UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
31 DECEMBER 2018

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2018

Al-Bassam & Co.
Allied Accountants
P.O. Box 15651
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CHARTERED ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF
UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Opinion

We have audited the financial statements of United Cooperative Assurance Company (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the accompanying notes which form an integral part of these financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax..

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS – (continued)

TO THE SHAREHOLDERS OF
UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Key Audit Matters (continued)

Valuation of ultimate claim liabilities arising from insurance contracts As at 31 December 2018, outstanding claims including claims Incurred But Not Reported (IBNR) amounted to Saudi Riyals 321,067 thousands as disclosed in Note 12 to the financial statements. The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of methods e.g. Chain ladder method, Bornhuetter ferguson method, expected loss ratio method etc. are used by the actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We considered this as a key audit matter since use of management assumptions and judgements could result in material over / understatement of the Company's profitability. *The Company's policies for claims and related judgments and estimates are disclosed in notes 2 and 3 to the financial statements respectively. Liabilities for outstanding claims including IBNR, claims incurred and claims development table have been disclosed in note 12 to the financial statements. Segment wise disclosure of claim related liabilities and expense have been given in note 22 to the financial statements. The Company's approach to claim related risk management has been disclosed in note 30 to the financial statements.*	We understood and evaluated key controls around the claims handling and provision setting processes of the Company including completeness and accuracy of claims data used in the actuarial reserving process. We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their relationship with the entity. In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR by comparing it to accounting records. In order to challenge management's methodologies and assumptions, we were assisted by our internal actuary to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert, our internal actuary performed the following: - Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought sufficient justification for any significant differences. - Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge. - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS – (continued)

TO THE SHAREHOLDERS OF
UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Other Information included in the Company's 2018 Annual Report

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

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

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

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

Responsibilities of Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS – (continued)

TO THE SHAREHOLDERS OF
UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on other legal and regulatory requirements

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

for Al-Bassam & Co.
Allied Accountants

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

for Ahmed Tayseer Ibrahim & Partners
Chartered Accountants

Ahmed Tayseer Ibrahim
Chartered Accountants
License No. 213

Jeddah, Kingdom of Saudi Arabia
29 March 2019
22 Rajab 1440H

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

أحمد تيسير
إبراهيم وشركاه
Ahmed Tayseer
Ibrahim& Partners

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	31 December 2018	31 December 2017
		SAR '000	
ASSETS			
Cash and cash equivalents	4	**89,533**	138,796
Premiums and reinsurers' receivable - net	5	**169,736**	253,621
Reinsurers' share of unearned premiums	18	**94,750**	204,792
Reinsurers' share of outstanding claims	12	**88,169**	89,384
Reinsurers' share of claims Incurred but not reported	12	**135,637**	202,521
Deferred policy acquisition costs	7	**5,699**	10,301
Investments	6	**384,755**	395,077
Prepaid expenses and other assets	8	**47,201**	53,917
Property and equipment	9	**1,902**	2,667
Goodwill	29	**78,400**	78,400
Statutory deposit	15	**73,500**	73,500
Accrued income on statutory deposit		**2,635**	1,448
TOTAL ASSETS		**1,171,917**	1,504,424
LIABILITIES			
Policyholders claims payable		**19,361**	9,177
Accrued and other liabilities	13	**55,813**	97,362
Reinsurers' balances payable		**122,227**	178,145
Unearned premiums	18	**141,051**	270,374
Unearned reinsurance commission	10	**19,295**	31,460
Outstanding claims	12	**111,586**	122,927
Claims incurred but not reported	12	**209,481**	281,638
Premium deficiency reserve	18	**16,454**	3,566
Other technical reserves	19	**36,539**	6,925
Due to a related party	23	**270**	270
End-of-service indemnities	21	**18,018**	20,676
Surplus from insurance operation		**36,037**	36,037
Fair value loss reserve on investments	20	**(86)**	(407)
Zakat and income tax	24	**22,488**	23,708
Accrued commission income payable to SAMA		**2,635**	1,448
TOTAL LIABILITIES		**811,169**	1,083,306
SHAREHOLDERS' EQUITY			
Share capital	25	**400,000**	490,000
Statutory reserve	14	**31,944**	31,944
Accumulated losses		**(71,684)**	(97,512)
Fair value reserve loss on investments	20	**52**	(3,314)
TOTAL SHAREHOLDERS' EQUITY		**360,312**	421,118
Re-measurement reserve of define benefit obligation – related to insurance operations	21	**436**	-
TOTAL EQUITY		**360,748**	421,118
TOTAL LIABILITIES AND EQUITY		**1,171,917**	1,504,424
COMMITMENTS AND CONTINGENCIES	16	22,096	22,096

The accompanying notes from 1 – 33 form an integral part of these financial statements

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
For the year ended 31 December 2018

	Notes	31 December 2018	31 December 2017
		SAR '000	
REVENUES			
Gross premiums written			
- Direct		**391,968**	579,983
- Reinsurance		**-**	582
		391,968	580,565
Reinsurance premiums ceded			
- Local		**(12,271)**	(13,328)
- Foreign		**(273,445)**	(418,944)
		(285,716)	(432,272)
Excess of loss expenses			
- Local		**(270)**	(263)
- Foreign		**(2,383)**	(3,397)
		(2,653)	(3,660)
Net premiums written		**103,599**	144,633
Changes in unearned premiums, net	11	**19,282**	44,274
Net premiums earned		**122,881**	188,907
Reinsurance commissions	10	**49,640**	59,251
TOTAL REVENUES		**172,521**	248,158
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	12	**212,946**	366,792
Reinsurers' share of claims paid	12	**(138,035)**	(182,811)
Net claims paid		**74,911**	183,981
Changes in outstanding claims, net		**(10,126)**	(30,785)
Changes in claims incurred but not reported, net		**(5,272)**	(96,010)
Net claims incurred	12	**59,513**	57,186
Premium deficiency reserve		**12,888**	3,170
Other technical reserves		**29,615**	(4,930)
Policy acquisition costs	7	**13,885**	18,156
Other underwriting expenses		**3,278**	3,513
TOTAL UNDERWRITING COSTS AND EXPENSES		**119,179**	77,095
NET UNDERWRITING INCOME		**53,342**	171,063

The accompanying notes from 1 – 33 form an integral part of these financial statements

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME – (continued)
For the year ended 31 December 2018

	Notes	31 December 2018	31 December 2017
		SAR '000	
OTHER OPERATING (EXPENSES) / INCOME			
General and administrative expenses	17	**(113,847)**	(121,770)
Allowance for doubtful debts	5	**(11,080)**	(25,928)
Board remuneration		**(1,225)**	(1,142)
Dividend income		**10**	-
Commission income on deposits		**11,477**	10,553
Amortization of held to maturity		**392**	381
Realized (loss) / gain on investments		**(2,942)**	1,159
Other income		**3,701**	5,873
TOTAL OTHER OPERATING EXPENSES		**(113,514)**	(130,874)
Net (loss) / income for the year		**(60,172)**	40,189
Net income attributed to the insurance operations		**-**	(3,581)
Net (loss) / income for the year attributable to the shareholders		**(60,172)**	36,608
(Loss) / earnings per share (Expressed in SAR per share)			
Weighted average number of ordinary shares outstanding (in thousands)		**40,000**	40,000
Basic and diluted (loss) / earnings per share for the year (SR) – restated – 2017	27	**(1.50)**	0.92

The accompanying notes from 1 – 33 form an integral part of these financial statements

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	**31 December 2018**	31 December 2017
		SAR '000	
Net (loss) / income for the year		**(60,172)**	40,189
Other comprehensive (loss) / income			
Items that will not be reclassified to statement of income in subsequent periods			
Actuarial gains on defined benefit obligation	21	**436**	-
Items that are or may be reclassified to statement of income in subsequent periods			
- Available for sale investments:			
- Net change in fair value		**746**	1,795
- Net amounts transferred to statement of income		**2,942**	(949)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(56,048)**	41,035
Total comprehensive income attributed to the insurance operations		**(758)**	(3,527)
Total comprehensive (loss) / income for the year attributable to the shareholders		**(56,806)**	37,508

The accompanying notes from 1 – 33 form an integral part of these financial statements

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

2018	Note	Share capital	Statutory reserve	Accumulated losses	Fair value reserve on investments	Re-measurement reserve of denied benefit obligation	Total Equity
					SAR '000		
Balance as at 31 December 2017		**490,000**	**31,944**	**(97,512)**	**(3,314)**	**-**	**421,118**
Total comprehensive income / (loss) for the year							
Changes in fair values of available for sale investments		-	-	-	**935**	-	**935**
Transfers to statement of income		-	-	-	**2,431**	-	**2,431**
Net loss for the year – attributable to shareholders'		-	-	**(60,172)**	-	-	**(60,172)**
Total comprehensive loss for the year attributable to shareholders'		-	-	**(60,172)**	**3,366**	-	**(56,806)**
Capital reduction	25	**(90,000)**	-	**90,000**	-	-	-
Re-measurement of defined obligation	21	-	-	-	-	**436**	**436**
Zakat charge for the year	24	-	-	**(3,900)**	-	-	**(3,900)**
Income tax charge for the year	24	-	-	**(100)**	-	-	**(100)**
Balance as at 31 December 2018		**400,000**	**31,944**	**(71,684)**	**52**	**436**	**360,748**

2017		Share capital	Statutory reserve	Accumulated losses	Fair value reserve on investments	Re-measurement reserve of denied benefit obligation	Total Equity
					SAR '000		
Balance as at 31 December 2016		490,000	31,944	(128,120)	(4,214)	-	389,610
Total comprehensive for the year							
Changes in fair values of available for sale investments		-	-	-	1,849	-	1,849
Transfers to statement of income		-	-	-	(949)	-	(949)
Net Income for the year – attributable to shareholders'		-	-	36,608	-	-	36,608
Total comprehensive income for the year attributable to shareholders'		-	-	36,608	900	-	37,508
Zakat charge for the year	24	-	-	(5,600)	-	-	(5,600)
Income tax charge for the year	24	-	-	(400)	-	-	(400)
Balance as at 31 December 2017		490,000	31,944	(97,512)	(3,314)	-	421,118

The accompanying notes from 1 – 33 form an integral part of these financial statements

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASHFLOWS
For the year ended 31 December 2018

	31 December 2018	*31 December 2017*
	SAR '000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) / income for the year	**(60,172)**	40,189
Adjustments for non-cash items:		
Depreciation of property and equipment	**1,328**	1,530
Allowance for doubtful debts	**10,976**	25,928
Realized loss / (gain) on investments	**2,941**	(1,159)
Amortization of held to maturity investments	**(393)**	(381)
Provision for end-of-service indemnities	**2,426**	2,037
	(42,894)	68,144
Changes in operating assets and liabilities:		
Premiums and reinsurers' receivable	**72,909**	(65,705)
Reinsurers' share of unearned premiums	**110,042**	(19,886)
Reinsurers' share of outstanding claims	**1,215**	52,842
Reinsurers' share of claims Incurred but not reported	**66,884**	(23,050)
Deferred policy acquisition costs	**4,602**	425
Prepaid expenses and other assets	**6,714**	(21,797)
Policyholders claims payable	**10,184**	(2,550)
Accrued commission on statutory deposit	**(1,187)**	(206)
Accrued and other liabilities	**(41,549)**	43,770
Premium deficiency reserve	**12,888**	572
Other technical reserves	**29,614**	(2,332)
Reinsurers' balances payable	**(55,918)**	51,081
Unearned premiums	**(129,323)**	(24,388)
Unearned reinsurance commission	**(12,165)**	600
Outstanding claims	**(11,341)**	(83,626)
Claims incurred but not reported	**(72,157)**	(72,961)
Accrued commission on statutory deposit payable to SAMA	**1,187**	206
	(50,295)	(98,861)
End-of-service indemnities paid	**(4,648)**	-
Zakat and income tax paid	**(5,220)**	(2,973)
Net cash flows used in operating activities	**(60,163)**	(101,834)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**-**	(194,468)
Proceeds from sale of investments	**11,463**	162,653
Time deposits	**-**	210,670
Purchase of property and equipment	**(563)**	(1,229)
Net cash flows from investing activities	**10,900**	177,626
Net change in cash and cash equivalents	**(49,263)**	75,792
Cash and cash equivalents, beginning of the year	**138,796**	63,004
Cash and cash equivalents, end of the year	**89,533**	138,796
NON-CASH INFORMATION		
Change in fair value of available for sale investments	**617**	494

The accompanying notes from 1 – 33 form an integral part of these financial statements

1. GENERAL

United Cooperative Assurance ("the Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030179955 dated 6 Jamad-al-Thani 1429H, corresponding to 6 June 2008. Registered Office address of the Company is Al-Mukmal Centre (1st and 4th floor) Prince Saud Al Faisal Street, Khalediya District, P. O. Box 5019, Jeddah 21422, Kingdom of Saudi Arabia.

The activities of the Company are to transact cooperative insurance and reinsurance operations and related activities in the Kingdom of Saudi Arabia. On 29 Rabi Al Thani 1429H (5 May 2008), the Company received a license from the Saudi Arabian Monetary Authority ("SAMA") to engage in insurance and reinsurance in Saudi Arabia. The Company started the operations on 1 January 2009.

The Company received the approval letters from the Saudi Arabian Monetary Authority (SAMA) and Ministry of Commerce and Investment regarding the amendment of the Company's by-laws to be in accordance with the new companies' regulations. The Company's extraordinary general assembly was held on 10 August 2017 corresponding to 18 Thul Qeadah 1438H and accordingly the new by-laws was approved.

2. BASIS OF PREPARATION

a. Basis of presentation

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

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement of investments (excluding held-to-maturity) at their fair value. The Company's statement of financial position is presented in order of liquidity. Except for property and equipment, statutory deposit, End-of-service indemnities, outstanding claims, claims incurred but not reported, all other assets and liabilities are of short-term nature, unless, stated otherwise.

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial information accordingly. Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. Similarly, in the past, the Company's annual financial statements presented separately the statements of financial position, income, comprehensive income and cash flows for the insurance operations and shareholders operations. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income and statement of comprehensive income and cash flows of the insurance operations and shareholders operations which are presented on pages 49 to 55 of the financial statements have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

2. BASIS OF PREPARATION – (continued)

a. Basis of presentation – (continued)

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

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

b. Functional and presentation currency

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

c. Fiscal year

The Company follows a fiscal year ending December 31.

In preparing these financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty including the risk management policies were the same as those that applied to the annual financial statements as at and for the year ended 31 December 2017.

d. 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. Estimates are made at the end of the reporting period both for the expected ultimate cost of claim reported and for the expected ultimate costs of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

2. BASIS OF PREPARATION – (continued)

d. Critical accounting judgments, estimates and assumptions – (continued)

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

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 financial assets

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. A period of 18 months or longer is considered to be prolonged and a decline of 25% 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.

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

e. Seasonality of operations

There are no seasonal changes that may affect insurance operations of the Company.

3. 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 (change in accounting policy, if any) 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:

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

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

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

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRSs. However, IFRS 15 does not apply to "revenue from insurance contracts". However, entities will need to apply IFRS 15 to non-insurance contracts (or components of insurance contracts).

The Company's management has assessed and concluded that there is no material impact on the amounts reported at transition to IFRS 15 on 1 January 2018.

Employees-end-of-service benefits

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

The impact of the above accounting policy on the previous years was not significant to the financial statements

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective

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

Standard/ Interpretation	***Description***	***Effective from periods beginning on or after the following date***
IFRS 9	Financial Instruments	Refer below
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 17	Insurance Contracts (note below)	1 January 2022

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

In July 2014, the IASB published IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss (ECL) 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 statement of income.
- IFRS 9 requires entities to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through statement of income as well we finance lease receivables, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. Under IFRS 9, credit losses are recognised earlier than under IAS 39.
- The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

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.

Under the temporary exemption as introduced by amendments to IFRS 4, the reporting entities whose activities predominantly relate to "insurance" can defer the implementation of IFRS 9. The Company having assessed the implications and has concluded to defer the implementation of IFRS 9 until a later date which will not be later than 1 January 2022.

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. As such, it is not possible to fully assess the effect of the adoption of IFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective – (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 2022, and will supersede IFRS 4 "Insurance Contracts". Earlier adoption permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the income statement and the statement of financial position. The Company has decided not to early adopt this new standard, and the Company is currently in the phase of assessing the impact of the above standards.

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

a) Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

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

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

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

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties. Customers could also receive compensation for the loss of earnings through loss of profit and business interruption. For property insurance contracts the main risks are fire, natural perils, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. The Company also issues comprehensive motor policies. Various extensions cover natural perils, personal accident benefits and agency repairs.

General accident insurance includes money, fidelity guarantee, personal accident, jeweler block, jewelry all risks and travel insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability, medical malpractice and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

a) Insurance contracts – (continued)

Engineering insurance covers two principal types:

(a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, bridges, sewage works and reservoirs.

(b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and Business Interruption following machinery breakdown and includes electronic equipment, boiler and deterioration of stocks insurance.

b) Revenue Recognition

Recognition of premium

Premiums and commission are recorded in the statement of income 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 in the same order that revenue is recognised over the period of risk.

Reinsurance assumed

The Company also assumes reinsurance risk in the normal course of business for Medical insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to insurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

Investment income

Investment income on debt instruments classified under held to maturity investments and murabaha deposits are accounted for on an effective interest basis.

Dividend income

Dividend income on equity instruments classified under fair value through statement of income (FVSI) investments is recognized when the right to receive payment is established.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c) Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries. 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.

d) Reinsurance contracts held

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 4(b) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income as incurred. For details please refer 4(n). 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.

e) 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. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

f) 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 by establishing a provision for losses arising from liability adequacy tests accordingly.

g) Receivables

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. 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. 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 7 fall under the scope of IFRS 4 "Insurance contracts".

h) Investments

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 under "Net change in fair value – Available for sale investments". Realized gains or losses on sale of these investments are reported in the related statements of income under "Realized gain / (loss) on investments available for sale investments." Dividend, commission income and foreign currency gain/loss on available-for-sale investments are recognized in the related statements of income or statement of comprehensive income - shareholders operations, as part of the net investment income / loss. Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the related statement of comprehensive income, as impairment charges. Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics. For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Reclassification:

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

h) Investments – (continued)

ii. Held as FVSI

Investments in this category are classified if they are held for trading or designated by management as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term and are recorded in the statement of financial position at fair value. Changes in fair value are recognized in net trading income/loss.

An investment may be designated at FVSI by the management, at initial recognition, if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVSI are recorded in the statement of financial position at fair value. Changes in the fair value are recognised in the statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments. Special commission income and dividend income on financial assets held as FVSI are reflected as either trading income or income from FVSI financial instruments in the statement of income.

Reclassification:

Investments at FVSI are not reclassified subsequent to their initial recognition, except that non-derivative FVSI instrument, other than those designated as FVSI upon initial recognition, may be reclassified out of the FVSI fair value through the statement of income (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, and then it may be reclassified out of the trading category only in 'rare circumstances'.

iii. Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised or impaired.

Reclassification:

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Comapny's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

However, sales and reclassifications in any of the following circumstances would not impact the Comapny's ability to use this classification

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value
- Sales or reclassifications after the Company has collected substantially all the assets' original principal
- Sales or reclassifications attributable to non-recurring isolated events beyond the Comapny's control that could not have been reasonably anticipated.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

i) 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.

j) 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 unless required or permitted by any accounting standard or interpretation.

k) 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.

l) 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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

l) Impairment of financial assets – (continued)

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

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

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

The determination of what is ‘significant’ or ‘prolonged’ requires judgement. A period of 18 months or longer is considered to be prolonged and a decline of 25% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

m) Intangible assets

Separately acquired intangible assets (mention category) are shown at historical cost. They have a finite useful life and are subsequent carried at cost less accumulated amortization and impairment losses. The Company amortises intangible assets with a limited useful life using straight-line method over the following periods:

Software	4 years
Licenses	4 years

n) Property and equipment

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

Motor vehicle	5 years
Furniture and fittings	5 years
Computers and office equipment	3 years

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.

Capital work-in-progress includes property that is being developed for future use. When commissioned, capital work-in-progress will be transferred to the respective category within property and equipment, and depreciated in accordance with the Company's policy.

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.

o) Leases

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

p) 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).

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

q) 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.

r) Zakat and income tax

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

s) 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.

t) 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.

u) 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.

v) 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 and 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 and statement of comprehensive income. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

w) 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 the following reportable segments:

- Medical provides compensation to policy holders for expenses incurred in treatment of a disease, illness or injury.
- Motor provides coverage against losses and liability related to motor vehicles.
- Energy and engineering insurance
- Other includes property, marine, accident and liability and miscellaneous categories.

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.

x) Statutory reserves

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

y) 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.

z) Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the Supplier or not.

aa) Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

bb) Provision for outstanding claims

Judgement by management is required in the estimation of amounts due to policyholders and third parties arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually.

Management reviews its provisions for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The provision for outstanding claims, as at 31 December, is also verified and certified by an independent actuary.

cc) Premium deficiency reserve

Estimation of the premium deficiency is highly sensitive to a number of assumptions as to the future events and conditions. It is based on expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and premiums relationship which is expected to apply on month to month basis. Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that past claims pattern are stable and will continue in future.

dd) Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

4. CASH AND CASH EQUIVALENTS

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

	31 December 2018 SAR'000	31 December 2017 SAR'000
Insurance operations		
Bank balances and cash	**88,477**	43,953
Shareholders' operations		
Bank balances and cash	**1,056**	94,843

5. PREMIUMS AND REINSURERS' RECEIVABLE – NET

Receivables comprise amounts due from the following:

	31 December 2018 SAR'000	31 December 2017 SAR'000
Policyholders	**83,432**	83,680
Brokers and agents	**15,288**	42,669
Related parties (note 23)	**134,622**	170,495
Receivables from reinsurers'	**23,059**	32,466
	256,401	329,310
Provision for doubtful receivables	**(86,665)**	(75,689)
Premiums and reinsurers' receivable – net	**169,736**	253,621

Movement in the allowance for doubtful premiums receivable during the year was as follows:

	31 December 2018 SAR'000	31 December 2017 SAR'000
Balance at beginning of the year	**75,689**	49,761
Provision made during the year	**11,080**	25,928
Written-off during the year	**(104)**	-
Balance at end of the year	**86,665**	75,689

		Past due but not impaired		
As at 31 December 2018 *Amount in SR '000*	**Less than 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Premiums and reinsurers' receivable	41,618	16,499	63,662	**121,779**
Premiums receivable – related parties	42,982	26,033	65,607	**134,622**
Provision for doubtful debts	-	(5,946)	(80,719)	**(86,665)**
Premiums receivable, net	**84,600**	**36,586**	**48,550**	**169,736**

		Past due but not impaired		
31 December 2017 *Amount in SR '000*	Less than 90 days	91 to 180 days	More than 180 days	Total
Premiums and reinsurers' receivable	83,919	11,709	63,187	158,815
Premiums receivable – related parties	72,859	7,759	89,877	170,495
Provision for doubtful debts	-	(2,701)	(72,988)	(75,689)
Reinsurance receivables, net	156,778	16,767	80,076	253,621

Past due but not impaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customer balances accounted for approximately 61% of the balance as at 31 December 2018 (2017: 68%).

6. INVESTMENTS

Investment are classified as follows:

Insurance operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
- Available for sale (note 6.1)	**3,894**	104,262
- Held to maturity (note 6.3)	**156,265**	156,060
Total	**160,159**	260,322

6.1 Available-for-sale investments

Movement in available-for-sale investment balance is as follows:

Insurance' operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
Opening balance	**104,262**	109,469
Purchases during the year	**-**	85,000
Disposals during the year	**(690)**	(90,153)
Transfer to shareholders' operations	**(100,000)**	-
Changes in fair value of investments	**322**	(54)
Closing balance	**3,894**	104,262

Insurance' operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
Investment in bonds	**3,672**	3,815
Investment in sukuk	**-**	100,000
Investment in equity shares	**-**	229
Investment in mutual funds	**222**	218
	3,894	104,262

Shareholders' operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
- Available for sale (note 6.2)	**26,277**	36,624
- Held to maturity (note 6.3)	**198,319**	98,131
Total	**224,596**	134,755

6. INVESTMENTS – (continued)

6.2 Available-for-sale investments

Movement in available-for-sale investment balance is as follows:

Shareholders' operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
Opening balance	**36,624**	35,355
Purchases during the year	**-**	70,000
Disposals during the year	**(13,713)**	(69,631)
Changes in fair value of investments	**3,366**	900
Closing balance	**26,277**	36,624

	31 December 2018 SAR'000	31 December 2017 SAR'000
Investment in equity shares	**1,923**	3,335
Investment in bonds	**13,035**	13,602
Investment in mutual funds	**11,319**	19,687
	26,277	36,624

6.3 Held to maturity investments

Movement in held to maturity investment balance is as follows:

Insurance operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
Opening balance	**156,060**	119,855
Purchases	**-**	37,405
Disposals	**-**	(1,393)
Amortization of held to maturity investments	**205**	193
Closing balance	**156,265**	156,060

Shareholders' operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
Opening balance	**98,131**	96,198
Purchases	**-**	2,063
Disposals	**-**	(318)
Transfer from insurance operation	**100,000**	
Amortization of held to maturity investments	**188**	188
Closing balance	**198,319**	98,131

7. DEFFERED POLICY ACQUISATION COST

	31 December 2018 SAR'000	31 December 2017 SAR'000
As at 1 January	**10,301**	10,726
Cost incurred during the year	**9,283**	17,731
Charge for the year	**(13,885)**	(18,156)
As at 31 December	**5,699**	10,301

8. PREPAID EXPENSES AND OTHER ASSETS

Insurance operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
Deferred third party administrator (TPA) fee	**1,978**	1,446
Prepaid expenses	**3,193**	3,907
Margin deposit (note 24)	**22,096**	22,096
Accrued interest	**1,007**	1,668
Claim Recoveries	**10,931**	11,665
Advances to staff	**1,766**	1,806
Others	**4,852**	10,058
	45,823	52,646
Shareholders' operations		
Accrued Interest	**1,378**	1,271

9. PROPERTY AND EQUIPMENT

	Motor vehicles SR'000	Furniture & fittings SR'000	Computers & office equipment SR'000	Leasehold improvements SR'000	**2018 Total SR'000**	2017 Total SR'000
Cost:						
As at 1 January	431	8,520	11,464	4,877	**25,292**	24,063
Additions	-	113	450	-	**563**	1,229
As at 31 December	**431**	**8,633**	**11,914**	**4,877**	**25,855**	25,292
Depreciation:						
As at 1 January	425	8,216	9,343	4,641	**22,625**	21,095
Charge for the year	6	208	925	189	**1,328**	1,530
As at 31 December	**431**	**8,424**	**10,268**	**4,830**	**23,953**	22,625
Net book value:						
At 31 December 2018	**-**	**209**	**1,646**	**47**	**1,902**	
At 31 December 2017	6	304	2,121	236		2,667

10. UNEARNED COMMISSION INCOME

	31 December 2018 SAR'000	31 December 2017 SAR'000
As at 1 January	**31,460**	30,860
Commission received during the year	**37,475**	59,851
Commission earned during the year	**(49,640)**	(59,251)
As at 31 December	**19,295**	31,460

11. MOVEMENT IN UNEARNED PREMIUMS

	31 December 2018 SAR'000	31 December 2017 SAR'000
Gross unearned premiums as at 1 January	**270,374**	294,762
Gross unearned premiums as at 31 December	**(141,050)**	(270,374)
Movement in gross unearned premiums	**129,324**	24,388
Reinsurers' share of unearned premiums as at 1 January	**(204,792)**	(184,906)
Reinsurers' share of unearned premiums as at 31 December	**94,750**	204,792
Movement in reinsurers' share of unearned premiums	**(110,042)**	19,886
Movement in unearned premiums, net	**19,282**	44,274

12. CLAIMS

	31 December 2018 SAR'000	31 December 2017 SAR'000
Gross claims paid	**212,946**	366,792
Gross outstanding claims at the end of the year	**111,586**	122,927
Gross claims incurred but not reported at the end of the year	**209,481**	281,638
	534,013	771,357
Gross outstanding claims at the beginning of the year	**(122,927)**	(206,553)
Claims incurred but not reported at the beginning of the year	**(281,638)**	(354,599)
Gross claims incurred	**129,448**	210,205
Reinsurance recoveries	**(138,035)**	(182,811)
Reinsurers' share of outstanding claims at the end of the year	**(88,169)**	(89,384)
Reinsurers' share of claims incurred but not reported at the end of the year	**(135,637)**	(202,521)
	(361,841)	(474,716)
Reinsurers' share of outstanding claims at the beginning of the year	**89,384**	142,226
Reinsurers' share of claims incurred but not reported at the beginning of the year	**202,521**	179,471
Reinsurers' share of claims	**(69,936)**	(153,019)
Net claims incurred	**59,513**	57,186

12. CLAIMS – (continued)

Claims Development Table

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

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

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

As at 31 December 2018

Accident year	**2014 & earlier**	**2015**	**2016**	**2017**	**2018**	**Total**
						SR'000
Estimate of ultimate claims cost:						
At the end of accident year	**1,317,988**	**839,963**	**675,010**	**310,521**	**282,050**	
One year later	**1,428,117**	**831,292**	**622,004**	**265,368**	**-**	
Two years later	**1,265,269**	**809,468**	**571,936**	**-**	**-**	
Three years later	**1,081,714**	**757,585**	**-**	**-**	**-**	
Four years later	**1,355,213**	**-**	**-**	**-**	**-**	
Current estimate of cumulative claims	**1,355,213**	**757,585**	**571,936**	**265,368**	**282,050**	**3,232,152**
Cumulative payments to date	**(1,327,608)**	**(735,238)**	**(510,022)**	**(198,887)**	**(139,330)**	**(2,911,085)**
Liability recognised in statement of financial position	**28,036**	**22,347**	**61,914**	**66,481**	**142,720**	**321,067**

As at 31 December 2017

Accident year	2013 & earlier	2014	2015	2016	2017	Total
						SR'000
Estimate of ultimate claims cost:						
At the end of accident year	611,496	466,542	463,963	470,094	310,520	
One year later	685,237	485,570	474,772	622,004	-	
Two years later	695,125	314,606	809,468	-	-	
Three years later	521,571	560,143	-	-	-	
Four years later	797,589	-	-	-	-	
Current estimate of cumulative claims	797,589	560,143	809,468	622,004	310,520	3,099,724
Cumulative payments to date	(782,275)	(541,414)	(723,002)	(491,124)	(157,344)	(2,695,159)
Liability recognised in statement of financial position	15,314	18,729	86,466	130,880	153,176	404,565

13. ACCRUED AND OTHER LIABILITIES

Insurance operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
Accrued expenses	**345**	115
Garages	**203**	412
Third party administrator (TPA) fees	**88**	1,345
Payables to hospitals	**8,280**	18,849
Insurance brokers	**4,767**	5,275
Surveyor	**3,234**	3,591
Commission and incentives payable	**121**	10,727
CCHI fees payable	**80**	469
Supervision and inspection fee payable	**391**	534
Withholding tax payable	**24,408**	22,360
Value added tax payable	**1,049**	-
Others	**12,287**	33,068
	55,253	96,745
Shareholders' operations		
Accrued expenses	**489**	539
Sundry creditors	**71**	78
	560	617

14. STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. As the Company has accumulated losses at year end, no transfer to statutory reserve has been made during the year. The reserve is not available for dividend distribution.

15. STATUTORY DEPOSIT

	31 December 2018 SAR'000	31 December 2017 SAR'000
Shareholders' Operations		
Statutory deposit	**73,500**	73,500

As required by the Saudi Arabian Insurance Regulations, the Company deposited an amount equivalent to 15% of its paid up share capital, amounting to SAR 73.5 million in a bank designated by the Saudi Arabian Monetary Authority ("SAMA"). This statutory deposit cannot be withdrawn without the consent of SAMA and commission accruing on this deposit is payable to SAMA. During the year, the Company has reduced its share capital by SAR 90 million but has not withdrawn the surplus statutory deposit of SAR 13.5 million as of 31 December 2018.

16. COMMITMENTS AND CONTINGENCIES

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

	31 December 2018 SAR'000	31 December 2017 SAR'000
Letters of guarantee issued in favour of GAZT	**22,096**	22,096

b. There were no capital commitments outstanding as at 31 December 2018 (31 December 2017: Nil).

c. As at 31 December 2018, the Company has a letter of guarantee amounting to SR 22.096 million (31 December 2017: SR 22.096 million) in favour of General Authority of Zakat and Tax (GAZT) (see note 24). A margin of SR 22.096 million (31 December 2017: SR 22.096 million) being deposited with a bank for this purpose and is included in prepayments and other assets in the statement of financial position.

17. GENERAL AND ADMINISTRATION EXPENSES

Insurance operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
Employee costs	**78,587**	89,886
Training & education	**676**	289
Marketing & advertising	**534**	352
Office supplies	**2,183**	2,432
Professional services	**1,443**	377
Rent	**8,427**	8,859
Communication expenses	**1,525**	2,844
Utilities	**403**	400
Depreciation	**1,328**	1,530
Investment expenses	**494**	384
Legal & professional fees	**6,537**	3,872
Office expenses	**2,250**	1,954
Vehicle expense	**145**	156
Withholding tax provision	**1,000**	4,400
Others	**6,108**	3,034
	111,640	120,769

Shareholders' operations	**31 December 2018 SAR'000**	31 December 2017 SAR'000
Professional fees	**1,237**	524
Others	**970**	477
	2,207	1,001

18. TECHNICAL RESERVES

Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	31 December 2018 SAR'000	31 December 2017 SAR'000
Outstanding claims	**111,586**	122,927
Claims incurred but not reported	**209,481**	281,638
	321,067	404,565
Premium deficiency reserve	**16,454**	3,566
Other technical reserves	**36,539**	6,925
	374,060	415,056
Less:		
- Reinsurers' share of outstanding claims – note 12	**(88,169)**	(89,384)
- Reinsurers' share of claims Incurred but not reported – note 12	**(135,637)**	(202,521)
	(223,806)	(291,905)
Net outstanding claims and reserves	**150,254**	123,151

Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	31 December 2018		
	Gross	**Reinsurance SAR'000**	**Net**
Balance as at the beginning of the year	**270,374**	**(204,792)**	**65,582**
Premium written during the year	**391,968**	**(288,368)**	**103,600**
Premium earned during the year	**(521,291)**	**398,410**	**(122,881)**
Balance as at the end of the year	**141,051**	**(94,750)**	**46,301**

	31 December 2017		
	Gross	Reinsurance SAR'000	Net
Balance as at the beginning of the year	294,762	(184,906)	109,856
Premium written during the year	580,565	(435,932)	144,633
Premium earned during the year	(604,953)	416,046	(188,907)
Balance as at the end of the year	270,374	(204,792)	65,582

19. OTHER RESERVES

	31 December 2018 SAR'000	31 December 2017 SAR'000
Claims Handling Expense Provision	**1,692**	2,599
Unallocated expense loss reserve	**6,960**	3,300
Proportional Reinsurance Accrual Reserve	**-**	1,026
Reinsurance Recapture Provision (see note (a) below)	**24,912**	-
Reinsurance Recapture Premium Deficiency Reserve (see note (a) below)	**2,975**	-
	36,539	6,925

a) During the year, one of the medical reinsurer wrote a letter to the Company, enumerated their concerns over some of the terms of Medical Quota Share agreement, and offered a commutation of 95% of Net Loss Ratio. The Company have disagreement with them and are in the process of contesting their observations. However, as recommended by the appointed actuary, the Company have booked the related reserves as cautious measure.

20. 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 between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the financial information.

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

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

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

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

20. FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

Carrying amounts and fair value

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

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Fair Value	**SR' 000**	**SR' 000**	**SR' 000**	**SR' 000**
Financial assets measured at fair value				
Equity securities				
- Insurance operations	**-**	**222**	**-**	**222**
- Shareholders' operations	**-**	**11,319**	**1,923**	**13,242**
Financial assets not measured at fair value				
Debt securities				
Insurance operations				
- Insurance operations	**3,672**	**-**	**-**	**3,672**
- Shareholders' operations	**13,035**	**-**	**-**	**13,035**
	16,707	**11,541**	**1,923**	**30,171**

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Fair Value	SR' 000	SR' 000	SR' 000	SR' 000
Financial assets measured at fair value				
Equity securities				
- Insurance operations	229	218	-	447
- Shareholders' operations	1,412	19,687	1,923	23,022
Financial assets not measured at fair value				
Debt securities				
Insurance operations				
- Insurance operations	3,815	100,000	-	103,815
- Shareholders' operations	13,602	-	-	13,602
	19,058	119,905	1,923	140,886

21. END-OF-SERVICE-INDEMNITIES

Accruals are made in accordance with the actuarial valuation under the projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

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

	2018 SAR'000
Present value of defined benefit obligation	**18,018**

21.2 Movement of defined benefit obligation

	2018 SAR'000
Opening balance	**20,676**
Charge to statement of income	**2,426**
Charge to statement of other comprehensive income	**(436)**
Payment of benefits during the year	**(4,648)**
Closing balance	**18,018**

21.3 Reconciliation of present value of defined benefit obligation

	2018 SAR'000
Opening balance	**20,676**
Current service costs	**1,760**
Financial costs	**666**
Actuarial gain from experience adjustments	**(436)**
Benefits paid during the year	**(4,648)**
	18,018

21. END OF SERVICE IMDEMNITIES – (continued)

21.4 Principal actuarial assumptions

The following range of significant actuarial assumptions was used by the Company for the valuation of defined benefit obligation liability:

	2018
Valuation discount rate	**4.20%**
Expected rate of increase in salary level across different age bands	**4.20%**

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

	2018
Valuation discount rate	**SAR'000**
- Increase by 0.50%	**(571)**
- Decrease by 0.50%	**610**
Expected rate of increase in salary level across different age bands	
- Increase by 0.50%	**315**
- Decrease by 0.50%	**(299)**

Projected future benefit payment (5 years)	2018 **SAR'000**
2019	**2,132**
2020	**4,276**
2021	**2,297**
2022	**2,727**
2023	**2,961**

The average duration of the defined benefit plan obligation is 6.5 years.

22. OPERATING SEGMENTS

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2017.

Segment assets do not include cash and cash equivalents, term deposits, net premiums and reinsurers' receivable, net, prepayments and other receivables, investments, furniture, fittings and office equipment. Accordingly, they are included in unallocated assets. Segment liabilities do not include policyholders' claims, reinsurance payables, accruals and other payables and employees' end of service indemnities. Accordingly, they are included in unallocated liabilities.

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

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

22. OPERATING SEGMENTS – (continued)

	As at 31 December 2018 SR' 000							
	Medical	Motor	Energy	Engineering	Others	Total Insurance operations	Shareholders' operations	Total
Assets								
Reinsurers' share of unearned premiums	7,528	28,047	-	46,766	12,409	94,750	-	94,750
Reinsurers' share of outstanding claims	9,124	4,301	254	12,842	61,648	88,169	-	88,169
Reinsurers' share of claims Incurred but not reported	12,835	21,763	11,703	55,287	34,049	135,637	-	135,637
Deferred policy acquisition costs	883	1,926	-	2,277	613	5,699	-	5,699
Unallocated assets						466,097	381,565	847,662
Total assets						790,352	381,565	1,171,917
Liabilities								
Unearned premiums	18,756	56,498	-	49,982	15,815	141,051	-	141,051
Unearned reinsurance commission	-	5,481	-	10,816	2,998	19,295	-	19,295
Outstanding claims	13,546	17,948	257	13,317	66,518	111,586	-	111,586
Claims incurred but not reported	15,653	84,587	11,923	58,758	38,560	209,481	-	209,481
Premium deficiency reserve	4,740	5,561	-	3,731	2,422	16,454	-	16,454
Other technical reserves	27,887	5,921	298	1,469	964	36,539	-	36,539
Unallocated liabilities						251,246	386,265	637,511
Total liabilities						785,652	386,265	1,171,917

22. OPERATING SEGMENTS – (continued)

	As at 31 December 2017 SR' 000							
	Medical	Motor	Energy	Engineering	Others	Total Insurance operations	Shareholders' operations	Total
Assets								
Reinsurers' share of unearned premiums	28,142	41,591	-	119,454	15,605	204,792	-	204,792
Reinsurers' share of outstanding claims	9,494	5,936	6,633	41,468	25,853	89,384	-	89,384
Reinsurers' share of claims Incurred but not reported	2,547	22,929	29,066	99,633	48,346	202,521	-	202,521
Deferred policy acquisition costs	3,040	2,642	-	3,815	804	10,301	-	10,301
Unallocated assets						613,209	384,217	997,426
Total assets						1,120,207	384,217	1,504,424
Liabilities								
Unearned premiums	42,740	85,196	-	122,873	19,565	270,374	-	270,374
Unearned reinsurance commission	-	7,841	-	20,452	3,167	31,460	-	31,460
Outstanding claims	12,507	27,893	6,716	42,489	33,322	122,927	-	122,927
Claims incurred but not reported	6,834	86,622	29,611	104,812	53,759	281,638	-	281,638
Premium deficiency reserve	3,069	-	-	418	79	3,566	-	3,566
Other technical reserves	-	3,604	330	1,261	1,730	6,925	-	6,925
Unallocated liabilities						340,373	447,161	787,534
Total liabilities						1,057,263	447,161	1,504,424

22. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2018					
	Medical SR'000	*Motor SR'000*	*Energy SR'000*	*Engineering SR'000*	*Others SR'000*	*Total SR'000*
REVENUES						
Gross premiums written						
- Direct	58,926	115,156	104,537	52,115	61,234	391,968
- Reinsurance	-	-	-	-	-	-
	58,926	115,156	104,537	52,115	61,234	391,968
Reinsurance premiums ceded						
- Local	-	(4,851)	-	(4,826)	(2,594)	(12,271)
- Foreign	(28,844)	(51,833)	(102,739)	(42,419)	(47,610)	(273,445)
	(28,844)	(56,684)	(102,739)	(47,245)	(50,204)	(285,716)
Excess of loss expenses						
- Local	-	(104)	-	-	(166)	(270)
- Foreign	(154)	(716)	-	-	(1,513)	(2,383)
	(154)	(820)	-	-	(1,679)	(2,653)
Net premiums written	29,928	57,652	1,798	4,870	9,351	103,599
Changes in unearned premiums, net	3,370	15,154	-	204	554	19,282
Net premiums earned	33,298	72,806	1,798	5,074	9,905	122,881
Reinsurance commissions	-	19,624	1,550	16,841	11,625	49,640
TOTAL REVENUES	33,298	92,430	3,348	21,915	21,530	172,521
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	79,551	103,225	3,012	3,780	23,378	212,946
Reinsurers' share of claims paid	(62,690)	(48,072)	(2,975)	(3,345)	(20,953)	(138,035)
Net claims paid	16,861	55,153	37	435	2,425	74,911
Changes in outstanding claims, net	1,409	(8,311)	(80)	(546)	(2,598)	(10,126)
Changes in claims incurred but not reported, net	(1,469)	(869)	(325)	(1,709)	(900)	(5,272)
Net claims incurred	16,801	45,973	(368)	(1,820)	(1,073)	59,513
Premium deficiency reserve	1,671	5,561	-	3,313	2,343	12,888
Other technical reserves	27,887	2,317	(32)	208	(765)	29,615
Policy acquisition costs	3,915	4,486	-	3,293	2,191	13,885
Other underwriting expenses	1,304	696	522	458	298	3,278
TOTAL UNDERWRITING COSTS AND EXPENSES	51,578	59,033	122	5,452	2,994	119,179
NET UNDERWRITING (LOSS) / INCOME	(18,280)	33,397	3,226	16,463	18,536	53,342

22. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2018					
	Medical SR' 000	*Motor SR' 000*	*Energy SR' 000*	*Engineering SR' 000*	*Others SR' 000*	*Total SR' 000*
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses						**(113,847)**
Allowance for doubtful debts						**(11,080)**
Board remuneration						**(1,225)**
Amortization of held to maturity investments						**392**
Commission income on investments						**11,477**
Dividend and realized loss on investments						**(2,932)**
Other income						**3,701**
TOTAL OTHER OPERATING EXPENSES						**(113,514)**
NET (LOSS) FOR THE YEAR						**(60,172)**
Net income for the year attributable to insurance operations						**-**
Net loss for the year attributable to the shareholders'						**(60,172)**

22. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2017					
	Medical SR'000	*Motor SR'000*	*Energy SR'000*	*Engineering SR'000*	*Others SR'000*	*Total SR'000*
REVENUES						
Gross premiums written						
- Direct	75,644	173,799	104,840	145,294	80,406	579,983
- Reinsurance	-	-	-	256	326	582
	75,644	173,799	104,840	145,550	80,732	580,565
Reinsurance premiums ceded						
- Local	-	-	-	(8,160)	(5,168)	(13,328)
- Foreign	(44,010)	(84,535)	(103,036)	(125,450)	(61,913)	(418,944)
	(44,010)	(84,535)	(103,036)	(133,610)	(67,081)	(432,272)
Excess of loss expenses						
- Local	-	(132)	-	-	(131)	(263)
- Foreign	-	(1,758)	-	-	(1,639)	(3,397)
	-	(1,890)	-	-	(1,770)	(3,660)
Net premiums written	31,634	87,374	1,804	11,940	11,881	144,633
Changes in unearned premiums, net	4,895	37,042	-	1,237	1,100	44,274
Net premiums earned	36,529	124,416	1,804	13,177	12,981	188,907
Reinsurance commissions	-	26,492	1,656	16,350	14,753	59,251
TOTAL REVENUES	36,529	150,908	3,460	29,527	27,734	248,158
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	58,363	214,234	306	73,649	20,240	366,792
Reinsurers' share of claims paid	(16,462)	(78,752)	(302)	(69,207)	(18,088)	(182,811)
Net claims paid	41,901	135,482	4	4,442	2,152	183,981
Changes in outstanding claims, net	(10,505)	(16,253)	76	(4,590)	487	(30,785)
Changes in claims incurred but not reported, net	(5,848)	(94,543)	543	1,823	2,015	(96,010)
Net claims incurred	25,548	24,686	623	1,675	4,654	57,186
Premium deficiency reserves	3,070	-	-	22	78	3,170
Other technical reserves	(75)	(3,730)	330	(1,779)	324	(4,930)
Policy acquisition costs	3,362	7,910	-	3,001	3,883	18,156
Other underwriting expenses	1,019	1,140	525	416	413	3,513
TOTAL UNDERWRITING COSTS AND EXPENSES	32,924	30,006	1,478	3,335	9,352	77,095
NET UNDERWRITING INCOME	3,605	120,902	1,982	26,192	18,382	171,063

22. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2017					
	Medical	*Motor*	*Energy*	*Engineering*	*Others*	*Total*
	SR' 000	*SR' 000*	*SR' 000*	*SR' 000*	*SR' 000*	*SR' 000*
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses						(121,770)
Allowance for doubtful debts						(25,928)
Board remuneration						(1,142)
Amortization of held to maturity investments						381
Commission income on deposits						10,553
Dividend and realized gain on investments						1,159
Other income						5,873
TOTAL OTHER OPERATING EXPENSES						(130,874)
NET INCOME FOR THE YEAR						40,189
Net income for the year attributable to insurance operations						(3,581)
Net income for the year attributable to the shareholders'						36,608

23. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel (key management includes all directors, executives and non-executives, and senior management) 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:

	Nature of transactions	Amount of Transactions for the year ended		Balance receivable / (payable) as at	
		31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
		SAR'000			
Major shareholders					
Haji Hussien Ali Reza	Premium written	**6,932**	4,780		-
	Payments received and claims paid	**(8,925)**	(5,987)	**9,663**	11,657
Saudi Bin Laden – Group	Premium written	**72,398**	159,146		-
	Payments received and claims paid	**(104,764)**	(119,542)	**105,673**	138,039
CPC	Premium written	**4,407**	14,214		
	Payments received and claims paid	**(5,928)**	(15,751)	**19,226**	20,747
UCA Lebanon	Payment received	**(203)**	-	**-**	203
Associates					
Najm for insurance services		**-**	**-**	**(270)**	(270)
Entities controlled, jointly controlled or significantly influenced by related parties					
United Commercial Agencies	Premium written	**45**	44		
	Payment made on behalf of company	**-**	58	**821**	775
UCA Workshop	Premium written	**36**	-		
	Payments received and claims paid / Payment made	**281**	6,339		
	Claims settled	**(917)**	(2,454)		
	Payment made			**(3)**	597
Law Office of Hassan Mahassni	Premium written	**467**	364		
	Payments received and claims paid	**(418)**	(306)	**60**	11
Middle East Group	Premium written	**9**	88		
	Payments received and claims paid	**(49)**	(166)	**1**	41

The above balances are included in premiums receivables, net, prepayments and other assets, payable to policyholders' and accrued expenses and other liabilities.

23. RELATED PARTY TRANSACTIONS AND BALANCES – (continued)

The compensation of key management personnel during the year is as follows:

	31 December 2018 SAR'000	31 December 2017 SAR'000
Salaries and other allowances	**5,001**	3,546
End of service indemnities	**492**	297
	5,364	4,465
Remuneration to those charged with governance	**1,225**	1,142

24. ZAKAT AND INCOME TAX

Zakat and Income Tax

The Zakat and Income tax payable by the Company has been calculated in accordance with Zakat and Income tax regulations in Kingdom of Saudi Arabia.

The Zakat and Income tax provision for the year is based on the following:	**31 December 2018 SR'000**	31 December 2017 SR'000
Share capital	**490,000**	490,000
Statutory deposit	**(73,500)**	(73,500)
Statutory reserves	**31,944**	31,944
Accumulated losses	**(97,512)**	(128,120)
End of services benefits	**20,676**	18,639
Held to maturity investments	**(354,584)**	(254,191)
Other opening provisions	**130,214**	67,469
Furniture, fittings and office equipment, net	**(1,902)**	(2,667)
	145,336	149,574
(Loss) / Income for the year	**(60,172)**	36,608
Provision for doubtful debts	**11,080**	25,928
End of services benefits	**(2,658)**	2,037
Other technical provisions	**42,503**	(1,760)
Adjusted income for the year	**(9,247)**	62,813
Zakat base	**136,089**	212,387
Attributable to Saudi Shareholders @ 99% (2017: 99%)	**134,728**	210,263
Zakat @ 2.5%	**3,368**	5,257
Income tax		
Attributable income to Non Saudi Shareholder @ 1% (2017: 1%)	**(92)**	628
Income tax @ 20%	**-**	126
Zakat and income tax	**3,368**	5,382

24. ZAKAT AND INCOME TAX – (continued)

The Zakat and income tax payable by the Company has been calculated based on the best estimates of the management.

The movement in the Zakat payable is as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
Balance at the beginning of the year	**23,073**	20,281
Zakat charge for the year	**3,900**	5,600
Zakat paid for the year	**(5,185)**	(2,808)
Balance at the end of the year	**21,788**	23,073

The movement in the Income tax payable is as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
Balance at the beginning of the year	**635**	400
Charge for the year	**100**	400
Income tax paid for the year	**(35)**	(165)
Balance at the end of the year	**700**	635

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

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

Status of assessment:
The Company has filed its zakat declarations for the years ended 31 December 2009 to 2017 and obtained restricted zakat certificates.

During 2017, the Company received the zakat assessments for the years 2005 to 2008 from the General Authority of Zakat and Income Tax (GAZT) with regards to the portfolio transferred from the old company claiming zakat liability amounting to SR 6.01 million and with-holding tax liability amounting to SR 16.09 million. The management believes that the existing provision for zakat and with-holding tax is sufficient. The Management has filed an objection against the above assessments and is confident of receiving a favourable ruling. However, during 2017, the Company had issued a bank guarantee in favour of GAZT amounting to SR 22.096 million (2017: SR 22.096 million) (note 8).

GAZT has not yet raised assessments for the years from 2012 to 2017. The Zakat is applicable on 99% of the shareholders while Income Tax on 1% of the shareholders.

25. SHARE CAPITAL

The authorized and issued share capital of the Company was SR 490,000,000 divided into 49,000,000 ordinary shares of SR 10 each.

The Board of Directors at its meeting on 13 Ramadan 1438H corresponding to 08 June 2017 has recommended to reduce the Company's share capital from SR 490,000,000 to SR 400,000,000 divided into 40,000,000 shares. In an extra-ordinary general meeting held on 23 Ramadan 1439H corresponding to 07 June 2018, the shareholders' of the Company have approved this reduction and the required changes in the Company by-laws relating to this reduction, accordingly the share capital and accumulated losses have been reduced by SR 90,000,000. The capital reduction is through reduction of 1 share for every 5.44 shares held by the shareholder. The purpose of capital reduction is to restructure the capital position of the Company in line with the Companies Law. There will be no impact of capital reduction on the Company's financial obligations.

As at 31 December 2018, the authorised, subscribed and paid up share capital of the Company is SR 400,000,000, divided into 40,000,000 shares of SR 10 each.

26. CAPITAL MANAGEMENT

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

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

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

27. BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE

(Loss) / earnings per share for the year has been calculated by dividing the net (loss) / income for the year by the weighted average number of issued and outstanding shares for the year. The Company have decreased its share capital by offsetting with accumulated losses (note 25), as a result the weighted average number of ordinary shares issued and outstanding in the prior year has been restated to 40 million shares and accordingly earnings per share is restated.

28. SUPPLEMENTARY INFORMATION

a) Statement of financial position

	31 December 2018			31 December 2017		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR '000			
ASSETS						
Cash and cash equivalents	**88,477**	**1,056**	**89,533**	43,953	94,843	138,796
Premiums and reinsurers' receivable – net	**169,736**	**-**	**169,736**	253,621	-	253,621
Reinsurers' share of unearned premiums	**94,750**	**-**	**94,750**	204,792	-	204,792
Reinsurers' share of outstanding claims	**88,169**	**-**	**88,169**	89,384	-	89,384
Reinsurers' share of claims Incurred but not reported	**135,637**	**-**	**135,637**	202,521	-	202,521
Deferred policy acquisition costs	**5,699**	**-**	**5,699**	10,301	-	10,301
Investments	**160,159**	**224,596**	**384,755**	260,322	134,755	395,077
Due from insurance operations	**-**	**4,700**	**4,700**	-	62,944	62,944
Prepaid expenses and other assets	**45,823**	**1,378**	**47,201**	52,646	1,271	53,917
Property and equipment	**1,902**	**-**	**1,902**	2,667	-	2,667
Goodwill	**-**	**78,400**	**78,400**	-	78,400	78,400
Statutory deposit	**-**	**73,500**	**73,500**	-	73,500	73,500
Accrued income on statutory deposit	**-**	**2,635**	**2,635**	-	1,448	1,448
	790,352	**386,265**	**1,176,617**	1,120,207	447,161	1,567,368
Less: Inter-operations eliminations	**-**	**(4,700)**	**(4,700)**	-	(62,944)	(62,944)
TOTAL ASSETS	**790,352**	**381,565**	**1,171,917**	1,120,207	384,217	1,504,424

28. SUPPLEMENTARY INFORMATION – (continued)

a) Statement of financial position – continued

	31 December 2018			31 December 2017		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR '000			
LIABILITIES						
Policyholders claims payable	**19,361**	**-**	**19,361**	9,177	-	9,177
Accrued and other liabilities	**55,253**	**560**	**55,813**	96,745	617	97,362
Reinsurers' balances payable	**122,227**	**-**	**122,227**	178,145	-	178,145
Unearned premiums	**141,051**	**-**	**141,051**	270,374	-	270,374
Unearned reinsurance commission	**19,295**	**-**	**19,295**	31,460	-	31,460
Outstanding claims	**111,586**	**-**	**111,586**	122,927	-	122,927
Claims incurred but not reported	**209,481**	**-**	**209,481**	281,638	-	281,638
Premium deficiency reserve	**16,454**	**-**	**16,454**	3,566	-	3,566
Other technical reserves	**36,539**	**-**	**36,539**	6,925	-	6,925
Due to shareholders' operations	**4,700**	**-**	**4,700**	62,944	-	62,944
Due to a related party	**-**	**270**	**270**	-	270	270
End-of-service indemnities	**18,018**	**-**	**18,018**	20,676	-	20,676
Insurance operations' surplus	**36,037**	**-**	**36,037**	36,037	-	36,037
Fair value loss reserve on investments	**(86)**	**-**	**(86)**	(407)	-	(407)
Zakat and income tax	**-**	**22,488**	**22,488**	-	23,708	23,708
Accrued commission income payable to SAMA	**-**	**2,635**	**2,635**	-	1,448	1,448
	789,916	**25,953**	**815,869**	1,120,207	26,043	1,146,250
Less: Inter-operations eliminations	**(4,700)**	**-**	**(4,700)**	(62,944)	-	(62,944)
TOTAL LIABILITIES	**785,216**	**25,953**	**811,169**	1,057,263	26,043	1,083,306
SHAREHOLDERS' EQUITY						
Share capital	**-**	**400,000**	**400,000**	-	490,000	490,000
Statutory reserve	**-**	**31,944**	**31,944**	-	31,944	31,944
Accumulated losses	**-**	**(71,684)**	**(71,684)**	-	(97,512)	(97,512)
Fair value reserve loss on investments	**-**	**52**	**52**	-	(3,314)	(3,314)
TOTAL SHAREHOLDERS' EQUITY	**-**	**360,312**	**360,312**	-	421,118	421,118
Re-measurement reserve of defined benefit obligation – related to insurance operations	**436**	**-**	**436**	-	-	-
TOTAL EQUITY	**436**	**360,312**	**360,748**	-	421,118	421,118
TOTAL LIABILITIES AND EQUITY	**785,652**	**386,265**	**1,171,917**	1,057,263	447,161	1,504,424
COMMITMENTS AND CONTINGENCIES			**22,096**			22,096

28. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2018 Total**	Insurance operations	Share-holders' operations	2017 Total
	SAR '000					
REVENUES						
Gross premiums written						
- Direct	**391,968**	**-**	**391,968**	579,983	-	579,983
- Reinsurance	**-**	**-**	**-**	582	-	582
	391,968	**-**	**391,968**	580,565	-	580,565
Reinsurance premiums ceded						
- Local	**(12,271)**	**-**	**(12,271)**	(13,328)	-	(13,328)
- Foreign	**(273,445)**	**-**	**(273,445)**	(418,944)	-	(418,944)
	(285,716)	**-**	**(285,716)**	(432,272)	-	(432,272)
Excess of loss expenses						
- Local	**(270)**	**-**	**(270)**	(263)	-	(263)
- Foreign	**(2,383)**	**-**	**(2,383)**	(3,397)	-	(3,397)
	(2,653)	**-**	**(2,653)**	(3,660)	-	(3,660)
Net premiums written	**103,599**	**-**	**103,599**	144,633	-	144,633
Changes in unearned premiums, net	**19,282**	**-**	**19,282**	44,274	-	44,274
Net premiums earned	**122,881**	**-**	**122,881**	188,907	-	188,907
Reinsurance commissions	**49,640**	**-**	**49,640**	59,251	-	59,251
TOTAL REVENUES	**172,521**	**-**	**172,521**	248,158	-	248,158
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	**212,946**	**-**	**212,946**	366,792	-	366,792
Reinsurers' share of claims paid	**(138,035)**	**-**	**(138,035)**	(182,811)	-	(182,811)
Net claims	**74,911**	**-**	**74,911**	183,981	-	183,981
Changes in outstanding claims and other technical reserves, net	**(10,126)**	**-**	**(10,126)**	(30,785)	-	(30,785)
Changes in claims incurred but not reported, net	**(5,272)**	**-**	**(5,272)**	(96,010)	-	(96,010)
Net claims incurred	**59,513**	**-**	**59,513**	57,186	-	57,186
Premium deficiency reserves	**12,888**	**-**	**12,888**	3,170	-	3,170
Other technical reserves	**29,615**	**-**	**29,615**	(4,930)	-	(4,930)
Policy acquisition costs	**13,885**	**-**	**13,885**	18,156	-	18,156
Other underwriting expenses	**3,278**	**-**	**3,278**	3,513	-	3,513
TOTAL UNDERWRITING COSTS AND EXPENSES	**119,179**	**-**	**119,179**	77,095	-	77,095
NET UNDERWRITING INCOME	**53,342**	**-**	**53,342**	171,063	-	171,063

28. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income – continued

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2018 Total**	Insurance operations	Share-holders' operations	2017 Total
	SAR '000					
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses	**(111,640)**	**(2,207)**	**(113,847)**	(120,769)	(1,001)	(121,770)
Allowance for doubtful debts	**(11,080)**	**-**	**(11,080)**	(25,928)	-	(25,928)
Board remuneration	**-**	**(1,225)**	**(1,225)**	-	(1,142)	(1,142)
Amortization of held to maturity investments	**204**	**188**	**392**	193	188	381
Commission income on investments	**4,556**	**6,921**	**11,477**	4,951	5,602	10,553
Dividend and realized (loss) / gain on investments	**(511)**	**(2,421)**	**(2,932)**	426	733	1,159
Other income	**3,701**	**-**	**3,701**	5,873	-	5,873
TOTAL OTHER OPERATING (EXPENSES) / INCOME	**(114,770)**	**1,256**	**(113,514)**	(135,254)	4,380	(130,874)
NET (LOSS) / INCOME FOR THE YEAR	**(61,428)**	**1,256**	**(60,172)**	35,809	4,380	40,189
Shareholders' absorption of loss / (income) transferred to Shareholders	**61,428**	**(1,256)**	**60,172**	(32,228)	(4,380)	(36,608)
NET INCOME ATTRIBUTED TO THE INSURANCE OPERATIONS	**-**	**-**	**-**	3,581	-	3,581
(Loss) / earnings per share (Expressed in SAR per share)						
Weighted average number of ordinary shares outstanding (in thousands)	**-**		**40,000**	-		40,000
Basic and diluted (loss) / earnings per share for the year (SR) – restated – 2017	**-**		**(1.50)**	-		0.92

28. SUPPLEMENTARY INFORMATION – (continued)

c) Statement of comprehensive income

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2018 Total**	Insurance operations	Share-holders' operations	2017 Total
	SAR '000					
NET (LOSS) / INCOME FOR THE YEAR	**-**	**(60,172)**	**(60,172)**	3,581	36,608	40,189
Other comprehensive (loss) / income				-	-	-
Items that will not be reclassified to statement of income in subsequent periods						
Actuarial gains on defined benefit obligation	**436**	**-**	**436**	-	-	-
Items that are or may be reclassified to statement of income in subsequent periods						
Available for sale investments:						
- Net change in fair value	**(189)**	**935**	**746**	(54)	1,849	1,795
- Net amounts transferred to statement of income	**511**	**2,431**	**2,942**	-	(949)	(949)
Others (to be disclosed if necessary)	**-**	**-**	**-**	-	-	-
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	**758**	**(56,806)**	**(56,048)**	3,527	37,508	41,035

28. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2018 Total**	Insurance operations	Share-holders' operations	2017 Total
	SR '000					
CASH FLOWS FROM OPERATING ACTIVITIES						
Net (loss) / income for the year	**-**	**(60,172)**	**(60,172)**	3,581	36,608	40,189
Adjustments for non-cash items:						
Depreciation of property and equipment	**1,328**	**-**	**1,328**	1,530	-	1,530
Allowance for doubtful debts	**10,976**	**-**	**10,976**	25,928	-	25,928
Realized loss / (gain) on investments	**511**	**2,430**	**2,941**	(210)	(949)	(1,159)
Amortization of held to maturity investments	**(205)**	**(188)**	**(393)**	(193)	(188)	(381)
Provision for end-of-service indemnities	**2,426**	**-**	**2,426**	2,037	-	2,037
	15,036	**(57,930)**	**(42,894)**	32,673	35,471	68,144
Changes in operating assets and liabilities:						
Premiums and reinsurers' receivable	**72,909**	**-**	**72,909**	(65,705)	-	(65,705)
Reinsurers' share of unearned premiums	**110,042**	**-**	**110,042**	(19,886)	-	(19,886)
Reinsurers' share of outstanding claims	**1,215**	**-**	**1,215**	52,842	-	52,842
Reinsurers' share of claims Incurred but not reported	**66,884**	**-**	**66,884**	(23,050)	-	(23,050)
Deferred policy acquisition costs	**4,602**	**-**	**4,602**	425	-	425
Prepaid expenses and other assets	**6,821**	**(107)**	**6,714**	(21,831)	34	(21,797)
Accrued commission on statutory deposit	**-**	**(1,187)**	**(1,187)**	-	(206)	(206)
Premium deficiency reserves	**12,888**	**-**	**12,888**	572	-	572
Other technical reserves	**29,614**	**-**	**29,614**	(2,332)	-	(2,332)
Policyholders and accounts payables	**10,184**	**-**	**10,184**	(2,550)	-	(2,550)
Accrued and other liabilities	**(41,492)**	**(57)**	**(41,549)**	43,540	230	43,770
Reinsurers' balances payable	**(55,918)**	**-**	**(55,918)**	51,081	-	51,081
Unearned premiums	**(129,323)**	**-**	**(129,323)**	(24,388)	-	(24,388)
Unearned reinsurance commission	**(12,165)**	**-**	**(12,165)**	600	-	600
Outstanding claims	**(11,341)**	**-**	**(11,341)**	(83,626)	-	(83,626)
Claims incurred but not reported	**(72,157)**	**-**	**(72,157)**	(72,961)		(72,961)
Accrued commission on statutory deposit payable to SAMA	**-**	**1,187**	**1,187**	-	206	206
Due to shareholders operations	**41,756**	**-**	**41,756**	12,622	-	12,622
Due from Insurance Operations	**-**	**(41,756)**	**(41,756)**	-	(12,622)	(12,622)
	49,555	**(99,850)**	**(50,295)**	(121,974)	23,113	(98,861)
End-of-service indemnities paid	**(4,648)**	**-**	**(4,648)**	-	-	-
Zakat and income tax paid	**-**	**(5,220)**	**(5,220)**	-	(2,973)	(2,973)
Net cash flows from / (used in) operating activities	**44,907**	**(105,070)**	**(60,163)**	(121,974)	20,140	(101,834)

28. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows – continued

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2018 Total**	Insurance operations	Share-holders' operations	2017 Total
	SR '000					
CASH FLOWS FROM INVESTING ACTIVITIES						
Time deposits	**-**	**-**	**-**	136,070	74,600	210,670
Purchases of investments	**-**	**-**	**-**	(122,405)	(72,063)	(194,468)
Proceeds from sale of investments	**180**	**11,283**	**11,463**	91,755	70,898	162,653
Proceeds from maturity of term deposits	**-**	**-**	**-**	-	-	-
Purchase of property and equipment	**(563)**	**-**	**(563)**	(1,229)	-	(1,229)
Net cash flows (used in) / from investing activities	**(383)**	**11,283**	**10,900**	104,191	73,435	177,626
Net change in cash and cash equivalents	**44,524**	**(93,787)**	**(49,263)**	(17,783)	93,575	75,792
Cash and cash equivalents, beginning of the year	**43,953**	**94,843**	**138,796**	61,736	1,268	63,004
Cash and cash equivalents, end of the year	**88,477**	**1,056**	**89,533**	43,953	94,843	138,796
NON-CASH INFORMATION						
Change in fair value of available-for-sale investments	**322**	**654**	**617**	-	494	494

29. GOODWILL

The Company entered into an agreement with UCA Insurance Bahrain BSC ('the seller') pursuant to which it acquired the seller's insurance operations in the Kingdom of Saudi Arabia, effective from 31 December 2008, for a total consideration of SR 656.95 million with a goodwill amount of SR 78.4 million. The transaction was approved by SAMA. The goodwill amount payable to the seller was paid in full subsequent to 2008, after obtaining specific approval from SAMA.

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units to which goodwill has been allocated. The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial budgets approved by the Board of Directors covering a five-year period. The budgeted growth rate for gross premiums to be written in 2018 is about 35.3% (2017: 45.7%). The budgeted annual growth rate for gross premiums to be written over the next four years (2020 – 2023) to be in the range of 10% to 11% (2017: 10% to 15%). The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 4.24% (2017: 4.24%). The discount rate applied to the cash flow projections is 10% (2017: 11%). The valuation result has determined that the carrying value of the goodwill at the reporting date is less than its recoverable amount.

The calculation of value in use is most sensitive to the following assumptions:

- Growth rate of premiums
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

With regard to the assessment of value in use, the management believes that no reasonably possible change in any of the above assumptions would cause the carrying value to materially exceed its recoverable amount at the reporting date.

30. RISK MANAGEMENT

Risk governance

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

Risk management structure

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

Board of Directors

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

Senior management

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

Audit Committee and Internal Audit Function

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

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

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

Insurance risk management

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

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

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

30. RISK MANAGEMENT – (continued)

Insurance risk management – (continued)

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

Independent actuarial review of claims and claims reserves
In further mitigation of the insurance risk, the Company utilises an independent actuary who performs periodical reviews of the Company's claims modelling and claims projections as well as verifying the closing position claims reserves are adequate.

Key assumptions
The principal assumption underlying the estimates is the Company's estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods as far as applicable.

Sensitivities
The Company believes that claim liabilities under insurance contract (Gross outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions. Sensitivity of loss for the year to change in claim liabilities and IBNR based on an increase / decrease of 10% in outstanding claim reserve and increase / decrease of 15 % in IBNR is given below

	2018 SR'000		*2017 SR'000*	
Outstanding claim net of reinsurance	**Effect of 10% increase**	**Effect of 10% decrease**	Effect of 10% increase	Effect of 10% decrease
	(2,342)	**2,342**	(3,354)	3,354

	2018 SR'000		*2017 SR'000*	
IBNR	**Effect of 15% increase**	**Effect of 15% decrease**	Effect of 15% increase	Effect of 15% decrease
	(11,077)	**11,077**	(11,868)	11,868
TOTAL	**(13,419)**	**13,419**	(15,222)	15,222

30. RISK MANAGEMENT – (continued)

Frequency and Severity of Claims

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

Fire and Burglary

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

Motor

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 30% (2016: 60%) of gross written premium.
The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims. This risk is covered by proportional treaty as well as per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

General Accident and Workmen's Compensation

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

Marine

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.
The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

Concentration of insurance risk

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

Medical

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

Regulatory framework risk

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

30. RISK MANAGEMENT – (continued)

Credit risk

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

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

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

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

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

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

There are no significant concentrations of credit risk within the Company.

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

As at 31 December 2018

	Insurance Operations SR '000	**Shareholders operations SR '000**
Cash and cash equivalents	**88,477**	**1,056**
Investments	**160,159**	**224,596**
Premiums and reinsurance balances receivable	**169,736**	**-**
Reinsurers' share of unearned premium	**94,750**	**-**
Reinsurers' share of outstanding claims	**88,169**	**-**
Reinsurers' share of claims Incurred but not reported	**135,637**	
Prepayments and other assets	**45,823**	**1,378**
	782,751	**227,030**

As at 31 December 2017

	Insurance Operations SR '000	Shareholders operations SR '000
Cash and cash equivalents	43,953	94,843
Investments	260,322	134,755
Premiums and reinsurance balances receivable	253,621	-
Reinsurers' share of unearned premium	204,792	-
Reinsurers' share of outstanding claims	89,384	-
Reinsurers' share of claims Incurred but not reported	202,521	-
Prepayments and other assets	30,550	1,271
	1,107,239	230,869

30. RISK MANAGEMENT – (continued)

Liquidity risk

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

Maturity profiles

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

As at 31 December 2018	**Up to one year SR '000**	**More than one year but less than 5 years SR' 000**	**Total SR' 000**
Insurance Operations' Financial Liabilities			
Reinsurance payables	**102,990**	**19,237**	**122,227**
Accrued expenses and other liabilities	**55,253**	**-**	**55,253**
Outstanding claims	**111,586**	**-**	**111,586**
Incurred but not reported claims	**209,481**	**-**	**209,481**
	479,310	**19,237**	**498,547**
Shareholders' Financial Liabilities			
Accrued expenses and other liabilities	**560**	**-**	**560**
Accrued commission on statutory deposit payable to SAMA	**2,635**	**-**	**2,635**
Due to a related party	**-**	**270**	**270**
	3,195	**270**	**3,465**
Total Financial Liabilities	**482,505**	**19,507**	**502,012**

As at 31 December 2017	Up to one year SR '000	More than one year but less than 5 years SR' 000	Total SR' 000
Insurance Operations' Financial Liabilities			
Reinsurance payables	167,138	11,007	178,145
Accrued expenses and other liabilities	96,745	-	96,745
Outstanding claims	122,927	-	122,927
Incurred but not reported claims	281,638	-	281,638
	668,448	11,007	679,455
Shareholders' Financial Liabilities			
Accrued expenses and other liabilities	617	-	617
Accrued commission on statutory deposit payable to SAMA	1,448	-	1,448
Due to a related party	-	270	270
	2,065	270	2,335
Total Financial Liabilities	670,513	11,277	681,790

30. RISK MANAGEMENT – (continued)

Liquidity profile

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

Foreign currency risk

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

As at 31 December 2018	**Saudi Riyal SR '000**	**US Dollar SR' 000**	**Total SR '000**
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	**74,721**	**13,755**	**88,476**
Available-for-sale investments	**223**	**3,671**	**3,894**
Held to maturity investments	**-**	**156,265**	**156,265**
Premiums and reinsurers' receivable – net	**169,736**	**-**	**169,736**
Reinsurers' share of unearned premium	**94,750**	**-**	**94,750**
Reinsurers' share of outstanding claims	**88,169**	**-**	**88,169**
Prepayments and other assets	**45,823**	**-**	**45,823**
TOTAL INSURANCE OPERATIONS' ASSETS	**473,422**	**173,691**	**647,113**
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	**908**	**148**	**1,056**
Available-for-sale investments	**13,242**	**13,035**	**26,277**
Held to maturity investments	**102,063**	**96,256**	**198,319**
TOTAL SHAREHOLDERS ASSETS	**116,213**	**109,439**	**225,652**
TOTAL ASSETS	**589,635**	**283,130**	**872,765**

As at 31 December 2017	Saudi Riyal SR '000	US Dollar SR' 000	Total SR '000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	31,803	34,246	66,049
Available-for-sale investments	100,447	3,815	104,262
Held to maturity investments	-	156,060	156,060
Premiums receivable, net	223,281	-	223,281
Reinsurance receivables, net	30,340	-	30,340
Reinsurers' share of unearned premium	204,792	-	204,792
Reinsurers' share of outstanding claims	291,905	-	291,905
Prepayments and other assets	30,550	-	30,550
TOTAL INSURANCE OPERATIONS' ASSETS	913,118	194,121	1,107,239
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	93,739	1,104	94,843
Available-for-sale investments	23,022	13,602	36,624
Held to maturity investments	2,063	96,068	98,131
TOTAL SHAREHOLDERS ASSETS	118,824	110,774	229,598
TOTAL ASSETS	1,031,942	304,895	1,336,837

30. RISK MANAGEMENT – (continued)

Foreign currency risk – (continued)

As at 31 December 2018	**Saudi Riyal SR '000**	**US Dollar SR '000**	**Total SR '000**
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payables	**122,227**	**-**	**122,227**
Accrued expenses and other liabilities	**55,253**	**-**	**55,253**
Outstanding claims	**111,586**		**111,586**
Incurred but not reported claims	**209,481**	**-**	**209,481**
TOTAL INSURANCE OPERATIONS' LIABILITIES	**498,547**	**-**	**498,547**
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	**560**	**-**	**560**
Accrued commission on statutory deposit payable to SAMA	**2,635**	**-**	**2,635**
Due to a related party	**270**	**-**	**270**
TOTAL SHAREHOLDERS' LIABILITIES	**3,465**	**-**	**3,465**
TOTAL LIABILITIES	**502,012**	**-**	**502,012**

As at 31 December 2017	Saudi Riyal SR '000	US Dollar SR '000	Total SR '000
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payables	178,145	-	178,145
Accrued expenses and other liabilities	96,745	-	96,745
Outstanding claims	122,927	-	122,927
Incurred but not reported claims	281,638	-	281,638
TOTAL INSURANCE OPERATIONS' LIABILITIES	679,455	-	679,455
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	617	-	617
Accrued commission on statutory deposit payable to SAMA	1,448	-	1,448
Due to a related party	270	-	270
TOTAL SHAREHOLDERS' LIABILITIES	2,335	-	2,335
TOTAL LIABILITIES	681,790	-	681,790

30. RISK MANAGEMENT – (continued)

Commission rate risk

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

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

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

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

	Change in basis points	Effect on income for the year SR'000
2018	**50**	**1,773**
2017	50	1,271

Market price risk

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

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

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

As at 31 December 2018

	Level 1	Level 2	Level 3	Total
Available for sale Investments				
Equity securities:				
Insurance operations	**-**	**222**	**-**	**222**
Shareholders' operations	**-**	**11,319**	**1,923**	**13,242**
Debt securities:				
Insurance operations	**3,672**	**-**	**-**	**3,672**
Shareholders' operations	**13,035**	**-**	**-**	**13,035**
	16,707	**111,541**	**1,923**	**130,171**

30. RISK MANAGEMENT – (continued)

Market price risk – (continued)

As at 31 December 2017

	Level 1	Level 2	Level 3	Total
Available for sale Investments				
Equity securities:				
Insurance operations	229	218	-	447
Shareholders' operations	1,412	19,687	1,923	23,022
Debt securities:				
Insurance operations	3,815	100,000	-	103,815
Shareholders' operations	13,602	-	-	13,602
	19,058	119,905	1,923	140,886

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' comprehensive income will be impacted. There was no transfer between level 1, 2 and 3 during the year ended 31 December 2018 and 2017.

Capital management

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

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

As required by Saudi Arabian Insurance Regulations (Article 66 of Implementation Regulations issued by SAMA), the Company is required to maintain minimum Solvency Margin equivalent to the highest of minimum capital requirement, premium solvency margin or claims solvency margin. As at 31 December 2018, the Company's solvency level is more than the minimum solvency margin required by the Implementation Regulations.

31. AMALGAMATION OF SHAREHOLDERS AND INSURANCE OPERATIONS

Certain of the comparative figures have been reclassified and regrouped to conform in the current period presentation. These changes as summarized below, were mainly to conform with the SAMA requirements:

- As discussed in note 2 to these financial statements, previously statement of financial position, statement of income, and cash flows were presented separately for insurance operations and shareholders operations which are combined together to present one Company level statement of financial position, statement of income and statement of cash flows.
- The amounts "due to / from" shareholders and insurance operations which previously reported separately in the respective statement of financial position, are now eliminated (refer note 17 (a)).
- Share of insurance operations surplus split in the ratio of 90/10 between shareholders and insurance operations and presented separately is now presented as an expense in statement of income (refer note 17 (b)).

32. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to current year presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors, on 14 Rajab 1440H, corresponding to 21 March 2019.