for-sale investments Available-for-sale investments comprise a portfolio of debt, equity securities and investment in mutual funds. The available-for sale-investments amounted to Saudi Riyals 5.7 billion as at 31 December 2017. These instruments are measured at fair value with the corresponding fair value changes recognised in other comprehensive income. For certain investments, fair value is determined through the application of valuation techniques which often involve the exercise of judgment by the management and the use of assumptions and estimates. Estimation uncertainty exists for those instruments not traded in an active market and where the significant unobservable valuation inputs use (level 3) is particularly high. In the Company's accounting policies, the management has described the key sources of estimation involved in determining the valuation of level 3 financial instruments. We considered this as a key audit matter given the degree of complexity involved in valuing these financial instruments and the significance of the judgment and estimates made by the management. *Refer to notes 2 and 26 to the financial statements which explain the valuation methodology used by the Company and critical*	We have performed the following procedures to obtain comfort over the valuation of investments: • We have performed an assessment of the methodology, appropriateness of the valuation techniques and inputs used to value available-for-sale investments, classified under level 3 of fair value hierarchy; • We tested the valuation of available-for-sale investments classified under level 3 of fair value hierarchy. As part of these audit procedures, we assessed key inputs used in the valuation such as the pricing data used, credit spreads, etc. • We have also obtained confirmations from external parties to corroborate the fair value of investments at year end. Where appropriate, we have also reviewed the valuation reports from external parties.

Key audit matters	How the matter was addressed in our audit
judgments and estimates.	
Provision for doubtful receivables As at 31 December 2017, the Company had receivables of Saudi Riyals 2.4 billion, against which an impairment provision of Saudi Riyals 139 million was maintained. We considered this as a key audit matter as the assessment of impairment requires subjective judgments with respect to the estimation of the amount and timing of future cash flows. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms. For individually significant receivables, the Company also assesses the impairment individually on a regular basis. *Refer to notes 2 and 3 to the financial statements which explain the valuation methodology used by the Company and critical judgments and estimates.*	 We assessed and tested a sample of controls relating to identified impaired receivables and also carried-out the following audit procedures: • Reviewed the methodology and judgments used and challenged management's key assumptions used in assessing impairment provision; • We considered the adequacy of provisions for doubtful receivables for significant customers, taking into account specific credit risk assessments for each customer based on time past due, the existence of any disputes over the balance outstanding, the history of settlements of receivables and review of correspondence with the customers; • On sample basis checked the completeness and accuracy of the receivables aging reports by tracing the balances to the source documents; • Considered the consistency of the approach with the prior years, and enquired about any major variations and changes in key assumptions and its basis used; and • We tested the subsequent collection of receivables post year end.

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. The 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 the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS as modified by SAMA for the accounting of zakat and tax, the applicable requirements of the Regulations for Companies and the Company's 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 Directors 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;
- 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; and

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

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

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

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

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Date: 29 March, 2018
Corresponding to: 12 Rajab, 1439H

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	Notes	2017	2016
		SAR '000	
ASSETS - INSURANCE OPERATIONS			
Property and equipment, net	4	**279,051**	298,406
Investment property		**9,861**	9,861
Investments in associates	5	**7,021**	12,691
Available-for-sale investments	6	**2,960,430**	3,155,586
Due from Shareholder's operations	34	**773,927**	-
Prepaid expenses and other assets	8	**208,565**	288,221
Deferred policy acquisition costs	9	**170,790**	218,100
Reinsurers' share of outstanding claims	9, 10	**1,766,484**	2,118,754
Reinsurers' share of unearned premiums	9	**591,125**	553,813
Receivables, net	11	**2,257,678**	2,326,988
Accrued investment income		**71,739**	-
Cash and cash equivalents	13	**1,115,144**	1,379,402
Total assets - Insurance operations		**10,211,815**	10,361,822
ASSETS - SHAREHOLDERS OPERATIONS			
Statutory deposit	12	**125,000**	100,000
Accrued income on statutory deposit		**1,997**	1,711
Investments in associates	5	**88,447**	94,958
Available-for-sale investments	6	**2,564,779**	1,377,991
Murabaha deposits	7	**82,035**	-
Due from Insurance operations		**-**	539,326
Prepaid expenses and other assets		**1,750**	-
Accrued investment income		**86,354**	-
Cash and cash equivalents	13	**282,059**	1,021,747
Total assets - Shareholders operations		**3,232,421**	3,135,733
TOTAL ASSETS		**13,444,236**	13,497,555

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION (Continued)
AS AT DECEMBER 31, 2017

	Notes	2017	2016
		SAR '000	
LIABILITIES AND SURPLUS - INSURANCE OPERATIONS			
Liabilities - Insurance operations:			
Reserve for discontinued operations	16	**1,621**	1.621
Surplus distribution payable		**-**	76.651
Claims payable, accrued expenses and other liabilities	15	**1,406,894**	1.505.968
Reserve for takaful activities		**10.576**	12.902
Gross outstanding claims and reserves	9, 17	**4,212,281**	3.592.698
Unearned commission income	9	**53,661**	54.439
Gross unearned premiums	9	**4,405,244**	4.390.229
Reinsurers' balances payable		**207,922**	178.959
Due to Shareholders' operations		**-**	539.326
		10,298,199	10.352.793
Fair value reserve for available-for-sale investments		**(80,505)**	9.029
Remeasurements of defined benefit obligation	15	**(5,879)**	-
Total liabilities and surplus - Insurance operations		**10,211,815**	10.361.822
LIABILITIES AND EQUITY - SHAREHOLDERS OPERATIONS			
Shareholders operations liabilities:			
Return payable on statutory deposit		**1,997**	1.711
Dividends payable		**6,414**	6.054
Zakat	18	**233,318**	200.443
Accrued expenses and other liabilities		**4,000**	-
Due to Insurance operations	34	**773,927**	-
Total liabilities - Shareholders operations		**1,019,656**	208.208
Shareholders' equity:			
Share capital	19	**1,250,000**	1.000.000
Legal reserve	20	**1,000,000**	1.000.000
Fair value reserve for available-for-sale investments		**(85,739)**	(71.182)
Retained earnings		**48,504**	998.707
Total Shareholders' equity		**2,212,765**	2.927.525
Total Shareholders operations liabilities and equity		**3,232,421**	3.135.733
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**13,444,236**	13.497.555

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017	2016
		SAR '000	
REVENUES			
Gross premiums written		**8,406,669**	8,055,135
Less: Reinsurance ceded		**(1,091,407)**	(981,686)
Net premiums written	9	**7,315,262**	7,073,449
Changes in unearned premiums, net		**22,297**	(232,829)
Net premiums earned	9	**7,337,559**	6,840,620
Reinsurance commissions	9	**113,768**	101,935
Other income, net		**51,629**	58,386
Total revenues		**7,502,956**	7,000,941
COSTS AND EXPENSES			
Gross claims paid		**6,672,777**	5,327,532
Less: Reinsurance share		**(848,579)**	(343,851)
Net claims paid	9	**5,824,198**	4,983,681
Changes in outstanding claims and reserves, net		**971,853**	119,486
Net claims incurred	9	**6,796,051**	5,103,167
Policy acquisition costs	9	**492,772**	516,898
Excess of loss expenses		**40,375**	29,867
Changes in reserve for takaful activities		**(2,326)**	(565)
Other underwriting expenses		**176,898**	133,340
Manafeth insurance share distribution	21	**83,335**	106,674
Operating and selling expenses	23	**407,151**	357,360
Other general and administrative expenses	24	**98,435**	78,192
Total costs and expenses		**8,092,691**	6,324,933
Operating (deficit)/ surplus		**(589,735)**	676,008
Investment income, net	22	**221,549**	140,543
Impairment of available-for-sale investments	31	**-**	(50,036)
(Deficit)/ Surplus from Insurance operations		**(368,186)**	766,515
Shareholders' appropriation from (deficit)/ surplus	1	**368,186**	(689,864)
Surplus from Insurance operations after Shareholders' appropriation		**-**	76,651
Distribution of surplus		**-**	(76,651)
ACCUMULATED SURPLUS, END OF THE YEAR		**-**	-

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017	2016
		SAR '000	
Surplus from Insurance operations after Shareholders' appropriation		-	76,651
Other comprehensive income			
Not to be recycled back to statement of income in subsequent periods:			
Remeasurements of defined benefit obligation	15.1	**(5,879)**	-
To be recycled back to statement of income in subsequent periods:			
Changes in fair value of available-for-sale investments	6	**(89,534)**	111,978
Total comprehensive (loss)/ income for the year		**(95,413)**	188,629

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017	2016 (Restated)
		SAR'000	
Appropriation of (deficit)/ surplus from Insurance operations	1	**(368,186)**	689,864
Investment income, net	22	**207,104**	114,484
Share of profit from investments in associates, net	5	**19,418**	19,153
Impairment of available-for-sale investments	31	**-**	(22,034)
Other expenses, net		**(4,880)**	(520)
(Loss)/ income from operations		**(146,544)**	800,947
Other comprehensive loss:			
To be recycled back to statement of income in subsequent periods:			
Changes in fair value of available for sale investments	6	**(14,557)**	(14,321)
Total comprehensive (loss)/ income for the year		**(161,101)**	786,626
(Loss)/ earnings per share:			
Basic and diluted (loss)/ earnings per share (in SAR)	25	**(1.17)**	6.41
Weighted average number of shares in issue		**125,000,000**	125,000,000

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2017

	Notes	Share capital	Legal reserve	Fair value reserve for available-for-sale investments	Retained earnings	Total
				SAR'000		
Balance at January 1, 2016		1,000,000	883,465	(56,861)	482,464	2,309,068
Comprehensive income - restated:						
Income from operations - restated		-	-	-	800,947	800,947
Changes in fair value of available-for-sale investments	6	-	-	(14,321)	-	(14,321)
Total comprehensive income/ (loss) for the year - restated		-	-	(14,321)	800,947	786,626
Transfer to legal reserve	20	-	116,535	-	(116,535)	-
Zakat -restated	18	-	-	-	(68,169)	(68,169)
Dividend distribution	14	-	-	-	(100,000)	(100,000)
Balance at December 31, 2016		1,000,000	1,000,000	(71,182)	998,707	2,927,525
Balance at January 1, 2017		**1,000,000**	**1,000,000**	**(71,182)**	**998,707**	**2,927,525**
Comprehensive income:						
Loss from operations		-	-	-	**(146,544)**	**(146,544)**
Changes in fair value of available-for-sale investments	6	-	-	**(14,557)**	-	**(14,557)**
Total comprehensive loss for the year		-	-	**(14,557)**	**(146,544)**	**(161,101)**
Zakat	18	-	-	-	**(53,659)**	**(53,659)**
Issuance of bonus shares	14	**250,000**	-	-	**(250,000)**	-
Dividend distribution	14	-	-	-	**(500,000)**	**(500,000)**
Balance at December 31, 2017		**1,250,000**	**1,000,000**	**(85,739)**	**48,504**	**2,212,765**

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017	2016
		SAR '000	
Operating activities:			
Surplus from Insurance operations after Shareholders' appropriation		-	76.651
Adjustments to reconcile surplus from Insurance operations to net cash from/ (used in) operating activities:			
Shareholders' appropriation from (deficit)/ surplus		**(368,186)**	689.864
Depreciation	4	**23,728**	17.689
Loss on disposal of property and equipment		**114**	204
Provision/ (reversal) for doubtful debts	11	**35,545**	(64.386)
Gain on sale of available-for-sale investments	31	**(13,255)**	(118.399)
Impairment on available-for-sale investments	31	-	50.036
Share of loss from investment in an associate	5	**5,670**	526
Operating surplus before changes in operating assets and liabilities		**(316,384)**	652.185
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		**79,656**	261.770
Deferred policy acquisition costs		**47,310**	(8.856)
Reinsurers' share of outstanding claims		**352,270**	(290,845)
Reinsurers' share of unearned premiums		**(37,312)**	76.161
Receivables. net		**33,765**	(319.023)
Accrued investment income		**(71,739)**	-
Reinsurers' balances payable		**28,963**	(323.620)
Gross unearned premiums		**15,015**	156,668
Unearned commission income		**(778)**	3.415
Gross outstanding claims and reserves		**619,583**	410.331
Reserve for discontinued operations		-	(9.590)
Reserve for takaful activities		**(2,326)**	(565)
Claims payable. accrued expenses and other liabilities		**(104,953)**	65.009
Due to Shareholders' operations		**368.186**	(689.864)
Cash from/ (used in) operating activities		**1,011,256**	(16.824)
Surplus paid to policyholders during the year		**(76,651)**	(100.176)
Net from/ (used in) operating activities		**934,605**	(117.000)
Investing activities:			
Proceeds from sale of available-for-sale investments	6	**1,616,161**	3.642.778
Purchase of available-for-sale investments	6	**(1,497,284)**	(3.397.581)
Dividend received from investment in an associate	5	-	385
Purchase of property and equipment	4	**(4,487)**	(4.048)
Net cash from investing activities		**114,390**	241.534
Financing activity:			
Due to Shareholders operations		**(1,313,253)**	493.000
Net cash (used in) / from financing activity		**(1,313,253)**	493.000
Net change in cash and cash equivalents		**(264,258)**	617.534
Cash and cash equivalents at the beginning of the year	13	**1,379,402**	761,868
Cash and cash equivalents at the end of the year	13	**1,115,144**	1.379.402
Non-cash supplemental information:			
Changes in fair value of available-for-sale investments	6	**(89,534)**	111.978

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS - SHAREHOLDERS OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017	2016
		SAR '000	
Operating activities:			
Net (loss)/ income for the year		**(146,544)**	800,947
Adjustments to reconcile net (loss)/ income to net cash (used in)/ from operating activities:			
Appropriation of deficit/ (surplus) from Insurance operations		**368,186**	(689,864)
Impairment of available-for-sale investments	31	-	22,034
Loss/ (gain) on sale of available-for-sale investments	31	**1,008**	(43,191)
Share of profit from investment in associates, net	5	**(20,458)**	(20,769)
Operating profit before changes in operating assets and liabilities		**202,192**	69,157
Changes in operating assets and liabilities:			
Accrued investment income		**(86,354)**	-
Due from Insurance operations		**(368,186)**	689,864
Prepaid expenses and other assets		**(1,750)**	-
Accrued expenses and other liabilities		**4,000**	(647)
Net cash (used in)/ from operating activities		**(250,098)**	758,374
Investing activities:			
Statutory deposit		**(25,000)**	-
Proceeds from sale of available-for-sale investments	6	**3,016,906**	6,018,367
Purchase of available-for-sale investments	6	**(4,219,259)**	(5,210,599)
Placement in murabaha deposits		**(82,035)**	-
Dividends received from investment in associates	5	**26,969**	6,213
Net cash (used in)/ from investing activities		**(1,282,419)**	813,981
Financing activities:			
Dividends paid		**(499,640)**	(99,589)
Zakat paid during the year	18	**(20,784)**	(19,832)
Due from Insurance operations		**1,313,253**	(493,000)
Net cash from/ (used in) financing activities		**792,829**	(612,421)
Net change in cash and cash equivalents		**(739,688)**	959,934
Cash and cash equivalents at the beginning of the year	13	**1,021,747**	61,813
Cash and cash equivalents at the end of the year	13	**282,059**	1,021,747
Non-cash supplemental information:			
Changes in fair value of available-for-sale investments	6	**(14,557)**	(14,321)

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

1. GENERAL

The Company for Cooperative Insurance (the "Company") is a Saudi joint stock company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/5 and incorporated on January 18, 1986 corresponding to Jumada Awal 8, 1406H under Commercial Registration No. 1010061695. The Company's head office is located on Thumamah Road (At Takhassusi) ArRabi District, P.O. Box 86959, Riyadh 11632, Kingdom of Saudi Arabia.

The purpose of the Company is to transact cooperative insurance operations and all related activities including reinsurance and agency activities. Its principal lines of business include medical, motor, marine, fire, engineering, energy, aviation, takaful and casualty insurance.

On July 31, 2003 corresponding to Jumada Thani 2, 1424H the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On December 1, 2004 corresponding to Shawwal 18, 1425H, the Saudi Arabian Monetary Authority ("SAMA") as the principal agency responsible for the application and administration of the Insurance Law and its implementing regulations, granted the Company a license to transact insurance activities in Saudi Arabia.

The Company conducts the business and advances funds to the insurance operations as required. On January 20, 2004 the Company amended its Articles of Association giving authority to the Board of Directors to determine the disposition of the surplus from insurance operations.

On March 20, 2004, the Board of Directors approved the disposition of the surplus from insurance operations in accordance with the implementing regulations issued by the SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders operation in full.

2. BASIS OF PREPARATION

a) Statement of compliance

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

Until 2016, the financial statements were prepared in accordance with IFRS. This change in framework resulted in a change in accounting policy for zakat [as disclosed in note 3(u)] and the effects of this change are disclosed in note 18.1 to the financial statements.

The Company presents its statement of financial position in order of liquidity. As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance and Shareholders operations and presents the financial statements accordingly. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of other revenue and expenses from joint operations is as determined by the management and Board of Directors.

b) Basis of measurement

These financial statements are prepared under the historical cost basis except for the measurement at fair value of available-for-sale investments and investment in associates which is accounted for under the equity method.

c) Functional and presentation currency

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

2. BASIS OF PREPARATION (Continued)

d) Fiscal year

The Company follows a fiscal year ending December 31.

e) Critical accounting judgments, estimates and assumptions

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

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

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

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

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

ii) Impairment of available-for-sale financial assets

The Company determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value of the available-for-sale financial assets below its cost. The determination of what is significant or prolonged requires judgment. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

iii) Impairment of receivables

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

iv) Fair value of financial instruments

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

For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Please refer fair value of financial instruments disclosure in note 27.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented except for the change in accounting policy for accounting of zakat and income tax (refer note 18.1) and adoption of the amendments to existing standards mentioned below which has had no material impact on these financial statements on the current year or prior years and is expected to have an insignificant effect in future years:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. These adoptions have no material impact on the consolidated financial statements other than certain additional disclosures.

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting years beginning on or after 1 January 2017 and is currently assessing their impact. Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2017:

- IFRS 5 - "Non-current Assets Held for Sale and Discontinued Operations", amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

- IFRS 7 - "Financial Instruments: Disclosures" has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

- IAS 19 - "Employee Benefits" - amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

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

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

  The Company is eligible to apply the deferral approach under the amendments to IFRS 4. The impact of the adoption of IFRS 9 on the Company's financial statements will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. IASB through its amendments to IFRS 4 issued in September 2016 had allowed temporary exemption if a Company meets the following criteria:
  a) The Company has not previously applied any version of IFRS 9; and
  b) its activities are predominantly connected with insurance that is defined as total percentage of carrying amount of insurance liabilities is greater than 90% of its total liabilities.

  The Company believes that IFRS 9 would have an impact on the classification of financial instruments required to be measured mandatorily at fair value i.e. Investment in mutual funds currently classified under available for sale investments. Credit quality of the financial instruments are disclosed in note 29(d) to the financial statements. At present it is not possible to provide a reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

- IFRS 15 "Revenue from Contracts with Customers" - IFRS 15 will replace IAS 18 'Revenue' and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 also includes enhanced disclosure requirements. The impact of the adoption of the new standard is being assessed by the Company and is not considered significant.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- IFRS 17 - "Insurance Contracts", applicable for the period beginning on or after 1 January 2021, and will supersede IFRS 4 "Insurance Contracts". Earlier adoption permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the income statement and the balance sheet. The Company has decided not to early adopt this new standard.

The significant accounting policies used in preparing these financial statements are set out below:

a) Revenue Recognition

Recognition of premium and commission revenue

Premiums and commission are recorded in the statement of income – insurance operations and accumulated surplus based on straight line method over the insurance policy coverage period except for long term polices (construction and engineering) and marine cargo. Unearned premiums are calculated on a straight line method over the insurance policy coverage except for:

- Last three months premium at a reporting date is considered as unearned in respect of marine cargo;

- Pre-defined calculation for Engineering class of business for risks undertaken that extend beyond a single year. In accordance with this calculation, lower premiums are earned in the first year which gradually increases towards the end of the tenure of the policy; and

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

Investment income

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

Dividend income

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

b) Insurance contracts

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

c) Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and is charged to "Changes in outstanding claims and reserves" in the statement of income - insurance operations and accumulated surplus as incurred.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Salvage and subrogation reimbursement

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

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

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

e) Reinsurance

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. An asset or liability is recorded in the statement of financial position - insurance operations' representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

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

f) Deferred policy acquisition costs

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

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

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

g) Liability adequacy test

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

h) Receivables

Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in "Other general and administrative expenses" in the statement of income - insurance operations and accumulated surplus. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 11 fall under the scope of IFRS 4 "Insurance contracts".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Available-for-sale investments

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

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

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

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

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

j) Investments in associates

An associate is an entity in which the Company has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the statement of financial position at cost, plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments.

When the company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

At each reporting date, the Company determines whether there is objective evidence that the investment in associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss in the statement of income - insurance operations and accumulated surplus or statement of comprehensive income – shareholders operations, as the case may be.

k) De-recognition of financial instruments

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

l) Offsetting

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) 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.

n) Impairment of financial assets

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

Evidence of impairment may include:

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Property and equipment

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

	Years
Buildings	40-48
Furniture and fixtures	10
Computer equipment	4
Vehicles	4

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in "Other income, net" in the statement of income - insurance operations and accumulated surplus.

p) Investment property

Investment property represents land that is held for capital appreciation purposes. Land is stated at cost less recognized impairment loss, if any.

q) Leases

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

r) Impairment of non-financial assets

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

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

s) Employees' end-of-service benefits

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

t) Provisions, accrued expenses and other liabilities

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis. Effective January 1, 2017, based on the Circular issued by SAMA, the Company amended its accounting policy to charge zakat directly into retained earnings in the statement of changes in shareholders' equity instead of income from operations within statement of comprehensive income - shareholders operations. The effect of change in accounting policy is explained in note 18.1.

v) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

w) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks including murabaha deposits with less than three months maturity from the date of acquisition.

x) Cash flow statement

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

y) Foreign currencies

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

z) Operating segments

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

- Medical - coverage for health insurance.
- Motor insurance.
- Property and Casualty - coverage for property, engineering, marine, aviation, energy and general accidents insurance.
- Manafeth – third party liability insurance for foreign vehicles and the profit of this segment is shared with other insurance companies.

Operating segments do not include shareholders operations of the Company. Income earned from investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The surplus or loss from the insurance operations is allocated to this segment on an appropriate basis.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions. No inter-segment transactions occurred during the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

aa) Manafeth shared agreement

As described in note 21, the Manafeth shared agreement is an insurance pooling arrangement related to motor insurers in KSA. This is an arrangement between 25 insurance companies of KSA where the entity is the leader in providing Manafeth (Insurance coverage for motor vehicles entering in KSA). The entity does not act as an agent on behalf of the other insurers in agreement. Therefore the Company accounts for manafeth shared agreement by recording the premiums under the gross written premium and claims under gross claims paid. The relevant assets and liabilities are also recorded as a separate operating segment along with the assets and liabilities of other operating segments. The distribution of share of income to other participating insurance companies is recorded as an expense in "Manafeth insurance share distribution" in the statement of income – insurance operations.

bb) Legal reserve

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

cc) Fair values

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

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

4. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Furniture and fixtures	Computer equipment	Vehicles	Capital work in progress	**Total 2017**	Total 2016
				SAR'000				
Cost:								
January 1	53,036	200,601	63,544	115,243	829	12,934	**446,187**	459,218
Additions	-	-	1,144	2,136	-	1,207	**4,487**	4,048
Disposals	-	-	(567)	(63)	(373)	-	**(1,003)**	(17,079)
Transfers	-	(675)	1,499	13,317	-	(14,141)	-	-
December 31	53,036	199,926	65,620	130,633	456	-	**449,671**	446,187
Accumulated Depreciation:								
January 1	-	15,121	51,470	80,652	538	-	**147,781**	146,967
Charge for the year	-	4,855	3,860	14,934	79	-	**23,728**	17,689
Disposals	-	-	(453)	(63)	(373)	-	**(889)**	(16,875)
December 31	-	19,976	54,877	95,523	244	-	**170,620**	147,781
Net book value								
December 31, 2017	**53,036**	**179,950**	**10,743**	**35,110**	**212**		**279,051**	-
December 31, 2016	53,036	185,480	12,074	34,591	291	12,934	-	298,406

5. INVESTMENTS IN ASSOCIATES

i) Insurance Operations:

	2017	2016
	SAR'000	
Balance, January 1	**12,691**	13,602
Share of loss(Note 22)	**(5,670)**	(526)
Dividends received	**-**	(385)
Balance, December 31	**7,021**	12,691

The Company's interest in associate, which is unquoted, is as follows along with summarized financial information:

Najm Insurance Services

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
				SAR'000		
September 30, 2017*	**Saudi Arabia**	**292,010**	**88,494**	**260,479**	**28,063**	**3.45%**
September 30, 2016*	Saudi Arabia	234,704	78,327	239,238	25,954	3.45%

* Based on latest available management accounts.

The Company has significant influence over the financial and operating policy decision of the associate by way of representation on its board of directors.

5. INVESTMENTS IN ASSOCIATES (Continued)

ii) Shareholders Operations:

	2017	2016
	SAR'000	
Balance, January 1	**94,958**	80,402
Share of profit	**19,418**	19,153
Dividends received	**(26,969)**	(6,213)
Unrealized gain on investments	**1,040**	1,616
Balance, December 31	**88,447**	94,958

The Company's interest in associates, which are unquoted, is as follows along with summarized financial information:

a) United Insurance Company

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
				SAR'000		
November 30, 2017 *	Bahrain	**250,989**	**111,082**	**80,864**	**29,502**	**50%**
November 30, 2016 *	Bahrain	235,337	102,594	74,436	28,988	50%

* Based on latest available management accounts.

b) Waseel Application Services Provider

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
				SAR'000		
November 30, 2017 *	Saudi Arabia	**81,744**	**8,330**	**33,895**	**16,973**	**45%**
November 30, 2016 *	Saudi Arabia	68,060	8,850	31,781	15,300	45%

* Based on latest available management accounts.

6. AVAILABLE-FOR-SALE INVESTMENTS

i) Insurance operations:

Available-for-sale investments of the insurance operations comprise the following:

	2017	2016
	SAR'000	
Local / regional funds and fixed income investments	**653,225**	2,045,601
Local / regional equity	**-**	63,564
Foreign equity and equity funds	**15,284**	-
Foreign funds and fixed income investments	**2,291,921**	1,046,421
Total	**2,960,430**	3,155,586

6. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

i) Insurance Operations: (continued)

Movements in available-for-sale investments are as follows:

	Quoted securities	Unquoted securities	Total
		SAR'000	
As at January 1, 2016	582,916	2,637,526	3,220,442
Purchases	837,724	2,559,857	3,397,581
Disposals	(1,038,095)	(2,604,683)	(3,642,778)
Changes in fair value of investments	20,083	160,258	180,341
As at December 31, 2016	402,628	2,752,958	3,155,586
As of January 1, 2017	**402,628**	**2,752,958**	**3,155,586**
Purchases	**43,806**	**1,453,478**	**1,497,284**
Disposals	**(402,628)**	**(1,213,533)**	**(1,616,161)**
Changes in fair value of investments	**(2,561)**	**(73,718)**	**(76,279)**
As at December 31, 2017	**41,245**	**2,919,185**	**2,960,430**

The movement of changes in fair value of investments is as follows:

	2017	2016
	SAR'000	
Net change in fair value	**(76,279)**	180,341
Net amount transferred to statement of income - insurance operations	**(13,255)**	(118,399)
Impairment on available-for-sale investments	-	50,036
	(89,534)	111,978

ii) Shareholders Operations:

Shareholders operations available-for-sale investments comprise the following:

	2017	2016
	SAR'000	
Local / regional funds and fixed income investments	**408,645**	1,145,607
Local / regional equity	-	43,683
Foreign funds and fixed income investments	**2,156,134**	188,701
Total	**2,564,779**	1,377,991

Movements in available-for-sale investments are as follows:

	Quoted securities	Unquoted securities	Total
		SAR'000	
As at January 1, 2016	246,636	1,932,287	2,178,923
Purchases	547,063	4,663,536	5,210,599
Disposals	(748,666)	(5,269,701)	(6,018,367)
Changes in fair value of investments	13,032	(6,196)	6,836
As at December 31, 2016	58,065	1,319,926	1,377,991
As at January 1, 2017	**58,065**	**1,319,926**	**1,377,991**
Purchases	**40,007**	**4,179,252**	**4,219,259**
Disposals	**(66,480)**	**(2,950,426)**	**(3,016,906)**
Changes in fair value of investments	**7,748**	**(23,313)**	**(15,565)**
As at December 31, 2017	**39,340**	**2,525,439**	**2,564,779**

6. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

ii) Shareholders Operations: (continued)

The movement of changes in fair value of investments is as follows:

	2017	2016
	SAR'000	
Net change in fair value	**(15,565)**	6,836
Net amount transferred to statement of comprehensive income – shareholders' operations	**1,008**	(43,191)
Impairment on available-for-sale investments	**-**	22,034
	(14,557)	(14,321)

The available-for-sale investments mainly comprise of mutual funds, sukuks and equities. As at December 31, 2017 the Company has invested an amount of SAR 2.29 billion from available for sale investments - insurance operations and SAR 2.09 billion from available for sale investments - shareholders' operations in MENA Islamic Fund SPC (a segregated portfolio company with limited liability) registered in the Cayman Islands. These investments comprises of money market fund, fixed income fund, public equity fund and mutual funds administered by a company based in Ireland having international operations. The investment advisor of such investments are authorized financial institutions based in Kingdom of Saudi Arabia. Such investments are unrated since credit ratings by reputable external agencies were not available at the reporting date.

7. MURABAHA DEPOSITS

The murabaha deposits are held with commercial banks in the Kingdom of Saudi Arabia. These murabaha deposits are denominated in Saudi Arabian Riyals and have an original maturity of more than three months to one year and yield financial incomes at rates 2.25%. (2016: Nil).

The movements in murabaha deposits during the year ended December 31, 2017 and 2016, are as follows:

Shareholders Operations:

	2017	2016
	SAR'000	
Placed during the year	**82,035**	-
Balance, December 31	**82,035**	-

8. PREPAID EXPENSES AND OTHER ASSETS

	2017	2016
	SAR'000	
Advances to medical service providers and others	**125,240**	194,394
Prepaid expenses	**39,150**	46,870
Excess of loss premium deposits	**13,653**	12,972
Other assets	**30,522**	33,985
	208,565	288,221

9. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS

a) Deferred policy acquisition costs

	2017	2016
	SAR'000	
Balance, January 1	**218,100**	209,244
Incurred during the year	**445,462**	525,754
Amortized during the year	**(492,772)**	(516,898)
Balance, December 31	**170,790**	218,100

b) Unearned commission income

	2017	2016
	SAR'000	
Balance, January 1	**54,439**	51,024
Commission received during the year	**112,990**	105,350
Commission earned during the year	**(113,768)**	(101,935)
Balance, December 31	**53,661**	54,439

9. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS (Continued)

c) Unearned premiums

	2017			2016		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	SAR'000			SAR'000		
Balance, January 1	**4,390,229**	**(553,813)**	**3,836,416**	4,233,561	(629,974)	3,603,587
Premiums written during the year	**8,406,669**	**(1,091,407)**	**7,315,262**	8,055,135	(981,686)	7,073,449
Premiums earned during the year	**(8,391,654)**	**1,054,095**	**(7,337,559)**	(7,898,467)	1,057,847	(6,840,620)
Balance, December 31	**4,405,244**	**(591,125)**	**3,814,119**	4,390,229	(553,813)	3,836,416

d) Outstanding claims and reserves

	2017			2016		
	Gross	Reinsurers share	Net	Gross	Reinsurers share	Net
	SAR'000			SAR'000		
Balance, January 1	**3,592,698**	**(2,118,754)**	**1,473,944**	3,190,117	(1,835,659)	1,354,458
Claims paid	**(6,672,777)**	**848,579**	**(5,824,198)**	(5,327,532)	343,851	(4,983,681)
Claims incurred	**7,292,360**	**(496,309)**	**6,796,051**	5,730,113	(626,946)	5,103,167
Balance, December 31	**4,212,281**	**(1,766,484)**	**2,445,797**	3,592,698	(2,118,754)	1,473,944
Outstanding claims	**2,483,435**	**(1,375,277)**	**1,108,158**	2,270,201	(1,780,402)	489,799
Salvage and subrogation	**(108,671)**	**-**	**(108,671)**	(123,100)	-	(123,100)
Incurred but not reported claims and other reserves	**1,700,269**	**(391,207)**	**1,309,062**	1,445,597	(338,352)	1,107,245
Premium deficiency reserve	**137,248**	**-**	**137,248**	-	-	-
Balance, December 31	**4,212,281**	**(1,766,484)**	**2,445,797**	3,592,698	(2,118,754)	1,473,944

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. During the quarter three-month period ended December 31, 2017, the management and external actuary had made a detailed assessment of technical reserves and the various parameters in the valuation of technical liabilities.

As at December 31, 2017, based on the recommendations of external actuary, management had recorded technical reserves (Gross outstanding claims and reserves) which amounted to SAR 4.2 billion (2016: SAR 3.6 billion). During the year ended December 31, 2017, management had recorded additional reserves (net of reinsurance) of SAR 971.85 million (2016: SAR 119.48 million) in the statement of income - insurance operations and accumulated surplus. The significant increase in reserves mainly relates to medical line of business amounted to SAR 1,009 million, net of reinsurance and including premium deficiency reserve, on account of changes in the valuation assumptions considered by the external actuary which are a best-estimate of the expected ultimate claim trends. Further, based on actuarial recommendation, management recorded a premium deficiency reserve of SAR 137.24 million for medical line of business which is included in the outstanding claims and reserves. Management has considered the change as a 'change in accounting estimate' and accounted for this prospectively in line with the requirements of the accounting framework.

10. REINSURERS' SHARE OF OUTSTANDING CLAIMS, NET

Reinsurers' share of outstanding claims comprise net amounts due from the following:

	2017	2016
	SAR'000	
Reinsurers' share of insurance liabilities	**1,767,968**	2,120,276
Impairment provision	**(1,484)**	(1,522)
	1,766,484	2,118,754

Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the date of the statement of financial position. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern. Reinsurance arrangements are made with counterparties with sound credit ratings under Standard and Poor's ratings methodology and ratings as per other reputable agencies.

Amounts due from reinsurers relating to claims already paid by the Company are included in receivables, net (Note 10).

11. RECEIVABLES, NET

Receivables comprise net amounts due from the following:

	2017	2016
	SAR'000	
Policyholders	**1,742,599**	1,890,619
Brokers and agents	**365,938**	318,076
Related parties (Note 26)	**155,600**	165,494
	2,264,137	2,374,189
Receivables from reinsurers	**110,677**	32,489
Administrative service plan	**22,169**	24,070
	2,396,983	2,430,748
Provision for doubtful receivables	**(139,305)**	(103,760)
Receivables, net	**2,257,678**	2,326,988

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

	2017	2016
	SAR'000	
Balance, January 1	**103,760**	168,146
Provision/ (reversal) for the year (Note 22)	**35,545**	(61,208)
Write-offs	**-**	(3,178)
Balance, December 31	**139,305**	103,760

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

			Past due but not impaired			Past due and impaired		
	Total	Neither past due nor impaired	Less than 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 - 360 days	More than 360 days
2017	**2,396,983**	**1,359,793**	**285,201**	**118,048**	**274,843**	**86,250**	**179,596**	**93,252**
2016	2,430,748	1,411,972	391,701	358,901	71,025	76,629	28,110	92,410

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

Receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia and reinsurance companies mainly outside the Kingdom of Saudi Arabia. Receivables include an amount of SAR 221 million (2016: SAR 51 million) due in foreign currencies, mainly in US dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of the transaction. Arrangements with reinsurers normally require settlement within a certain agreed period.

The five largest customers accounts for 38% (December 31, 2016: 34%) of the premiums receivable as at December 31, 2017.

12. STATUTORY DEPOSIT

In compliance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company had deposited 10% percent of its share capital, amounting to SAR 125 million in a bank designated by SAMA. The statutory deposit is maintained with the National Commercial Bank and can be withdrawn only with the consent of SAMA.

13. CASH AND CASH EQUIVALENTS

i) Insurance operations:

	2017	2016
	SAR'000	
Murabaha deposits	**200,133**	411,000
Banks balances and cash	**915,011**	968,402
	1,115,144	1,379,402

ii) Shareholders operations:

	2017	2016
Murabaha deposits	**100,000**	905,150
Banks balances and cash	**182,059**	116,597
	282,059	1,021,747

Murabaha deposits are maintained with financial institutions and have a maturity of three months or less from the date of acquisition. These earn commission at an average rate of 2.2% per annum as at December 31, 2017 (2016: 3.2% per annum).

Bank balances and cash includes call account balance of SAR 188 million (December 31, 2016: SAR 483 million). Both bank balances and murabaha deposits (including off-balance sheet exposures) are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology.

14. INSURANCE OPERATIONS' SURPLUS AND DIVIDENDS DECLARED

Insurance Operations' surplus

The insurance operations' invests its surplus funds in investments as disclosed in Notes 5, 6 and 7. Changes in the fair value of available-for-sale investments at December 31, 2017 are not considered as part of the net surplus available for distribution to policyholders. At the time such investments are sold or gains and losses are realized, they will be included in the statement of income - insurance operations and accumulated surplus.

Dividends declared

On February 15, 2017, corresponding to Jumada Al-Awal 18, 1438H the Company's Board of Directors proposed to pay cash dividend for the year ended December 31, 2016 of SAR 5 per share amounting to SAR 500 million (2015: SAR 100 million) to its shareholders.

Further on February 15, 2017, corresponding to Jumada Al-Awal 18, 1438H the Company's Board of Directors proposed a bonus issue of 25 million shares of SAR 10 each, amounting to SAR 250 million (2015: null) to its shareholders.

The proposed dividend has been approved by the shareholders at the General Assembly meeting.

15. CLAIMS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

	2017	2016
	SAR'000	
Payables to policyholders	**577,233**	685,141
Payable - General Authority of Zakat and Tax	**369,015**	336,377
Accrued expenses	**119,659**	134,748
Marketing representative commissions	**74,626**	98,769
Manafeth share of profit distribution payable	**83,335**	106,674
Employee end of service benefits (15.1)	**119,242**	98,677
Provision for leave encashment	**12,365**	12,612
Employees' savings plan	**25,339**	9,605
Other liabilities	**26,080**	23,365
	1,406,894	**1,505,968**

15.1 EMPLOYEE END OF SERVICE BENEFITS

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

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

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

	2017	2016
	SAR'000	
Present value of defined benefit obligation	**119,242**	98,677
Fair value of plan assets	-	-
	119,242	98,677

15.2 Movement of defined benefit obligation

	2017	2016
	SAR'000	
Opening balance	**98,677**	81,349
Charge to statement of income – insurance operations and accumulated surplus	**26,731**	27,288
Charge to statement of comprehensive income – insurance operations	**5,879**	-
Payment of benefits during the year	**(12,045)**	(9,960)
Closing balance	**119,242**	98,677

15.3 Reconciliation of present value of defined benefit obligation

	2017	2016
	SAR'000	
Present value of defined benefit obligation as at January 1	**98,677**	81,349
Current service costs	**22,129**	24,664
Financial costs	**4,602**	2,624
Actuarial loss from experience adjustments	**5,879**	-
Benefits paid during the year	**(12,045)**	(9,960)
Present value of defined benefit obligation as at December 31	**119,242**	98,677

15.4 Principal actuarial assumptions

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

	2017	2016
Valuation discount rate	4.6%	3.0%
Expected rate of increase in salary level across different age bands	4.5% - 8.8%	3.9% - 8.8%

15. CLAIMS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES (Continued)

15.5 Sensitivity analysis of actuarial assumptions

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

	2017	2016
	Impact on defined benefit obligation	
Valuation discount rate		
- Increase by 0.5%	(4,094)	(3,992)
- Decrease by 0.5%	4,376	4,271
Expected rate of increase in salary level across different age bands		
- Increase by 0.5%	4,326	4,182
- Decrease by 0.5%	(4,086)	(3,950)

16. RESERVE FOR DISCONTINUED OPERATIONS

The reserve for discontinued operations comprise the following in relation to one of the Company's divisions which was discontinued during 1998:

	2017	2016
	SAR '000	
Outstanding claims	1,425	1,425
Reserve for losses	196	196
Total	1,621	1,621

17. CLAIMS DEVELOPMENT TABLE

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the periods beginning from 2015 onwards whose claim experience has not been fully developed.

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

2017

Accident year	2012 & Earlier	2013	2014	2015	2016	2017	Total
				SAR '000			
Estimate of ultimate claims cost:							
At the end of accident year	21,718,054	4,917,107	3,669,909	4,862,126	5,004,460	5,842,642	
One year later	22,696,797	5,596,818	4,120,395	5,580,651	6,045,645		
Two years later	22,543,098	5,522,532	4,153,516	5,615,040			
Three years later	22,522,683	5,511,904	4,129,605				
Four years later	22,513,981	5,511,828					
Five years later	22,505,763						
Current estimate of cumulative claims	22,505,763	5,511,828	4,129,605	5,615,040	6,045,645	5,842,642	49,650,523
Cumulative payments to date	(22,324,301)	(5,399,079)	(3,929,770)	(5,151,135)	(5,675,420)	(4,687,383)	(47,167,088)
Liability recognized in statement of financial position	181,462	112,749	199,835	463,905	370,225	1,155,259	2,483,435
Salvage and subrogation							(108,671)
Incurred but not reported claims	-	5,049	6,683	102,387	181,323	1,404,827	1,700,269
Premium deficiency reserve							137,248
Outstanding claims and reserves							4,212,281

17. CLAIMS DEVELOPMENT TABLE (Continued)

2016

Accident year	2011 & Earlier	2012	2013	2014	2015	2016	Total
				SAR '000			
Estimate of ultimate claims cost:							
At the end of accident year	18,719,531	2,971,986	4,917,107	3,669,909	4,862,126	5,004,460	
One year later	18,746,068	3,978,907	5,596,818	4,120,395	5,580,651		
Two years later	18,717,890	4,016,792	5,522,532	4,153,516			
Three years later	18,526,306	4,021,777	5,511,904				
Four years later	18,500,906	4,025,411					
Five years later	18,488,570						
Current estimate of cumulative claims	18,488,570	4,025,411	5,511,904	4,153,516	5,580,651	5,004,460	42,764,512
Cumulative payments to date	(18,309,955)	(3,995,338)	(5,387,195)	(3,890,033)	(4,660,503)	(4,251,287)	(40,494,311)
Liability recognized in statement of financial position	178,615	30,073	124,709	263,483	920,148	753,173	2,270,201
Salvage and subrogation							(123,100)
Incurred but not reported claims	-	4,293	5,682	87,051	154,164	1,194,407	1,445,597
Outstanding claims and reserves							3,592,698

18. ZAKAT

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

	2017	2016
	SAR'000	
Share capital	**1,000,000**	1,000,000
Reserves, opening provisions and other adjustments	**1,872,365**	1,598,458
Book value of long term assets	**(653,677)**	(703,074)
	2,218,688	1,895,384
Zakatable income for the year	**(72,324)**	831,374
Zakat base	**2,146,364**	2,726,758
Zakat due at 2.5%	**53,659**	68,169

As the zakat base for the year is higher than the zakatable income, the zakat for the year is calculated at 2.5% on the zakat base for the year.

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

	2017	2016
	SAR'000	
Balance, January 1	**200,443**	152,106
Provided during the year	**53,659**	68,169
Payments during the year	**(20,784)**	(19,832)
Balance, December 31	**233,318**	200,443

Status of Assessments

The Company had filed Zakat returns with the General Authority of Zakat and Tax ("GAZT") for the years from 2005 to 2016. In relation to 2005 and 2006, the final assessments had been finalized and the Company had filed an appeal against the assessments of GAZT which is raised to Board of Grievances. In relation to 2007 to 2013, GAZT had raised assessments and management had subsequently filed their response. Further, GAZT has yet to commence its review for the years 2014 and 2016. Based on advice from zakat consultant, appropriate provisions have been made and management believes that finalization of the above mentioned assessments is not expected to have a material impact on the financial statements.

18. ZAKAT (Continued)

18.1. Change in accounting policy

As a result of the Circular issued by SAMA, the Company amended its accounting policy relating to zakat and income tax and have started to charge zakat and income tax directly to the statement of changes in shareholders' equity. Previously, zakat and income tax was charged in the statement of comprehensive income – shareholders' operations. The Company has accounted for this change in accounting policy relating to zakat and income tax retrospectively.

The change in the accounting policy has the following impacts on the statements of comprehensive income - shareholders' operations and changes in shareholders' equity. The above change in accounting policy did not have an impact on statements of financial position and cash flows for any of the year presented.

Statement of comprehensive income – shareholders 'operations for the year ended December 31, 2016	**As previously stated**	**Effect of restatement relating to zakat**	**As restated**
		SAR'000	
Income from operations before zakat charge	800,947	-	800,947
Zakat charge	(68,169)	68,169	-
Income from operations	732,778	68,169	800,947
Other comprehensive loss	(14,321)	-	(14,321)
Total comprehensive income	718,457	68,169	786,626

Statement of changes in shareholders' equity for the year ended December 31, 2016	**As previously stated**	**Effect of restatement relating to zakat**	**As restated**
		SAR'000	
Income from operations	732,778	68,169	800,947
Other comprehensive loss	(14,321)	-	(14,321)
Total comprehensive income	718,457	68,169	786,626
Zakat charge	-	(68,169)	(68,169)

The basic and diluted earnings per share have been restated for the effects of the change in accounting policy, as mentioned below:

	EPS as previously reported	**Effect of restatement relating to zakat**	**EPS as restated**
		SAR	
Basic and diluted earnings per share	5.86	0.55	6.41

* *after effects of bonus issue – refer note 19.*

19. SHARE CAPITAL

The authorized, issued and paid up capital of the Company is SAR 1.25 billion at December 31, 2017 (2016: SAR 1 billion) consisting of 125 million shares of SAR 10 each.

A bonus issue of one share for every four shares held was approved by the shareholders in their general assembly meeting held on March 21, 2017. The bonus shares have been issued to the shareholders effective March 21, 2017. As a result the share capital of the Company has increased to SAR 1.25 billion comprising of 125 million shares issued.

On February 15, 2017, corresponding to Jumada Al-Awal 18, 1438H the Company's Board of Directors proposed to pay cash dividend for the year ended December 31, 2016 of SAR 5 per share amounting to SAR 500 million (2015: SAR 100 million) to its shareholders. The cash dividend was approved by shareholders in their general assembly meeting held on March 21, 2017.

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

	2017		
	Authorized and issued		**Paid up**
	No. of Shares	**SAR'000**	
Held by the public	**66,713,009**	**667,130**	**667,130**
Public Pension Agency	**29,737,685**	**297,377**	**297,377**
General Organization for Social Insurance	**28,549,306**	**285,493**	**285,493**
	125,000,000	**1,250,000**	**1,250,000**

	2016		
	Authorized and issued		Paid up
	No. of Shares	SAR'000	
Held by the public	53,370,407	533,704	533,704
Public Pension Agency	23,790,148	237,901	237,901
General Organization for Social Insurance	22,839,445	228,395	228,395
	100,000,000	1,000,000	1,000,000

20. LEGAL RESERVE

In accordance with the Articles of Association of the Company and in compliance with Article 70(2)(g) of the Insurance Implementing Regulations issued by SAMA, the Company is required to allocate 20% of its net income for the year to the legal reserve until it equals the value of share capital. This transfer is only made at the year end. The legal reserve is not available for distribution to Shareholders until liquidation of the Company.

21. MANAFETH SHARED AGREEMENT

On January 13, 2015 together with 25 related insurance companies, the Company signed the Manafeth shared agreement relating to third party liability motor insurance which is effective from January 1, 2015. The agreement relates to motor insurance for vehicles entering the Kingdom of Saudi Arabia.

The main terms of the above mentioned agreement are as follows:

- The Company obtains 15% management fee of the net result of the Manafeth portfolio;
- The Company obtains 4.25% of Manafeth's gross premiums written to cover the related indirect expenses; and
- The net result of the Manafeth portfolio after deducting the two above mentioned items is due to be shared equally by the Company and its related insurers.

22. INVESTMENT INCOME, NET

	2017	2016
Insurance Operations	**SAR'000**	
Available-for-sale:		
Dividend income	**163,201**	4,813
Commission income	**53,212**	19,254
Realized gain on sale (Note 31)	**13,255**	118,399
Investment fees	**(2,449)**	(1,397)
Share of loss from investment in associate (Note 5)	**(5,670)**	(526)
Investment income, net	**221,549**	140,543
Shareholders Operations		
Available-for-sale:		
Dividend income	**197,899**	23,219
Commission income	**11,630**	50,291
Foreign currency exchange loss	**-**	(79)
Realized (loss)/ gain on sale (Note 31)	**(1,008)**	43,191
Investment fees	**(1,417)**	(2,138)
Investment income, net	**207,104**	114,484

23. OPERATING AND SELLING EXPENSES

	2017	2016
	SAR'000	
Salaries and benefits	**308,864**	364,046
Advertising	**13,831**	15,124
Insurance, utilities and maintenance	**8,752**	10,788
Rent	**7,198**	6,240
Depreciation	**5,139**	5,373
Communications	**2,617**	3,788
Office supplies and printing	**531**	762
Training and education	**1,771**	619
Provision/ (reversal) for doubtful receivables (Note 11)	**35,545**	(61,208)
Others	**22,903**	11,828
	407,151	357,360

24. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
	SAR'000	
Professional fees	**14,505**	16,237
Depreciation	**18,589**	12,316
Insurance, utilities and maintenance	**9,499**	10,666
Indirect cost charge of Manafeth	**7,965**	10,015
License and other charges	**16,937**	8,716
Communications	**8,386**	6,150
Rent	**866**	1,874
Office supplies and printing	**1,775**	1,414
Training and education	**2,294**	978
Others	**17,619**	9,826
	98,435	78,192

25. (LOSS)/ EARNINGS PER SHARE

Basic and diluted (loss)/ earnings per share have been calculated by dividing the (loss)/ income from operations by 125 million shares to give retroactive effect of change in share capital as a result of bonus share issue.

26. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors. The following are the details of the major related party transactions during the year and the related balances at December 31:

	Amount of transactions for the year ended SAR'000		Balance receivable / (payable) as at SAR'000	
	2017	2016	**2017**	2016
Major shareholders				
Insurance premiums written	**28,164**	33,351	**3,631**	1,985
General Organization for Social Insurance - Other services	**100**	-	-	-
Associates				
Insurance premium written	**9,756**	41,500	**(40)**	22,328
Najm fees paid	**46,680**	31,199	**(7,883)**	20,980
Waseel fees paid	**17,744**	12,780	-	(1,115)
United Insurance Co. fees and claims, net	**15,016**	8,436	**3,393**	1,223
Entities controlled, jointly controlled or significantly influenced by related parties				
Insurance premiums written	**480,378**	504,682	**152,009**	141,181
Reinsurance transactions	-	8,056	-	(5,125)
Rent expenses paid	**1,020**	1,662	**(56)**	-
Amount of claims paid to hospitals	**74,421**	69,133	**10,216**	5,488

In accordance with the Company's Articles of Association, the Board of Directors is entitled each year to remuneration up to 10% of the remaining profit from shareholders operations, as defined, based on a decision by the General Assembly.

Remuneration and compensation of BOD Members and Top Executives

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and five top executives for the year ended December 31, 2017 and 2016:

2017	**BOD members (Executives)**	**BOD members (Non-Executive) SAR'000**	**Top Executives including the CEO and CFO**
Salaries and compensation	-	-	**6,001**
Allowances	-	**858**	**3,093**
Motivational plans	-	-	**447**
Annual remuneration	-	**1,800**	**3,627**
End of service indemnities	-	-	**2,897**
Total	-	**2,658**	**16,065**

During the year, the Company had paid a bonus to the former CEO amounting to SAR 3 million.

26. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

2016	BOD members (Executives)	BOD members (Non-Executive) SAR'000	Top Executives including the CEO and CFO
Salaries and compensation	-	-	6,180
Allowances	-	762	2,858
Motivational plans	-	-	88
Annual remuneration	-	1,800	3,382
End of service indemnities	-	-	597
Total	-	2,562	13,105

27. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair values of recognised financial instruments are not significantly different from the carrying values included in the financial statements. The estimated fair values of financial instruments are based on quoted market prices, when available.

Determination of fair value and fair value hierarchy

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

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

The table below presents the available-for-sale investments based on the fair value hierarchy:

	SAR'000			
2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for- sale investments				
Insurance operations				
Mutual funds	**25,961**	-	**2,589,615**	**2,615,576**
Equity shares	**15,284**	-	-	**15,284**
Sukuks	-	-	**329,570**	**329,570**
	41,245	-	**2,919,185**	**2,960,430**
Shareholders operations				
Mutual funds	**39,340**	-	**2,425,439**	**2,464,779**
Sukuks	-	-	**100,000**	**100,000**
	39,340	-	**2,525,439**	**2,564,779**
Total	**80,585**	-	**5,444,624**	**5,525,209**

27. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

	SAR'000			
2016	Level 1	Level 2	Level 3	Total
Available-for- sale investments				
Insurance operations				
Mutual funds	339,064	-	2,448,388	2,787,452
Equity shares	63,564	-	-	63,564
Sukuks	-	-	304,570	304,570
	402,628	-	2,752,958	3,155,586
Shareholders operations				
Mutual funds	14,382	-	890,076	904,458
Equity shares	43,683	-	-	43,683
Sukuks	-	-	100,000	100,000
Murabaha deposit	-	-	329,850	329,850
	58,065	-	1,319,926	1,377,991
Total	460,693	-	4,072,884	4,533,577

The valuation of each publicly traded investment is based upon the closing market price of that stock as of the valuation date, less a discount if the security is restricted. Fair values of private equity investments and mutual funds classified in Level 3 are determined based on the investees' latest reported net assets values as at the date of statement of financial position taking into account the fair value of underlying investments by the fund. The fair value of underlying investments are taken by the fund manager from reliable and third party sources including Reuters, Bloomberg. As at December 31, 2017 the Company has invested an amount of SAR 2.29 billion from available for sale investments - insurance operations and SAR 2.09 billion from available for sale investments - shareholders' operations in MENA Islamic Fund SPC registered in the Cayman Islands (refer note 6). These investments are classified under level 3, valued based on latest reported net assets values. Fair values of other investments (including sukuks) classified in Level 3 are determined based on discounted cash flows, which incorporate assumptions regarding an appropriate credit spread. There were no transfers in between levels during the year ended December 31, 2017 and 2016.

The fair values of murabaha deposits, bank balances and cash and other financial assets in statement of financial position – insurance and shareholders' operations which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements due to the short term nature of balances.

Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy

				SAR'000		
				Total gain or loss recognized in		
December 31, 2017	**Balance January 1**	**Purchases**	**Sales**	**Statement of income**	**Other comprehensive income**	**Balance December 31**
Insurance operations						
Mutual funds	**2,448,388**	**1,546,680**	**(1,433,630)**	**162,860**	**(86,973)**	**2,637,325**
Sukuks	**304,570**	**-**	**(22,710)**	**-**	**-**	**281,860**
	2,752,958	**1,546,680**	**(1,456,340)**	**162,860**	**(86,973)**	**2,919,185**
Shareholders						
Mutual funds	**890,076**	**3,823,681**	**(2,347,066)**	**81,053**	**(22,305)**	**2,425,439**
Sukuks	**100,000**	**-**	**-**	**-**	**-**	**100,000**
Murabaha	**329,850**	**-**	**(329,850)**	**-**	**-**	**-**
	1,319,926	**3,823,681**	**(2,676,916)**	**81,053**	**(22,305)**	**2,525,439**
Total	**4,072,884**	**5,370,361**	**(4,133,256)**	**243,913**	**(109,278)**	**5,444,624**

27. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

				SAR'000		
				Total gain or loss recognized in		
December 31, 2016	Balance January 1	Purchases	Sales	Statement of income	Other comprehensive income	Balance December 31
Insurance operations						
Mutual fund	2,363,652	2,474,857	(2,579,284)	(147,304)	336,467	2,448,388
Sukuks	273,874	85,000	(54,304)	-	-	304,570
	2,637,526	2,559,857	(2,633,588)	(147,304)	336,467	2,752,958
Shareholders						
Mutual funds	1,182,287	321,648	(624,603)	(60,131)	70,875	890,076
Murabaha	650,000	4,341,888	(4,662,038)	-	-	329,850
Sukuks	100,000	-	-	-	-	100,000
	1,932,287	4,663,536	(5,286,641)	(60,131)	70,875	1,319,926
Total	4,569,813	7,223,393	(7,920,229)	(207,435)	407,342	4,072,884

Sensitivity analysis of Level 3 investments

December 31, 2017	**Sensitivity factor**	**Impact on fair value due to increase in sensitivity factor**	**Impact on fair value due to decrease in sensitivity factor**
		SAR'000	
Insurance Operations			
Mutual funds	+/- 2% change in NAV per unit	**53,684**	**(53,631)**
Sukuks	+/- 10% change in credit spread	**33,894**	**(32,190)**
Shareholders			
Mutual funds	+/- 2% change in NAV per unit	**47,620**	**(48,446)**
Sukuks	+/- 10% change in credit spread	**10,000**	**(10,000)**

December 31, 2016	Sensitivity factor	Impact on fair value due to increase in sensitivity factor	Impact on fair value due to decrease in sensitivity factor
Insurance Operations			
Mutual funds	+/- 2% change in NAV per unit	35,486	(55,842)
Sukuks	+/- 10% change in credit spread	33,162	(28,244)
Shareholders			
Mutual funds	+/- 2% change in NAV per unit	16,612	(17,284)
Murabaha	+/- 5% change in credit spread	16,540	(16,627)
Sukuks	+/- 10% change in credit spread	10,000	(10,000)

28. OPERATING SEGMENTS

Consistent with the Company's internal reporting process; operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker. Operating segments do not include shareholders operations of the Company.

Segment assets do not include insurance operations' property and equipment, prepayments and other assets, receivables, net and cash and cash equivalents. Accordingly, they are included in unallocated assets. Segment liabilities do not include reserve for discontinued operations, surplus distribution payable, due to shareholders operations, reinsurance balances payable, claims payable, accrued expenses and other liabilities and fair value reserve for available-for-sale investments. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premiums receivable and depreciation on the property and equipments) are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

	For the year ended December 31, 2017				
Operating Segments	**Medical**	**Motor**	**Manafeth**	**Property & casualty**	**Total**
			SAR' 000		
Gross premiums written:					
Compulsory	**4,590,137**	-	-	-	-
Non - compulsory	**1,156,641**	-	-	-	-
Total gross premiums written	**5,746,778**	**1,388,860**	**187,417**	**1,083,614**	**8,406,669**
Net premiums written	**5,622,726**	**1,388,862**	**187,417**	**116,257**	**7,315,262**
Net premiums earned	**5,574,977**	**1,435,813**	**200,302**	**126,467**	**7,337,559**
Reinsurance commissions	**1,472**	**4**	-	**112,292**	**113,768**
Net claims incurred	**(5,745,030)**	**(970,742)**	**(43,333)**	**(36,946)**	**(6,796,051)**
Policy acquisition costs	**(232,268)**	**(177,390)**	**(32,685)**	**(50,429)**	**(492,772)**
Excess of loss expenses	-	**(22,046)**	**(2,937)**	**(15,392)**	**(40,375)**
Changes in reserve for takaful activities	**2,326**	-	-	-	**2,326**
Other underwriting expenses	**(127,749)**	**(15,082)**	**(16,231)**	**(17,836)**	**(176,898)**
(Loss)/ Income from Insurance operations	**(526,272)**	**250,557**	**105,116**	**118,156**	**(52,443)**
General, administrative, operating and selling expenses					**(505,586)**
Investment income, net					**221,549**
Other income, net					**51,629**
Manafeth insurance share distribution					**(83,335)**
(Deficit)/ Surplus from Insurance operations					**(368,186)**

28. OPERATING SEGMENTS (Continued)

Operating Segments	Medical	Motor	Manafeth	Property & casualty	Total
	For the year ended December 31, 2016				
	SAR' 000				
Gross premiums written:					
Compulsory	4,421,272	-	-	-	-
Non - compulsory	809,815	-	-	-	-
Total gross premiums written	5,231,087	1,512,411	235,643	1,075,994	8,055,135
Net premiums written	5,195,999	1,512,411	235,643	129,396	7,073,449
Net premiums earned	4,992,831	1,475,708	233,578	138,503	6,840,620
Reinsurance commissions	6,355	31	-	95,549	101,935
Net claims incurred	(3,996,114)	(1,019,049)	(43,557)	(44,447)	(5,103,167)
Policy acquisition costs	(257,442)	(173,389)	(35,975)	(50,092)	(516,898)
Excess of loss expenses	-	(18,059)	(3,248)	(8,560)	(29,867)
Changes in reserve for takaful activities	565	-	-	-	565
Other underwriting expenses	(98,458)	(7,781)	(20,756)	(6,345)	(133,340)
Income from Insurance Operations	647,737	257,461	130,042	124,608	1,159,848
General, administrative, operating and selling expenses					(435,552)
Investment income, net					140,543
Impairment on available-for-sale investments					(50,036)
Other income, net					58,386
Manafeth insurance share distribution					(106,674)
Surplus from Insurance Operations					766,515

28. OPERATING SEGMENTS (Continued)

	As at December 31, 2017				
Operating Segments	**Medical**	**Motor**	**Manafeth**	**Property & casualty**	**Total**
			SAR' 000		
Assets - Insurance operations					
Reinsurer's share of unearned premiums	62,909	6	-	528,210	591,125
Reinsurer's share of outstanding claims	53,689	34,740	1,141	1,676,914	1,766,484
Deferred policy acquisition costs	99,636	47,306	1,822	22,026	170,790
Investments (including investment property)					2,977,312
Receivables, net					2,257,678
Unallocated assets					2,448,426
Total assets					10,211,815
Liabilities and surplus - Insurance operations					
Gross unearned premiums	3,084,610	674,011	26,982	619,641	4,405,244
Gross outstanding claims and reserves	1,954,296	376,094	30,417	1,851,474	4,212,281
Unearned commission income	5,346	1	-	48,314	53,661
Reserve for takaful activities	10,576	-	-	-	10,576
Unallocated liabilities and surplus					1,530,053
Total liabilities and surplus					10,211,815

	As at December 31, 2016				
Operating Segments	**Medical**	**Motor**	**Manafeth**	**Property & casualty**	**Total**
			SAR' 000		
Assets - Insurance operations					
Reinsurer's share of unearned premiums	6,204	22	-	547,587	553,813
Reinsurer's share of outstanding claims	19,562	18,843	3,213	2,077,136	2,118,754
Deferred policy acquisition costs	117,411	77,369	1,831	21,489	218,100
Investments (including investment property)					3,178,138
Receivables, net					2,326,988
Unallocated assets					1,966,029
Total assets					10,361,822
Liabilities and surplus - Insurance operations					
Gross unearned premiums	2,980,156	720,978	39,867	649,228	4,390,229
Gross outstanding claims and reserves	910,263	398,883	30,657	2,252,895	3,592,698
Unearned commission income	4,657	6	-	49,776	54,439
Reserve for takaful activities	12,902	-	-	-	12,902
Unallocated liabilities and surplus					2,311,554
Total liabilities and surplus					10,361,822

29. RISK MANAGEMENT

(a) Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid being greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.

Significant portion of reinsurance business ceded is placed on treaty and facultative basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its exposure to catastrophic and riot events by use of reinsurance arrangements.

Concentration of insurance risk

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

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

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

Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the statement of financial position date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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

Process used to decide on assumptions

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

29. RISK MANAGEMENT (Continued)

(a) Insurance risk (Continued)

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

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

Sensitivity analysis

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

A hypothetical 10% change in the claim ratio, net of reinsurance, would impact income from insurance operations as follows;

	Surplus from insurance operations	
Impact of change in claim ratio by + / - 10%	**2017**	2016
	SAR'000	
Medical	**116,853**	83,202
Motor	**21,895**	22,052
Manafeth	**2,347**	2,300
Property and casualty	**3,170**	3,170
	144,265	110,724

(b) Reinsurance risk

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

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

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

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance of the reinsurers, wherever applicable, are thoroughly reviewed by the Company and agreed to pre-set requirements of the Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business. As at December 31, 2017 and 2016, there is no significant concentration of reinsurance balances.

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

29. RISK MANAGEMENT (Continued)

(c) Market Risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market commission rates or the market price of securities or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

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

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

Currency Risk

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

The currency exposures of available-for-sale investments are set out below:

Insurance Operations	**2017**	2016
	SAR'000	
Saudi Arabian Riyals and GCC currencies	**612,300**	1,658,097
US Dollars	**2,291,921**	1,497,489
Other currencies	**56,209**	-
	2,960,430	3,155,586

Shareholders Operations	**2017**	2016
	SAR'000	
Saudi Arabian Riyals and GCC currencies	**97,077**	805,530
US Dollars	**2,090,531**	572,461
Euros	-	-
Other currencies	**377,171**	-
	2,564,779	1,377,991

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

Commission Rate Risk

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

29. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

An increase or decrease of 100 basis points in interest yields would result in a change in the loss for the year of SAR 3.8 million (2016: SAR 6.9 million).

The commission and non-commission bearing investments of the Company and their maturities as at December 31, 2017 and 2016 are as follows:

	Less than 1 year	More than 1 year	Non-commission bearing	Total
Insurance Operations		SAR'000		
2017	**281,860**	-	**2,678,570**	**2,960,430**
2016	537,947	-	2,617,639	3,155,586
Shareholders Operations				
2017	**100,000**	-	**2,464,779**	**2,564,779**
2016	431,725	-	946,266	1,377,991

Other Price Risk

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

The Company's investments amounting to SAR 80.58 million (2016: SAR 107.25 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

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

	Fair value change	Effect on Company's profit SAR'000
December 31, 2017	+ / - 10%	**+/- 7,636**
December 31, 2016	+ / - 10%	+ / - 10,725

The sensitivity analysis presented is based upon the portfolio position as at December 31, 2017 and 2016. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company. The sensitivity of level 3 investments is disclosed in note 27.

(d) Credit Risk

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

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

	2017	2016
	SAR'000	
ASSETS - INSURANCE OPERATIONS		
Cash and cash equivalents (Note 13)	**1,115,144**	1,379,402
Receivables, net	**2,257,678**	2,326,988
Available-for-sale investments	**2,960,430**	3,155,586
Accrued investment income	**71,739**	-
Reinsurers' share of outstanding claims, net	**1,766,484**	2,118,754
Total	**8,171,475**	8,980,730

29. RISK MANAGEMENT (Continued)

(d) Credit risk (Continued)

	2017	2016
	SAR'000	
ASSETS - SHAREHOLDERS OPERATIONS		
Cash and cash equivalents (Note 13)	**282,059**	1,021,747
Available-for-sale investments	**2,564,779**	1,377,991
Murabaha deposits	**82,035**	-
Accrued investment income	**86,354**	-
Statutory deposit (including accrued income)	**126,997**	101,711
Total	**3,142,224**	2,501,449

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Approximately 99% (2016: approximately 99%) of the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk. Also refer Note 11 for details.

(e) Liquidity Risk

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

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

Maturity Profile	**2017 SAR '000**			2016 SAR '000		
ASSETS INSURANCE OPERATIONS	**Less than one year**	**More than one year**	**Total**	Less than one year	More than one year	Total
Available-for-sale investments	**2,960,430**	**-**	**2,960,430**	3,155,586	-	3,155,586
Receivables, net	**2,257,678**	**-**	**2,257,678**	2,326,988	-	2,326,988
Accrued investment income	**71,739**	**-**	**71,739**	-	-	-
Cash and cash equivalents	**1,115,144**	**-**	**1,115,144**	1,379,402	-	1,379,402
Reinsurers' share of outstanding claims	**1,766,484**	**-**	**1,766,484**	2,118,754	-	2,118,754
Total	**8,171,475**	**-**	**8,171,475**	8,980,730	-	8,980,730
LIABILITIES INSURANCE OPERATIONS						
Reinsurers' balances payable	**207,922**	**-**	**207,922**	178,959	-	178,959
Gross outstanding claims and reserves	**4,212,281**	**-**	**4,212,281**	3,592,698	-	3,592,698
Reserve for discontinued operations	**1,621**	**-**	**1,621**	1,621	-	1,621
Reserve for takaful activities	**10,576**	**-**	**10,576**	12,902	-	12,902
Claims payable, accrued expenses and other liabilities	**1,287,652**	**119,242**	**1,406,894**	1,407,291	98,677	1,505,968
Surplus distribution payable	**-**	**-**	**-**	76,651	-	76,651
	5,720,052	**119,242**	**5,839,294**	5,270,122	98,677	5,368,799

29. RISK MANAGEMENT (Continued)

(e) Liquidity risk (Continued)

	2017 SAR '000			2016 SAR '000		
ASSETS **SHAREHOLDERS OPERATIONS**	**Less than one year**	**More than one year**	**Total**	Less than one year	More than one year	Total
Available-for-sale investments	**2,564,779**	-	**2,564,779**	1,377,991	-	1,377,991
Accrued investment income	**86,354**	-	**86,354**	-	-	-
Murabaha deposits	**82,035**	-	**82,035**	-	-	-
Cash and cash equivalents	**282,059**	-	**282,059**	1,021,747	-	1,021,747
Total	**3,015,227**	-	**3,015,227**	2,399,738	-	2,399,738
LIABILITIES **SHAREHOLDERS OPERATIONS**						
Dividends payable	**6,414**	-	**6,414**	6,054	-	6,054
Accrued expenses and other liabilities	**4,000**	-	**4,000**	-	-	-
	10,414	-	**10,414**	6,054	-	6,054

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

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

- Available for sale investments include investments in mutual funds and sukuks and are held for cash management purposes and expected to be matured/ settled within 12 months from the balance sheet date.
- Accrued investment income is expected to be realized within 1 to 3 months from statement of financial position's date.
- Murabaha deposits classified as 'cash and cash equivalents' are deposits placed with high credit rating financial institutions with maturity of less than three months from the date of placement. Other murabaha deposits are expected to be matured within six months from the date of placement.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims majorly pertain to property and casualty segment and are generally realized within three to six months based on settlement of balances with reinsurers.

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

- Reinsurers' balances payable are settled on a quarterly basis as per terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to settled within two months in accordance with statutory timelines for payment. Property and casualty policies due to the inherent nature are generally settled within one month from the date of receipt of loss adjustor report.
- The claims payable, accrued expenses and other liabilities are expected to settle within a period of three months from the period end date.
- Surplus distribution payable is to be settled within six months of annual general meeting in which financial statements are approved.

(f) Operational Risk

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

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

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

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

30. CAPITAL MANAGEMENT

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

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

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

The solvency margin as at December 31, 2017 is above 100%. Further, the Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at December 31, 2017 consists of paid-up share capital of SAR 1,250 million, legal reserves of SAR 1,000 million and retained earnings of SAR 48.5 million (December 31, 2016: paid-up share capital of SAR 1,000 million, legal reserves of SAR 1,000 million and retained earnings of SAR 998.7 million.) in the statement of financial position.

31. REALIZED GAINS / (LOSS) ON FINANCIAL ASSETS, NET

	2017	2016
INSURANCE OPERATIONS	**SAR'000**	
Realized gains on available-for-sale financial assets	**13,255**	118,399
Impairment on available-for-sale financial assets	-	(50,036)
Realized gain on financial assets, net	**13,255**	68,363
SHAREHOLDERS OPERATIONS		
Realized gains on available-for-sale financial assets	**(1,008)**	43.191
Impairment on available-for-sale financial assets	-	(22,034)
Realized gain on financial assets, net	**(1,008)**	21,157

32. CONTINGENT LIABILITIES

a) As of December 31, 2017, the Company had contingencies related to outstanding letters of guarantee amounting to SAR 103 million (2016: SAR 103 million) issued in favor of GAZT related to zakat assessments raised for previous years (Note 18).

b) As of December 31, 2017, outstanding letters of credit amounted to SAR 189 million (2016: SAR 175 million) in relation to performance bond obligation.

c) The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. The Company based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

33. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year. These changes were made for better presentation of balances in the statement of financial position of the Company. The impact of reclassification is not material to the financial statements and mainly relates to inclusion of murabaha deposits in cash and cash equivalents which were previously presented as a separate line item in the statement of financial position.

Statement of financial position – Insurance operations	**Amount previously stated**	**Amount reclassified**	**Amount after reclassification**
		SAR'000	
Assets – Insurance operations			
Prepaid expenses and other assets	**282,796**	**5,425**	**288,221**
Reinsurers' share of outstanding claims	**2,102,745**	**16,009**	**2,118,754**
Murabaha deposits	**411,000**	**(411,000)**	**-**
Cash and cash equivalents	**968,402**	**411,000**	**1,379,402**
	3,764,943	**21,434**	**3,786,377**
Liabilities – Insurance operations			
Claims payable, accrued expenses and other liabilities	**1,500,543**	**5,425**	**1,505,968**
Gross outstanding claims and reserves	**3,577,820**	**14,878**	**3,592,698**
Reinsurers' balances payable	**177,828**	**1,131**	**178,959**
	5,256,191	**21,434**	**5,277,625**
Statement of financial position – Shareholders' operations			
Assets – Shareholders' operations			
Murabaha deposits	**905,150**	**(905,150)**	**-**
Cash and cash equivalents	**116,597**	**905,150**	**1,021,747**
	1,021,747	**-**	**1,021,747**

34. DUE FROM SHAREHOLDERS/ DUE TO INSURANCE OPERATIONS

During the year shareholders have absorbed 100% deficit from insurance operations amounting to SAR 368.18 million resulting in due from shareholder operation and due to insurance operation balance as at December 31, 2017 amounting to SAR 773.9 million in statement of financial position – insurance operations and shareholders' operations respectively.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been been approved by the Audit Committee on behalf of the Board of Directors, on Rajab 03, 1439H, corresponding to March 20, 2018.