

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)


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

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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Independent auditors' report to the shareholders of AXA Cooperative Insurance Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of AXA Cooperative Insurance Company (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of insurance operations' income and accumulated surplus, insurance operations' comprehensive income, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 27.

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

Basis for opinion

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

Key Audit Matters

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

Independent auditors' report to the shareholders of AXA Cooperative Insurance Company (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of insurance contract liabilities</p> <p>As at 31 December 2017, outstanding claims including claims incurred but not reported ("IBNR") amounted to Saudi Riyals 761 million as reported in Note 9 to the financial statements.</p> <p>The estimation of insurance contract liabilities involves a significant judgement. The liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs. The Company principally uses external actuaries to provide them with the estimate of such liabilities. A range of methods were used to determine these provisions which were based on a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>We have considered it as one of the key audit matters as the valuation of insurance contract liabilities require the use of significant judgement and estimates.</p>	<p>We understood, evaluated and tested key controls around the claims handling and provision setting processes.</p> <p>We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experience and assessing their relationship with the Company.</p> <p>In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilised by the Company's actuary in estimating the IBNR by comparing it to accounting records.</p> <p>In order to challenge management's methods and assumptions, we were assisted by our internal actuary to understand and evaluate the Company's actuarial practices and provisions established. In order to gain comfort over the actuarial report issued by management's expert, our internal actuary performed the following:</p> <ul style="list-style-type: none"> - Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. 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; and - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivity analysis performed.

Independent auditors' report to the shareholders of AXA Cooperative Insurance Company (continued)

Key Audit Matters (continued)

<p>Valuation of goodwill</p> <p>At the time of the Company's incorporation in 2009, the Company acquired certain assets, liabilities and insurance portfolio from AXA Insurance (Saudi Arabia) B.S.C. (c) (the "Seller"), at a value determined by SAMA. Based on the instructions of SAMA, the Company paid an amount of Saudi Riyals 50 million to the Seller in 2015 as purchase consideration for the insurance portfolio and recognized the same amount as goodwill. Refer Note 18 to the financial statements.</p> <p>At the reporting date, management has performed an impairment assessment of goodwill as per the International Accounting Standard 36 "Impairment of assets". Under the impairment assessment, management has calculated the recoverable amount of business using the value-in-use method.</p> <p>We have considered it as one of the key audit matters as the value-in-use calculations required the use of significant management judgements and estimates, including forecast cash flows, terminal growth rate and discount rate.</p>	<p>We have reviewed management's impairment assessment of goodwill by performing the following procedures:</p> <ul style="list-style-type: none"> Assessed the methodology used by management to estimate the value-in-use by checking, on a sample basis, the accuracy and relevance of the input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets by comparing the budgets to the historical results and the market data; Assessed the appropriateness of cash flows projections in the calculation of the value-in-use of the business, challenging the reasonableness of key assumptions such as the future business growth, terminal growth rate and discount rate etc., based on our knowledge of the business and industry by comparing the assumptions to historical results and published market and industry data and comparing the current year's actual results with the prior year forecast and other relevant information. Internal valuation experts were engaged to assist the review on methodology of the value-in-use calculations and discount rate; and Performed sensitivity analysis over key assumptions in the calculation of the value-in-use in order to assess the potential impact of a range of possible outcomes.
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Other information

The Board of Directors of the Company (the "directors") are responsible for the other information. The other information comprises the annual report but does not include the financial statements and our independent auditors' report thereon, which we obtained prior to the date of this independent auditors' report.

Our opinion on the financial statements does not cover the other information and we do 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.

If, based on the work we have performed, on the other information that we obtained prior to the date of this independent auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditors' report to the shareholders of AXA Cooperative Insurance Company (continued)

Responsibilities of those charged with governance for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent 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 independent auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Independent auditors' report to the shareholders of AXA Cooperative Insurance Company (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

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

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

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

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

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28 March 2018

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

		<u>As at 31 December</u>	
	Notes	2017	2016
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	117,776	132,662
Short-term deposits	5	600,862	380,074
Premiums and insurance balances receivable - net	6,14	153,398	122,672
Reinsurers' share of unearned premiums	9	22,059	29,078
Reinsurers' share of outstanding claims and reserves	8, 9	154,754	105,316
Deferred policy acquisition costs	9	28,158	19,130
Available-for-sale investments	7	239,927	134,810
Prepayments and other receivable		16,113	18,456
Long-term deposits	5	103,380	7,500
Held-to-maturity investments	7	78,836	75,000
Furniture, fixtures and equipment	11	7,016	6,070
Intangible - computer software	11	9,983	7,984
TOTAL INSURANCE OPERATIONS' ASSETS		1,432,262	1,038,752
SHAREHOLDERS' ASSETS			
Short-term deposits	5	76,111	60,000
Available-for-sale investments	7	155,862	160,466
Prepayments and other receivable		1,412	2,366
Investment return on statutory deposit		2,693	1,859
Long-term deposits	5	105,000	116,250
Held-to-maturity investments	7	60,000	60,000
Goodwill on acquisition of insurance portfolio	18	50,000	50,000
Due from insurance operations		78,456	25,448
Statutory deposit	10	45,000	45,000
TOTAL SHAREHOLDERS' ASSETS		574,534	521,389
TOTAL INSURANCE OPERATIONS' AND SHAREHOLDERS' ASSETS		2,006,796	1,560,141

(Continued)

The accompanying notes are an integral part of these financial statements




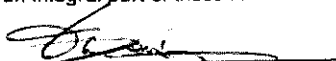
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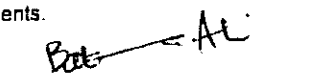
AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION (continued)
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

		As at 31 December	
	Notes	2017	2016
INSURANCE OPERATIONS' LIABILITIES AND ACCUMULATED SURPLUS			
Reinsurance balances payable		59,093	33,547
Gross unearned premiums	9	345,030	290,295
Gross outstanding claims and reserves	9	761,002	557,152
Advance premiums		17,842	7,339
Unearned reinsurance commission income	9	4,284	5,424
Accrued and other liabilities	12	130,542	86,296
Due to shareholder operations		78,456	25,448
Due to a related party	14	4,335	3,534
Employee benefit obligations	13	24,744	22,402
Total insurance operations' liabilities		1,425,328	1,031,437
Accumulated surplus from insurance operations	15	7,422	8,198
Fair value reserve on available-for-sale investments	7	(488)	(883)
Total insurance operations accumulated surplus		6,934	7,315
TOTAL INSURANCE OPERATIONS' LIABILITIES AND ACCUMULATED SURPLUS		1,432,262	1,038,752
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Zakat and income tax payable	16	27,076	18,961
Accrued and other liabilities	12	1,020	1,020
Commission payable on statutory deposits		2,693	1,859
Total shareholders' liabilities		30,789	21,840
Shareholders' equity			
Share capital	17	450,000	450,000
Statutory reserve	19	20,162	11,150
Fair value reserve	7	(264)	830
Performance share reserve	20	982	640
Retained earnings		72,865	36,929
Total shareholders' equity		543,745	499,549
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		574,534	521,389
TOTAL INSURANCE OPERATIONS' LIABILITIES AND ACCUMULATED SURPLUS, SHAREHOLDERS' LIABILITIES AND EQUITY		2,006,796	1,560,141

The accompanying notes from are an integral part of these financial statements.


Paul Adamson
Managing Director


Gary Lewin
Chief Executive Officer


Babar Ali Khan
Chief Financial Officer

AXA COOPERATIVE INSURANCE COMPANY

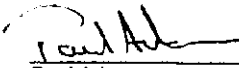
(A Saudi Joint Stock Company)

STATEMENT OF INSURANCE OPERATIONS' INCOME AND ACCUMULATED SURPLUS

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

		Year ended 31 December	
	Notes	2017	2016
REVENUE			
Gross premiums written	9,14	1,499,477	1,153,974
Less: reinsurance premiums ceded	9,14	(199,603)	(93,832)
Net premiums written	9,14	1,299,874	1,060,142
Changes in unearned premiums, net	9	(61,754)	(11,143)
Net premiums earned	9	1,238,120	1,048,999
Rinsurance commissions	9,14	26,064	14,881
Total revenue		1,264,184	1,063,880
COSTS AND EXPENSES			
Gross claims paid and other expenses	9	911,992	801,969
Less: reinsurers' share of claims paid	9,14	(72,458)	(36,678)
Net claims paid	9,14	839,534	765,291
Changes in outstanding claims and reserves, net	9	154,412	95,924
Net claims incurred		993,946	861,215
Policy acquisition costs	9	104,239	72,378
General and administrative expenses	22	133,713	107,408
Total costs and expenses		1,231,898	1,041,001
Operating surplus		32,286	22,879
Commission income, net	21	23,018	16,551
Surplus from insurance operations		55,304	39,430
Shareholders' appropriation of surplus		(49,774)	(35,487)
Insurance operations' surplus after shareholders' appropriation of surplus	15	5,530	3,943
Accumulated surplus, beginning of the year		8,198	5,357
Surplus distributed during the year		(6,306)	(1,102)
Accumulated surplus, end of the year	15	7,422	8,198

The accompanying notes are an integral part of these financial statements.


Paul Adamson
Managing Director

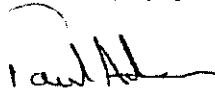

Gary Lewin
Chief Executive Officer


Babar Ali Khan
Chief Financial Officer


AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF INSURANCE OPERATIONS' COMPREHENSIVE INCOME
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

		<u>Year ended 31 December</u>	
	Notes	2017	2016
Insurance operations' surplus after shareholders' appropriation of surplus	15	5,530	3,943
OTHER COMPREHENSIVE INCOME:			
Items that may subsequently be reclassified to statement of Insurance operations' Income and accumulated surplus			
Changes in fair value reserve for available-for-sale investments, net	7	395	(728)
Total comprehensive income for the year		<u>5,925</u>	<u>3,215</u>

The accompanying notes are an integral part of these financial statements.


Paul Adamson
Managing Director

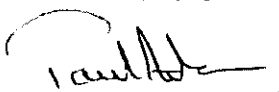

Gary Lewin
Chief Executive Officer



Babar Ali Khan
Chief Financial Officer


AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF SHAREHOLDERS' OPERATIONS
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2017	2016
Net surplus transferred from insurance operations		49,774	35,487
Commission income, net	21	12,165	8,929
General and administrative expenses	22	(1,752)	(1,739)
Shareholders' net income for the year		60,187	42,677
Weighted average number of outstanding shares ('000')	17	45,000	45,000
Basic and diluted earnings per share (Saudi Riyals)	24	1.34	0.95

The accompanying notes are an integral part of these financial statements.


Paul Adamson
Managing Director

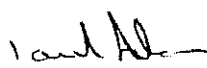

Gary Lewin
Chief Executive Officer


Babar Ali Khan
Chief Financial Officer


AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016 (Restated - see Note 2)
Shareholders' net income for the year		60,187	42,677
Changes in fair value reserve for available-for-sale investments, net	7	(1,094)	813
Total comprehensive income for the year		59,093	43,490

The accompanying notes are an integral part of these financial statements.


Paul Adamson
Managing Director

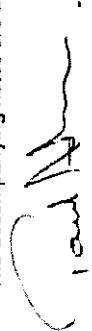

Gary Lewin
Chief Executive Officer



Babar Ali Khan
Chief Financial Officer


AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Fair value reserve	Performance share reserve	Retained earnings	Total
Balance at 1 January 2016	450,000	5,132	17	-	13,312	468,461
Income for the year	-	-	-	-	42,677	42,677
Changes in fair value reserve on available-for-sale investments, net (Note 7)	-	-	813	-	-	813
Transfer to statutory reserve (Note 19)	-	6,018	-	-	(6,018)	-
Provision for zakat (Note 16)	-	-	-	-	(9,246)	(9,246)
Provision for income tax (Note 16)	-	-	-	-	(3,341)	(3,341)
Performance share reserve (Note 20)	-	-	-	640	-	640
Transfer from retained earnings	-	-	-	-	(455)	(455)
Balance at 31 December 2016	450,000	11,150	830	640	36,929	499,549
Balance at 1 January 2017	450,000	11,150	830	640	36,929	499,549
Income for the year	-	-	-	-	60,187	60,187
Changes in fair value reserve on available-for-sale investments, net (Note 7)	-	-	(1,094)	-	-	(1,094)
Transfer to statutory reserve (Note 19)	-	9,012	-	-	(9,012)	-
Provision for zakat (Note 16)	-	-	-	-	(10,164)	(10,164)
Provision for income tax (Note 16)	-	-	-	-	(4,961)	(4,961)
Performance share reserve (Note 20)	-	-	-	475	-	475
Performance share reserve - settlement (Note 20)	-	-	-	(247)	-	(247)
Transfer from retained earnings (Note 20)	-	-	-	114	(114)	-
Balance at 31 December 2017	450,000	20,162	(264)	982	72,865	543,745

The accompanying notes are an integral part of these financial statements.

 Paul Adamson
Managing Director


 Gary Lewin
Chief Executive Officer


 Babar Ali Khan
Chief Financial Officer

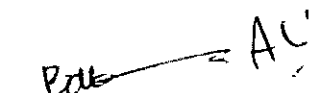
AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

		year ended 31 December	
	Note	2017	2016
Cash flows from operating activities			
Net surplus from insurance operations		5,530	3,943
<u>Adjustments to reconcile surplus from insurance operations to net cash from operating activities:</u>			
Shareholders' appropriation of surplus from insurance operations		49,774	35,487
Amortization of premium on available-for-sale investments	7	79	92
Accretion of discount on available-for-sale investments	7	(142)	(27)
Depreciation	11	2,577	2,567
Amortization of intangible - computer software	11	2,331	1,979
		<u>60,149</u>	<u>44,041</u>
<u>Changes in operating assets and liabilities:</u>			
Premium and insurance balances receivable, net		(30,726)	18,623
Reinsurers' share of unearned premiums		7,019	14,304
Reinsurers' share of outstanding claims and reserves		(49,438)	(2,679)
Deferred policy acquisition costs		(9,028)	(441)
Prepayments and other receivable		2,343	(10,310)
Due from shareholders' operations		3,234	116,930
Reinsurance balances payable		25,546	(9,227)
Deferred reinsurance commission		(1,140)	(1,060)
Gross unearned premiums		54,735	(3,161)
Gross outstanding claims and reserves		203,850	98,603
Advance premiums		10,503	7,339
Accrued and other liabilities		44,246	(8,986)
Due to a related party		801	3,433
Employee benefit obligations		2,342	1,966
Surplus contribution paid		(6,306)	(1,102)
Net cash inflow from operating activities		<u>318,130</u>	<u>268,273</u>
Cash flows from investing activities			
Short-term deposits		(120,788)	(120,164)
Purchase of furniture, fixtures and equipment	11	(3,523)	(2,382)
Proceeds from sale of available-for-sale investments		22,943	71
Purchase of intangible assets	11	(4,330)	(6,756)
Purchase of held to maturity investments		(3,836)	-
Long-term deposits		(95,880)	-
Purchase of available-for-sale investments	7	(127,602)	(50,666)
Net cash outflow from investing activities		<u>(333,016)</u>	<u>(179,897)</u>
Net change in cash and cash equivalents		<u>(14,886)</u>	<u>88,376</u>
Cash and cash equivalents, beginning of the year		132,662	44,286
Cash and cash equivalents, end of the year	4	<u>117,776</u>	<u>132,662</u>
<u>Supplemental cash flow information:</u>			
<u>Non-cash investing activities:</u>			
Unrealised fair value changes on available-for-sale investments	7	395	(728)

The accompanying notes are an integral part of these financial statements.


Paul Adamson
Managing Director

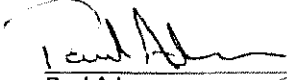

Gary Lewin
Chief Executive Officer



Babar Ali Khan
Chief Financial Officer

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF SHAREHOLDERS' CASH FLOWS
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

		Year ended 31 December	
	Notes	2017	2016
Cash flows from operating activities			
Shareholders' net income for the year		60,187	42,677
<u>Adjustments to reconcile net income to net cash from operating activities:</u>			
Performance share reserve - charge during the year		475	1,073
Impairment loss on available-for-sale investments	7	1,822	3,128
Amortization of premium on available-for-sale investments	7	149	176
Accretion of discount on available-for-sale investments	7	(69)	(44)
Appropriation of surplus from insurance operations		(49,774)	(35,487)
		12,790	11,523
<u>Changes in operating assets and liabilities:</u>			
Prepayments and other receivable		954	(1,417)
Zakat and income tax paid	16	(7,010)	(684)
Investment return on statutory deposits		(834)	363
Commission on statutory deposits payable		834	789
Due from insurance operations		(53,008)	(25,448)
Due to insurance operations		49,774	(91,482)
Net cash inflow (outflow) from operating activities		3,500	(106,356)
Cash flows from investing activities			
Short-term deposits		(16,111)	45,360
Long-term deposits		11,250	(45,000)
Purchase of available-for-sale investments	7	(43,806)	(43,195)
Proceeds from sale of available-for-sale investments	7	45,414	3,620
Net cash outflow from investing activities		(3,253)	(39,215)
Cash flows from financing activities			
Performance share reserve - settlement		(247)	(888)
Net changes in cash and cash equivalents		-	(146,459)
Cash and cash equivalents, beginning of the year		-	146,459
Cash and cash equivalents, end of the year	4	-	-
<u>Supplemental cash flow information:</u>			
Non-cash operating activity -			
Zakat and income tax charged to shareholders' comprehensive income	16	(15,125)	(12,587)
Non-cash investing activity:			
Unrealised fair value changes on available-for-sale investments	7	(1,094)	813

The accompanying notes are an integral part of these financial statements.


Paul Adamson
Managing Director


Gary Lewin
Chief Executive Officer

 → Ali
Babar Ali Khan
Chief Financial Officer

AXA COOPERATIVE INSURANCE COMPANY
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1 General information

Organisation and principal activities

AXA Cooperative Insurance Company (the "Company") is a Saudi joint stock company established in the Kingdom of Saudi Arabia by the Royal Decree number M/36 dated 27 Jumada II 1429H (1 July 2008) (date of inception). The Company was incorporated vide Ministerial Order number Q/192, dated 10 Jumada II 1430H, (3 June 2009) (date of incorporation). The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration ("CR") number 1010271203 issued in Riyadh on 20 Rajab 1430H (13 July 2009). The Company's registered address is P.O. Box 753, Riyadh 11421, Kingdom of Saudi Arabia.

The principal activities of the Company are to engage in cooperative insurance operations and all related activities including reinsurance activities under the Law on Supervision of Cooperative Insurance (the "Law") and the Company's by-laws and other regulations promulgated in the Kingdom of Saudi Arabia. The Company obtained license from the Saudi Arabian Monetary Authority ("SAMA") to practice general and medical insurance and reinsurance business in the Kingdom of Saudi Arabia vide license number. TMN/25/20101, dated 11 Safar 1431H (corresponding to 26 January 2010). The Company has commenced insurance operations on 4 Rabi' I 1431H (corresponding to 18 February 2010) after obtaining full product approval for certain products and temporary approval for the remaining products. During 2016, the Company obtained approval for the remaining products.

The accompanying financial statements include the accounts of the Company and its following branches:

CR	Registration date	Location
4030209279	16 Rabi Al Awwal 1432H (18 February 2011)	Jeddah
2051044972	16 Rabi Al Awwal 1432H (18 February 2011)	Al-Khobar
1010383602	8 Ramadan 1435H (5 June 2014)	Riyadh
1010383603	8 Ramadan 1434H (16 July 2013)	Riyadh
1010383604	8 Ramadan 1434H (16 July 2013)	Riyadh
1010431704	3 Jumada II 1436H (23 March 2015)	Riyadh
2051050069	24 Shawwal 1433H (11 September 2012)	Al-Khobar
2051059616	17 Safar 1436H (9 December 2014)	Al-Khobar
2051059617	17 Safar 1436H (9 December 2014)	Al-Khobar
2050104123	17 Safar 1436H (9 December 2014)	Dammam
2050105348	18 Jumada II 1436H (7 April 2015)	Dammam
2050091126	20 Jumada 'II 1434H (30 April 2013)	Dammam
2055024388	29 Dhul-Qa'dah 1436H (13 September 2015)	Al-Jubail
4030333610	24 Shawwal 1433H (11 September 2012)	Jeddah
4030233628	24 Shawwal 1433H (11 September 2012)	Jeddah

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

Statement of compliance

The financial statements of the Company for the year ended 31 December 2017 have been prepared by the management in accordance with International Financial Reporting Standards ("IFRS") as modified by SAMA for the accounting of zakat and income tax, which requires, adoption of all International Financial Reporting Standards 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 SAMA circular number 381000074519 dated 11 April 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 through shareholders' equity under retained earnings.

Until 2016, the financial statements of the Company were prepared in accordance with the IFRS. This change in framework resulted in a change in the presentation of zakat and income tax to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Statement of compliance (continued)

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations and presents the financial statements accordingly. The physical custody and title of all assets related to the insurance operations and shareholders' operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by management and the Board of Directors of the Company.

In accordance with the requirements of the Implementing Regulations for Co-operative Insurance Companies (the "Regulations") issued by SAMA and as per the by-laws of the Company, surplus arising from the insurance operations is distributed as follows:

Transfer to shareholders' operations	90%
Transfer to insurance operations	10%
	<hr/>
	100%

If the insurance operations result in a deficit, the entire deficit is borne by the shareholders' operations.

Basis of measurement

The Company has prepared the accompanying financial statements under the historical cost convention on the accrual basis of accounting, except for available-for-sale investments and employee benefit obligations as explained in the relevant accounting policies. The accounting policies used in the preparation of these financial statements are consistently applied for all years presented, except for:

- The Company used to charge zakat and income tax to the statement of changes in shareholders' equity through the statement of shareholders' comprehensive income. As a result of SAMA Circular, the Company has changed its presentation relating to zakat and income tax and has started to charge zakat and income tax directly to the statement of changes in shareholders' equity. The Company has accounted for this change retrospectively, which has resulted in an increase in the total shareholders' comprehensive income by Saudi Riyals 12.6 million for the year ended 31 December 2016. The above change has not resulted in any changes in any of the components of the shareholders' equity of prior periods presented earlier; and
- The adoption of certain amendments and revisions to existing standards as mentioned below, which are effective for period beginning on or after 1 January 2017 but had no significant financial impact on the financial statements of the Company.

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

- Amendments to IAS 7, 'Statement of cash flows on disclosure initiative', effective 1 January 2017. The amendment introduced additional disclosure that will enable the users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses, effective 1 January 2017. The amendment clarifies the treatment for deferred taxes related to debt instruments measured at fair value.
- Annual improvements 2014-2016, IFRS-12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard, effective 1 January 2017. The amendment clarifies the applicability of requirements to interests in entities classified as held for sale except for summarised financial information.

AXA COOPERATIVE INSURANCE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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2 Summary of significant accounting policies (continued)

(c) Standards, interpretations and amendments to published standards that will be effective for the periods commencing after January 1, 2018 and have not been early adopted by the Company

The Company's management decided not to choose the early adoption of the following new and amended standards and interpretations issued which will become effective for the period commencing after January 1, 2018:

- Implementation of IFRS 9 "Financial instruments" is applicable for the annual periods beginning on or after 1 January 2018, and will be applied retrospectively with some exemptions. The new standard presents revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment. International Accounting Standard Board has allowed temporary exemption, for companies issuing insurance contracts, until 2021 or until the new insurance contracts standard is applied, if that is earlier. The Company has decided to defer the implementation of IFRS 9 and expects that IFRS 9 would have certain impact on the classification and measurement of available-for-sale and held-to-maturity investments. Further, the expected credit loss model would have an impact on the impairment assessment of financial assets.
- IFRS 16 Leases, effective for annual period on or after 1 January 2019. IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Company's operating leases. The Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows.
- Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- IFRS 15, 'Revenue from contracts with customers'. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- Amendments to IFRS 15, 'Revenue from contracts with customers' These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- Amendments to IAS 40, 'Investment property' relating to transfer of investment property, effective 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

(c) Standards, interpretations and amendments to published standards that will be effective for the periods commencing after January 1, 2018 and have not been early adopted by the Company (continued)

- Annual improvements 2014-2016. These amendments impact 3 standards: IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018. IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.
- IFRIC 22, 'Foreign currency transactions and advance consideration'. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.
- IFRIC 23, 'Uncertainty over income tax treatments'. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

2.2 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions 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 period. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and the Company's financial statements present fairly, in all material respects, the financial position and results of operations. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

AXA COOPERATIVE INSURANCE COMPANY
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2 Summary of significant accounting policies (continued)

2.3 Segment reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incur expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

- Segment assets do not include cash and cash equivalents, short-term deposits, long-term deposits, available-for-sale investments, held-to-maturity investments, receivable from related parties, premiums and insurance balances receivable, prepayments and other receivable, due from shareholders', furniture, fixtures and equipment and intangibles.
- Segment liabilities do not include reinsurers' balances payable, advance premiums, due to a related party, accrued and other liabilities, employee benefit obligations and fair value reserve on available-for-sale investments; and
- Operating segments do not include shareholders' operations.

For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Accident and liability
- Motor
- Property
- Marine
- Engineering
- Health; and
- Protection

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

Where intersegment transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

2.4 Functional and presentation currency

The Company's books of account are maintained in Saudi Riyals, which is also the functional and presentation currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the reporting date. All differences are taken to the statements of insurance operations income and accumulated surplus or to the statement of shareholders' income. Foreign exchange differences are not significant and have not been disclosed separately.

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2 Summary of significant accounting policies (continued)

2.5 Financial assets

2.5.1 Classification

The Company classifies its financial assets in the following categories:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short-term or that it has designated as available-for-sale investments. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

(b) Available-for-sale investments

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

(c) Held-to-maturity investments

Investments, which have fixed or determined payments and the Company has the positive intention and ability to hold to maturity are classified under this category. These investments are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statements of insurance operations income and accumulated surplus / shareholders' operations when the investment is derecognized or impaired.

2.5.2 Recognition, measurement and de-recognition

Purchases and sale of available-for-sale investments are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value.

Changes in the fair value of available-for-sale investments are recognised in statements of insurance operations' comprehensive income and / or shareholders' comprehensive income.

Loans and receivable and investments, held-to-maturity are carried at amortized costs less provision for impairment in value.

Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of shareholders' comprehensive income when the investment is derecognized or impaired.

Financial assets are de-recognised when the rights to receive cash flows from those assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

AXA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)
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2 Summary of significant accounting policies (continued)

2.5.2 Recognition, measurement and de-recognition (continued)

When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statements of insurance operations' comprehensive income and / or shareholders' comprehensive income as 'gains and losses from available-for-sale investments'. Commission on available-for-sale investments calculated using the effective interest method is recognised in the statements of insurance operations' comprehensive income and / or shareholders' comprehensive income.

2.5.3 Determination of fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Commission on available-for-sale investments calculated using the effective interest method is recognized in the statement of shareholders' comprehensive income. Dividends on available-for-sale investments are recognized in the statement of insurance operations' income and accumulated surplus and / or shareholders' comprehensive income, when the Company's right to receive payments is established.

2.5.4 Impairment of financial assets

(a) Financial assets carried at amortised cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statements of insurance operations' income and accumulated surplus / shareholders' operations.

(b) Available-for-sale investments

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of insurance operations' income and accumulated surplus is removed from equity and recognised in the statement of insurance operations' comprehensive income and / or shareholders' comprehensive income. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of insurance operations' comprehensive income and / or shareholders' comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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2 Summary of significant accounting policies (continued)

2.6 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective commission rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the statements of insurance operations' income and accumulated surplus and / or shareholders operations..

2.7 Off-setting

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

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with less than three months maturity from the date of acquisition.

2.9 Short-term and long-term deposits

Short-term deposits comprise of time deposits with banks with maturity periods of more than three months and less than one year from the date of acquisition. Long-term deposits represent time deposits with maturity periods of more than one year from the date of placement.

2.10 Premiums receivable

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

2.11 Unearned reinsurance commission income

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

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2 Summary of significant accounting policies (continued)

2.12 Insurance contracts

Insurance contracts are 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 comparing benefits paid with benefits

2.13 Deferred policy acquisition costs

Commissions paid to intermediaries and other incremental direct costs incurred in relation 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 premium earned.

2.14 Claims

Claims comprise of amounts payable to policyholders and related loss adjustment expenses, net of salvage and other recoveries, are charged to statement of insurance operations' income and accumulated surplus as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at reporting 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 at reporting date. The ultimate liability may be in excess of or less than the amount provided.

Any difference between the provisions at the reporting date and settlements in the following year is included in the underwriting account for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

2.15 Salvage and subrogation reimbursement

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

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

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

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2 Summary of significant accounting policies (continued)

2.16 Reinsurance

The Company's reinsurance program is affected through proportional, non-proportional and facultative placements based on the Company's net retention policy, treaty limits, nature and size of the risks. The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are determined in a manner consistent with the associated reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Claims recoveries receivable from the reinsurers are recognised as an asset at the same time as the claims which give rise to the right of recovery are also recognised as a liability and are measured at the amount expected to be recovered.

2.17 Liability adequacy test

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

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2 Summary of significant accounting policies (continued)

2.18 Furniture, fixtures and equipment

Furniture, fixtures and equipment are initially recorded at cost and are subsequently stated at cost less accumulated depreciation and any impairment in value, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. 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 insurance operations' income and accumulated surplus during the financial period in which they are incurred. Depreciation is charged to the statement of insurance operations' income and accumulated surplus on a straight line basis based on the following estimated useful lives:

	<u>Years</u>
Furniture and fixtures	5
Equipment	3 - 4

The assets' useful lives are reviewed at the end of each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of insurance operations' income and accumulated surplus under other income.

2.19 Intangible assets

a) Goodwill

Goodwill represents excess of the fair value of the purchase consideration payable, as per SAMA's instructions, over the net identifiable assets acquired from AXA Saudi Arabia Holding W.L.L. (formerly AXA Insurance Saudi Arabia B.S.c). The recoverability of goodwill is tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is higher of an asset's fair value less costs to sell and its value in use.

b) Other intangible assets

Other intangible assets, including software, and are measured at cost. Those with a finite useful life are amortised over their estimated useful life in accordance with the pattern of expected consumption of economic benefits. Estimated useful life of software is 4 years. Intangible assets with an infinite useful life are not subject to amortisation but are tested for impairment annually or more often if there is an indication of impairment. Intangible assets with a finite life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

2.20 Accrued and other liabilities

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

AXA COOPERATIVE INSURANCE COMPANY
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2 Summary of significant accounting policies (continued)

2.21 Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

2.22 Payables

Payables are recognized initially at fair value and measured at amortized cost using effective interest rate method.

2.23 Employee benefit obligations

The Company operates a single post-employment benefit scheme of defined benefit plan driven by the labor laws and workman laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefits plans is not funded. Accordingly, valuations of the obligations under the plan are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in statement of insurance operations' income and accumulated surplus while unwinding of the liability at discount rates used are recorded in statement of insurance operations' income and accumulated surplus. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the statement of insurance operations' comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in statement of insurance operations' comprehensive income and transferred to retained earnings in the statement of changes in shareholders' equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in statement of insurance operations' income and accumulated surplus as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.24 Share based payments

The cost recharged to the Company under group share scheme is recognised as an expense on grant date, in statement of shareholders operations with corresponding effect on performance share reserve in equity. Any fair value remesaurement on settlement is recognised in statement of changes in shareholders' equity.

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2 Summary of significant accounting policies (continued)

2.25 Zakat and income taxes

The Company is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Zakat, for the Company is calculated based on higher of approximate zakat base and adjusted net income and charged to statement of changes in shareholders' equity. Income tax on the share of the adjusted income related to the foreign shareholders is charged to shareholders' equity. Additional amounts, if any, are accounted for when determined to be required for payment.

Income tax based on the applicable income tax rate is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.26 Revenue recognition

(a) Recognition of premium and reinsurance commission revenue

Gross premiums and reinsurance commissions are recognized with the commencement of the insurance risks. The portion of premiums and reinsurance commission that will be earned in the future is reported as unearned premiums and reinsurance commissions, respectively, and are deferred on a basis consistent with the term of the related policy coverage.

Premiums earned on reinsurance assumed, if any, are recognised as revenue in the same manner as if the reinsurance premiums were considered to be gross premiums.

(b) Commission, dividend income and income

Commission income on short-term deposits, long-term deposits and held-to-maturity investments is recognized on a time proportion basis using the effective interest rate method. Dividend income is recognized when the right to receive a dividend is established. Income from Al Manafeth third party liability insurance fund is recognized as other income on the basis of quarterly financial information released by the Fund Manager.

2.27 Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to statement of insurance operations' income and accumulated surplus on a straight line basis over the term of the operating lease.

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2 Summary of significant accounting policies (continued)

2.28 Trade date accounting

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

2.29 Seasonality of operations

There are no seasonal changes that affect insurance operations.

3 Critical accounting estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

a) Liability arise from claims under insurance contracts

Considerable judgement by management is required in the estimation of amounts due to policyholders arising from claims made under insurance policies. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not yet reported "IBNR" at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

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

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

b) Impairment of premiums and insurance balances receivable and goodwill

An estimate of the uncollectible amount of premium receivable, if any, is made when collection of the full amount of the receivables as per the original terms of the insurance policy is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due and Company's past experience.

The recoverable amount of goodwill is estimated based on the present value of the future cash flows expected to be derived from the asset. In case, receivable amount is less than carrying value, difference is charged to statement of insurance operations income and accumulated surplus as impairment loss.

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3 Critical accounting estimates (continued)**c) Impairment of available-for-sale investments**

The Company treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, the Company evaluates other factors, including normal volatility in share price for quoted investments and the future cash flows and the discount factors for unquoted investments

4 Cash and cash equivalents

	2017	2016
Insurance operations:		
Cash in hand	13	8
Cash at bank	100,387	20,261
Time deposits	17,376	112,393
	<u>117,776</u>	<u>132,662</u>

Time deposits are placed with local and foreign banks with an original maturity of less than three months from the date of placement and earn commission income at an average rate of 1.45% to 1.70% (2016: 0.59% to 3.6%) per annum.

5 Short-term and long-term deposits

Short-term deposits for insurance operations and shareholders' operations are placed with local banks with an original maturity of more than three months but less than or equal to twelve months from the date of placement. These deposits earn financial income at a rate of 1.7% to 2.75% (2016: 1.75% to 3.7%) per annum.

Long-term deposits for insurance operations and shareholders' operations represent deposits in various banks carrying commission income at a rate of 2.25% to 4.10% (2016: 2% to 3%) per annum and will mature by 30 March 2022.

6 Premiums and insurance balances receivable - net

	2017	2016
Receivable from insurance intermediaries	111,631	68,467
Receivable from policy holders (Note 14)	40,585	60,190
Receivable from reinsurers (Note 14)	27,118	19,435
	<u>179,334</u>	<u>148,092</u>
Provision for doubtful debts (Note 14)	(25,936)	(25,420)
	<u>153,398</u>	<u>122,672</u>

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6 Premiums and insurance balances receivable, net (continued)

The ageing analysis of receivables from insurance and reinsurance contracts is as follows:

	Neither past due nor impaired	Past due but not impaired			Total
		91 to 180 days	181 to 360 days	More than 360 days	
31 December 2017	85,079	41,645	19,052	7,622	153,398
31 December 2016	60,134	40,656	21,882	-	122,672

Receivables comprise a large number of customers, intermediaries and insurance companies mainly within the Kingdom of Saudi Arabia and reinsurance companies both in Middle East and Europe. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount.

Movement in provision for doubtful debts is as follows:

	2017	2016
1 January	25,420	22,420
Provision for the year (Note 22)	5,682	3,000
Provision released during the year	(2,307)	-
Write-off during the year	(2,859)	-
31 December	25,936	25,420

Unimpaired premiums and insurance balances receivable are expected to be fully recoverable. It is not the practice of the Company to obtain collateral over these receivable and all receivable are therefore, unsecured.

7 Investments

(a) Available-for-sale investments

Available-for-sale investments at 31 December 2017 and 2016 include the following:

	Insurance operations		Shareholder's operations	
	2017	2016	2017	2016
Government bonds	78,835	70,990	60,000	72,744
Other bonds	142,993	49,090	78,898	68,815
Mutual funds	18,099	14,730	-	-
Equities	-	-	16,964	18,907
	239,927	134,810	155,862	160,466

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7 Investments (continued)

(a) Available-for-sale investments (continued)

Movement in available-for-sale investments is as follows:

	Insurance operations		Shareholder's operations	
	2017	2016	2017	2016
1 January	134,810	85,008	160,466	123,338
Purchases	127,602	50,666	43,806	43,195
Disposals	(22,943)	(71)	(45,414)	(3,620)
Amortization of premium on available-for-sale investments	(79)	(92)	(149)	(176)
Accretion of the discount on available-for-sale investments	142	27	69	44
Impairment (Note 21)	-	-	(1,822)	(3,128)
Changes in fair value reserve, net	395	(728)	(1,094)	813
31 December	239,927	134,810	155,862	160,466

Available-for-sale investments at 31 December 2017 include 1,923,078 shares (2016: 1,923,078 shares) in Najm for Insurance Services, and are held by the Company at Nil value.

Movement in fair value reserve on available-for-sale investments is as follows:

	Insurance operations		Shareholder's operations	
	2017	2016	2017	2016
1 January	(883)	(155)	830	17
Unrealised gain (losses)	638	(728)	(1,915)	924
Realised gain on disposals	(243)	-	(1,205)	(111)
Impairment - net	-	-	2,026	-
31 December	(488)	(883)	(264)	830

The fair value reserve on available-for-sale investments comprises of:

	Insurance operations		Shareholder's operations	
	2017	2016	2017	2016
Unrealised gains	1,194	806	1,406	2,756
Unrealised losses	(1,682)	(1,689)	(1,670)	(1,926)
	(488)	(883)	(264)	830

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7 Investments (continued)

(b) Held-to-maturity investments

Insurance operations:

Type of security	Maturity	Maturity period	Profit rate	Book value net of amortization	
				2017	2016
Sukuks	2023	10 years	3.21%	60,000	60,000
Sukuks	2023	10 years	3.47%	18,836	15,000
				<u>78,836</u>	<u>75,000</u>

Shareholders' operations:

Type of security	Maturity	Maturity period	Profit rate	Book value net of amortization	
				2017	2016
Sukuks	2023	10 years	3.21%	60,000	60,000

8 Reinsurers' share of outstanding claims and reserves

All amounts due from reinsurers are expected to be received within 12 months from the statement of financial position date.

9 Movement in deferred policy acquisition costs, unearned reinsurance commission income, unearned premiums and outstanding claims and reserves

(a) Deferred policy acquisition costs

	2017	2016
1 January	19,130	18,689
Incurred during the year	113,267	72,819
Amortized during the year	(104,239)	(72,378)
31 December	<u>28,158</u>	<u>19,130</u>

(b) Unearned reinsurance commission

	2017	2016
1 January	5,424	6,484
Commission received during the year	24,924	13,821
Commission earned during the year	(26,064)	(14,881)
31 December	<u>4,284</u>	<u>5,424</u>

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9 Movement in deferred policy acquisition costs, unearned reinsurance commission income, unearned premiums and outstanding claims (continued)

(c) Unearned premiums

	2017			2016		
	Gross	Reinsurer's Share	Net	Gross	Reinsurer's Share	Net
Unearned premiums	345,030	(22,059)	322,971	290,295	(29,078)	261,217

The movement in the gross unearned premiums and the related reinsurers' share are as follows:

	2017			2016		
	Gross	Reinsurer's Share	Net	Gross	Reinsurer's Share	Net
1 January	290,295	(29,078)	261,217	293,456	(43,382)	250,074
Premiums written	1,499,477	(199,603)	1,299,874	1,153,974	(93,832)	1,060,142
Premiums earned	(1,444,742)	206,622	(1,238,120)	(1,157,135)	108,136	(1,048,999)
31 December	345,030	(22,059)	322,971	290,295	(29,078)	261,217

Change in unearned premiums and reinsurer's share of unearned premiums is Saudi Riyals 54.7 million (2016: Saudi Riyals 3.2 million) and Saudi Riyals 7.0 million (2016: Saudi Riyals 14.3 million) respectively.

(d) Outstanding claims and reserves

	2017			2016		
	Gross	Reinsurers' Share	Net	Gross	Reinsurers' Share	Net
1 January						
Claims outstanding	226,837	(97,954)	128,883	182,623	(97,819)	84,804
Claims incurred but not reported	330,315	(7,362)	322,953	275,926	(4,818)	271,108
	557,152	(105,316)	451,836	458,549	(102,637)	355,912
Claims paid during the year	(911,992)	72,458	(839,534)	(801,969)	36,678	(765,291)
Claims incurred during the year	1,115,842	(121,896)	993,946	900,572	(39,357)	861,215
At 31 December	761,002	(154,754)	606,248	557,152	(105,316)	451,836
At 31 December						
Claims outstanding	264,286	(120,206)	144,080	226,837	(97,954)	128,883
Claims incurred but not reported	496,716	(34,548)	462,168	330,315	(7,362)	322,953
Total claims	761,002	(154,754)	606,248	557,152	(105,316)	451,836

Changes in outstanding claims and reserves for the year is Saudi Riyals 154.4 million (2016: Saudi Riyals 95.9 million).

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10 Statutory deposit

In accordance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company is required to maintain a statutory deposit of not less than 10% of its paid-up share capital. The statutory deposit is maintained with a Saudi Arabian bank and can be withdrawn only with the consent of SAMA.

11 Furniture, fixture and equipment and intangible - computer software

(a) Furniture, fixtures and equipment

	Furniture and fixtures	Equipment	Capital work in progress	Total
2017				
Cost				
1 January	8,341	10,338	564	19,243
Additions	885	2,497	141	3,523
31 December	9,226	12,835	705	22,766
Accumulated depreciation				
1 January	(5,821)	(7,352)	-	(13,173)
Charge for the year (Note 22)	(1,086)	(1,491)	-	(2,577)
31 December	(6,907)	(8,843)	-	(15,750)
Net book value				
31 December	2,319	3,992	705	7,016
	Furniture and fixtures	Equipment	Capital work in progress	Total
2016				
Cost				
1 January	7,398	9,463	-	16,861
Additions	943	875	564	2,382
31 December	8,341	10,338	564	19,243
Accumulated depreciation				
1 January	(4,828)	(5,778)	-	(10,606)
Charge for the year (Note 22)	(993)	(1,574)	-	(2,567)
31 December	(5,821)	(7,352)	-	(13,173)
Net book value				
31 December	2,520	2,986	564	6,070

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11 Furniture, fixture and equipment and intangible - computer software (continued)

(b) Intangible assets - computer software

	2017			2016		
	Computer software	Software under development	Total	Computer software	Software under development	Total
Cost						
1 January	12,671	4,119	16,790	10,034	-	10,034
Additions	8,403	-	8,403	2,637	4,119	6,756
Transfers	-	(1,383)	(1,383)	-	-	-
Write-off	-	(2,690)	(2,690)	-	-	-
31 December	21,074	46	21,120	12,671	4,119	16,790
Accumulated amortization						
1 January	(8,806)	-	(8,806)	(6,827)	-	(6,827)
Amortization	(2,331)	-	(2,331)	(1,979)	-	(1,979)
31 December	(11,137)	-	(11,137)	(8,806)	-	(8,806)
	9,937	46	9,983	3,865	4,119	7,984

12 Accrued and other liabilities

	2017	2016
Insurance operations:		
Accrued salaries	20,419	19,665
Commission payable	10,360	10,275
Regulators' fee	1,335	1,011
Unclaimed cheques	25,582	20,014
Payable to vendors	62,769	31,415
Other	10,077	3,916
	<u>130,542</u>	<u>86,296</u>
Shareholders' operations:		
Directors' fees	<u>1,020</u>	<u>1,020</u>

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13 Employee benefit obligations

13.1 General description of the plan

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plans are unfunded plans and the benefit payment obligation are met when they due.

	2017	2016
January 1	22,402	20,436
Current service cost	2,299	2,374
Interest expense	908	937
Payments	(865)	(1,345)
December 31	24,744	22,402

13.2 Amounts recognised in the statement of profit or loss and other comprehensive income

The amounts recognised in the statement of profit or loss and other comprehensive income related to employee benefit obligations are as follow:

	2017	2016
Current service cost	2,299	2,374
Interest expense	908	937
Total amount recognised in profit or loss	3,207	3,311

13.3 Key actuarial assumptions

	2017	2016
Discount rate	4%	4%
Average salary growth rate	5%	5%
Retirement age	60 years	60 years

13.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	1%	(2,197)	2,600
Salary growth rate	1%	1%	2,567	(2,212)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination. The method and types of assumptions used in preparing the sensitivity analysis did not change compared to prior year.

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14 Related party transaction and balances

Related parties represent major shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties ("other related parties"). Pricing policies and terms of these transactions are approved by the Company's management.

(a) Related party transactions

The following are the details of the major related party transactions during the year:

Nature of transactions	2017	2016
Insurance operations		
Gross premiums from major shareholders	26,417	25,252
Gross premiums from other related parties	29,467	30,277
Reinsurance premiums ceded to major shareholders	52,273	50,082
Reinsurance commissions from major shareholders	3,638	3,653
Net claims paid to major shareholders	12,254	15,049
Net claims paid to other related parties	26,782	29,172
Reinsurers' share of gross claims paid to major shareholders	15,086	14,282
Expenses charged by major shareholders	2,855	2,533
Shareholders' operations		
Performance share payment	247	888

(b) Compensation of key management personnel

	2017	2016
Salaries and benefits	7,420	7,247
Employee benefit obligations	400	413
	7,820	7,660

Board of directors' fee for the year ended 31 December 2017 was Saudi Riyals 1.3 million (2016: Saudi Riyals 1.2 million).

The transactions with related parties are carried out at commercial terms and conditions. Compensation to key management personnel is on employment terms and as per the by-laws of the Company.

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14 Related party transaction and balances (continued)

Related party balances

(c) Premiums and reinsurance balances receivable

	2017	2016
Receivable from policy holders	2,988	3,938
Receivable from reinsurers	12,955	13,442
	15,943	17,380
Less: provision for doubtful debts	(7,015)	(2,481)
	8,928	14,899

The ageing analysis of receivables from insurance and reinsurance contracts is as follows:

	Neither past due nor impaired	Past due but not impaired			Total
		91 to 180 days	181 to 360 days	More than 360 days	
31 December 2017	3,072	94	3,516	2,246	8,928
31 December 2016	4,860	10,039	-	-	14,899

Movement in provision for doubtful debts is as follows:

	2017	2016
1 January	2,481	1,531
Provision for the year	4,534	950
31 December	7,015	2,481

(d) Due to a related party

Due to a related party represents amounts payable to AXA Insurance Gulf B.S.c (c.).

(e) Reinsurance balances payable

Reinsurance balances payable include Saudi Riyals 37.7 million (2016: Saudi Riyals 16.4 million) payable to related parties.

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15 Accumulated surplus from insurance operations

In accordance with the Regulations issued by SAMA, 90% of the insurance operations' surplus for each year is required to be transferred to the shareholders' income. During the year, the Company has distributed surplus to policy holders as per the surplus distribution policy from SAMA.

16 Zakat and income tax

Provision for Zakat has been made at 2.5% of the higher of approximate Zakat base and adjusted net income attributable to the Saudi shareholders of the Company.

Income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company.

16.1 Components of zakat base

	2017	2016
Shareholders' equity at beginning of year	499,549	468,461
Provisions at beginning of year	47,822	41,511
Adjusted net income	70,109	49,122
Investments	(534,625)	(430,223)
Deposits	(253,380)	(168,750)
Fixed assets	(7,016)	(6,070)
Approximate zakat base	<u>(177,541)</u>	<u>(45,949)</u>

16.2 Movement in provision for zakat and income tax as at 31 December 2017 and 2016 is as follows:

2017	Zakat	Income tax	Total
1 January	15,658	3,303	18,961
Provision for the year	10,164	4,961	15,125
Payments	(855)	(6,155)	(7,010)
31 December	<u>24,967</u>	<u>2,109</u>	<u>27,076</u>
2016	Zakat	Income tax	Total
1 January	6,881	177	7,058
Provision for the year	9,246	3,341	12,587
Payments	(470)	(214)	(684)
31 December	<u>15,657</u>	<u>3,304</u>	<u>18,961</u>

Deferred income taxes arising out of the temporary differences were not significant and, accordingly, were not recognised as of 31 December 2017 and 2016.

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10 Zakat and income tax payable (continued)

16.3 Status of zakat and income tax assessment

During 2014, the GAZT had issued assessments for the years from 2009 to 2012 amounting to Saudi Riyals 11.6 million, which was subsequently reduced to Saudi Riyals 8.5 million. The Company filed an appeal against the assessment of GAZT for the additional demand arising out of various disallowances from years 2009 to 2012 with the Preliminary Appeal Committee ("PAC"). As per the decision of PAC, the liability was reduced to Saudi Riyals 4.87 million. The appeal against PAC's decision is currently pending for hearing with the Higher Appeal Committee.

The GAZT had issued assessments for the years 2013 and 2014 with additional liability amounting to Saudi Riyals 5.3 million and Saudi Riyals 6.3 million, respectively. The Company filed an appeal against the GAZT's initial assessment and has obtained limited certificates for these years. Zakat and income tax assessments for 2015 and 2016 are currently under review by the GAZT.

17 Share capital

The authorized, issued and paid up share capital of the Company is Saudi Riyals 450 million at 31 December 2017 (31 December 2016: Saudi Riyals 450 million) consisting of 45 million shares (31 December 2016: 45 million shares) of Saudi Riyals 10 each.

18 Goodwill on acquisition of insurance portfolio

This represents goodwill recognized on acquisition of insurance portfolio and net assets of AXA Insurance Saudi Arabia B.S.C (c). The Company received approval from SAMA on 15 Dhul-Qadah 1433H (corresponding to 1 October 2012) to transfer insurance portfolio from AXA Saudi Arabia Holding W.L.L. (formerly AXA Insurance Saudi Arabia B.S.C.c) at a total consideration of SR 106.57 million. During 2015, the Company met payment conditions imposed by SAMA and received approval for the payment of SR 50 million in respect of initial consideration to AXA Saudi Arabia Holding W.L.L. which was recognized as goodwill being the excess of consideration paid and the net assets acquired. The remaining amount of Saudi Riyals 56.57 million which was recorded as contingent liability was accordingly relinquished.

As at the reporting date, impairment testing, based on expected discounted cash flows was performed. The assumptions used involve a considerable degree of estimation on the part of management. Actual conditions may differ from assumptions and thus actual cash flows may be different to those expected with a potential material effect on the recoverability of amounts. The most significant assumptions used in the determination of expected discounted cash flows for the next 5 years are:

- Weighted average cost of capital of 7%; and
- Long-term growth rate of 2%.

Although management believes that the assumptions used to evaluate potential impairment are reasonable, with a significant portion based on the actual performance achieved in the past, such assumptions are inherently subjective.

Based on the assumptions made, the expected discounted future cash flows exceeded the carrying amount of goodwill and accordingly no impairment has been recognized.

A sensitivity analysis has been performed and an increase of 1% of the weighted average cost of capital and a decrease of 0.5% of the long term growth have no impact on the result of impairment tests.

19 Statutory reserve

In accordance with By-laws of the Company and Article 70(2)(g) of the Insurance Implementing Regulations issued by SAMA, the Company is required to transfer not less than 20% of its annual profits, after adjusting accumulated losses, to a statutory reserve until such reserve amounts to 100% of the paid-up share capital of the Company. This reserve is not available for distribution to the shareholders until the liquidation of the Company.

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20 Performance share reserve

AXA Group (the "Group") has introduced a performance share based plan for employees of AXA entities world-wide which is designed to reward them for their role in achievement of the entities' long-term objectives. This scheme incentivizes employees after completion of certain number of years with the Company, with shares of AXA Societe Anonyme ("AXA SA") without any cost to employees. These shares are issued outside Saudi Arabia and employees have the right to receive at the settlement date, a certain number of AXA SA shares based on the achievement of performance criteria defined by AXA SA and vesting period. The Company absorbs cost of these shares under a group recharge arrangement, paid directly to AXA SA. At the reporting date, the Company recognised changes in reserve of Saudi Riyals 0.34 million (31 December 2016: Saudi Riyals 0.64 million) in respect of performance shares. During the year, the Company recognised an expense of Saudi Riyals 0.5 million (31 December 2016: Saudi Riyals 0.6 million) in the statement of shareholders' operations in respect of performance shares.

21 Commission income, net

	2017	2016
Insurance operations:		
Commission income	22,337	16,262
Dividends	374	356
Realized gains on disposal (Note 7)	243	-
Other	64	(67)
	<u>23,018</u>	<u>16,551</u>
Shareholders' operations:		
Commission income	12,001	11,324
Dividends	862	752
Realized gains on disposal (Note 7)	1,205	111
Impairment (Note 7)	(1,822)	(3,128)
Other	(81)	(130)
	<u>12,165</u>	<u>8,929</u>

22 General and administrative expenses

	2017	2016
Insurance operations:		
Salaries and benefits	75,731	66,220
Employee benefit obligations	3,207	3,311
Legal and professional fees	10,428	4,799
Information technology	11,685	9,454
Business travel	1,797	1,918
Printing and stationary	392	697
Provision for doubtful debts (Note 6)	3,375	3,000
Regulators' fees	9,783	8,925
Depreciation (Note 11)	2,577	2,567
Other	14,738	6,517
	<u>133,713</u>	<u>107,408</u>
Shareholders' operations:		
Directors' fees and other expenses	1,288	1,227
Other	464	512
	<u>1,752</u>	<u>1,739</u>

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23 Risk management

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board of Directors of the Company. 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.

Audit Committee and Internal Audit Department

The internal audit department performs risk assessments with senior management annually. The internal audit department examines both adequacy of procedures and the Company's compliance with the procedures through regular audits. Audit findings and recommendations are reported directly to the Audit Committee.

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.

Risk Management Committee

The Audit Committee of the Company has constituted a risk management committee, which oversees the risk management function of the Company and report to Audit Committee on periodic basis. This Committee operates under framework established by the Board of Directors.

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:

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23 Risk management (continued)

23.1 Insurance risk management and reinsurance risk

The risk under an insurance contract is the possibility that the insured event may occur 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 the Company faces under insurance contracts is that the actual claim payments or the timing thereof, differs from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, structured claims management, quarterly review of reserves as well as the use of reinsurance arrangements.

(a) Accident, liability, motor and other general insurance

The accident category includes personal accident, money insurance, business all risk insurance and business travel insurance. Liability insurance includes general third-party liability, product liability and workmen's compensation/ employer's liability protection arising out of acts of negligence during their business operations.

Motor insurance is designed to compensate policyholders for damage suffered to their vehicles or liability to third parties arising through accidents. Policyholders could also receive compensation for fire damage or theft of their vehicles.

For accident, liability and motor policies the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has well developed risk acceptance procedures based on critical underwriting factors such as driver's age, driving experience and nature of vehicle to control the quality of risks that it accepts. It also has risk management procedures in place to control the costs of claims.

(b) Property

Property insurance is designed to compensate policyholders for damage suffered to properties or for the value of property lost. Policyholders could also receive compensation for the loss of earnings caused by the inability to use the insured properties.

Significant risks underwritten by the Company under this class are physically inspected by qualified risk engineers to make sure adequate fire protection and security is in place. Also, the Company tracks for the potential of risk accumulation.

(c) Marine

Marine insurance solutions are mainly designed to compensate policyholders from accidents at sea, on land and in the air resulting in the total or partial loss to goods and/or merchandise (cargo insurance).

The underwriting strategy for the marine class of business is to ensure that coverage is provided based on the quality of vessels used and shipping routes followed. Vessel details are validated through international agencies while making the underwriting decisions.

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23 Risk management (continued)

23.1 Insurance risk management and reinsurance risk (continued)

(d) Engineering

Engineering covers two principal types as summarized below:

- i) "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, buildings, roads, bridges, sewage works and reservoirs; and.
- ii) Erection all risk" insurance offering cover during the erection or installation of plant and machinery" such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery.

The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

Significant risks underwritten by the Company under this class are physically inspected to make sure adequate fire protection, security and project management is in place.

(e) Health and protection

Health insurance is designed to cover the medical expenses incurred as a result of a disease or an illness or an injury. The policy seeks to provide the policyholder and their employees with access to good medical facilities and the latest treatments and technologies, subject to the terms of the relevant policy and the policyholders' personal circumstances.

Protection insurance covers the risks of death or disability following accident or illnesses and compensates the member or dependents in event of loss.

The main risk the Company faces on health and protection insurance is an increase of medical costs which can be more than expected or increase in claims due to exceptional events like outbreak of pandemic diseases. The underwriting strategy includes management of exposures and concentrations within acceptable risk appetite and risk tolerance levels and optimization of reinsurance strategies through a combination of reinsurance cession with approved and well-rated reinsurers and retrocession arrangements. The Company's centralized claims management platform controls and manages its medical insurance claims.

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23 Risk management (continued)**23.2 Reinsurance risk**

Similar to other insurance companies, in order to minimise financial exposure arising from large claims, the Company, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess-of-loss reinsurance contracts.

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company only deals with reinsurers approved by the Board of Directors of the Company. The criteria may be summarized as follows:

- (a) Minimum acceptable credit rating by agencies that is not lower than prescribed in the Regulations;
- (b) Reputation of particular reinsurance companies; and
- (c) Existing or past business relationships.

Furthermore, the financial strengths and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company before placement of reinsurance.

23.3 Frequency and severity of claims

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

The Company monitors concentration of insurance risks primarily by class of business. The table below sets out the concentration of the outstanding claims and unearned premiums (in percentage terms) by class of business at statement of financial position date:

	2017				2016			
	Gross Outstanding claims	Net Outstanding claims	Gross Unearned premiums	Net Unearned premiums	Gross Outstanding claims	Net Outstanding claims	Gross Unearned premiums	Net Unearned premiums
Accident and liability	4%	5%	4%	4%	4%	5%	4%	4%
Motor	45%	52%	52%	55%	33%	41%	35%	38%
Property	11%	8%	7%	4%	14%	10%	7%	3%
Marine	17%	8%	1%	1%	19%	8%	2%	1%
Engineering	8%	8%	5%	4%	8%	9%	7%	5%
Health	13%	16%	29%	30%	19%	23%	43%	47%
Protection	2%	3%	2%	2%	3%	4%	2%	2%
	100%	100%	100%	100%	100%	100%	100%	100%

The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

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23 Risk management (continued)

23.4 Sources of uncertainty in estimation of future claim payments

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the statement of financial position date. The details of estimation of outstanding claims (including IBNR) are given under notes 3 and 9 (d).

23.5 Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

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

23.6 Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The impact on the shareholders' income before zakat and income tax and shareholders' equity of the changes in the claim liabilities net of reinsurance is analysed below. The sensitivity to changes in claim liabilities net of reinsurance is determined separately for each class of business while keeping all other assumptions constant.

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23 Risk management (continued)

23.6 Sensitivity analysis (continued)

Impact of increase in 10% on shareholders' net income and equity is as follows:

	Shareholders' net income		Shareholders' equity	
	2017	2016	2017	2016
Accident and liability	2,414	1,900	2,346	1,825
Motor	28,177	16,973	27,380	16,304
Property	4,585	6,946	4,455	6,672
Marine	4,448	9,295	4,322	8,929
Engineering	4,496	4,198	4,369	4,033
Other general insurance	55	21	53	20
Health	8,915	9,379	8,663	9,009
Protection	1,472	1,432	1,430	1,376
	54,562	50,144	53,018	48,168

A decrease of 10% would have equal but opposite effect on shareholder's net income and equity.

23.7 Claims development

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 maintains adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

Accident year	2013	2014	2015	2016	2017	Total
At end of reporting year	485,490	668,693	636,017	693,068	1,120,800	3,604,068
One year later	625,419	817,225	783,867	1,119,169	-	3,345,680
Two years later	624,715	845,821	1,111,943	-	-	2,582,479
Three years later	627,686	1,170,070	-	-	-	1,797,756
Four years later	871,554	-	-	-	-	871,554
Current estimate of cumulative claims	871,554	1,170,070	1,111,943	1,119,169	1,120,800	5,393,536
Cumulative payment to date	(864,794)	(1,125,265)	(1,059,547)	(1,075,099)	(1,007,009)	(5,131,714)
Liability recognized till date	6,760	44,805	52,396	44,070	113,791	261,822
Reserve with respect to 2013						2,464
Claim incurred but not reported and other reserves						496,716
Total reserve						761,002

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23 Risk management (continued)

23.8 Regulatory framework risk

The operations of the Company are subject to regulatory requirements in 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 minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In management's opinion, the Company has substantially complied with such regulatory requirements.

23.9 Financial risk

The Company's principal financial assets and liabilities are cash and cash equivalents, short term, long term and statutory deposit, premiums and insurance balances receivable - net, reinsurance balances payable, outstanding claims, accrued and other liabilities, employee benefit obligations and amounts due to a related party.

The main risks arising from the Company's financial instruments are commission rate risk, credit risk, liquidity risk and market price risks. The audit committee appointed by the Board of Directors of the Company reviews and agrees policies for managing each of these risks which are summarised below:

(i) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates may affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its time deposits, short-term deposits long-term deposits, available-for-sale and held-to-maturity investments. The Company limits commission rate risk by monitoring changes in commission rates. The Company does not have any interest bearing liabilities.

Effective commission rates of the Company's investments and their maturities as at 31 December 2017 and 2016 are as follows:

2017	Commission bearing				Non-commission bearing	Total
	Less than 1 year	1 to 5 years	More than 5 years	Effective rate of commission (%)		
Insurance operations						
Loans and receivables						
Cash and cash equivalents	17,376	-	-	1.60	100,400	117,776
Short term deposits	500,719	-	-	2.24	-	500,719
Long-term deposit	-	103,380	-	3.49	-	103,380
	518,095	103,380	-		100,400	721,875
Available-for-sale investments	239,927	-	-	2.99	-	239,927
Held-to-maturity investments	-	-	78,836	3.27	-	78,836
31 December 2017	758,022	103,380	78,836		100,400	1,040,638
Shareholders' operations						
Loans and receivables						
Short-term deposits	76,111	-	-	2.31	-	76,111
Long term deposits	-	105,000	-	2.76	-	105,000
Statutory deposit	-	45,000	-	1.76	-	45,000
	76,111	150,000	-		-	226,111
Available-for-sale investments	155,862	-	-	3.32	-	155,862
Held-to-maturity investments	-	-	60,000	3.21	-	60,000
31 December 2017	231,973	150,000	60,000		-	441,973

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23 Risk management (continued)

23.9 Financial risk (continued)

(i) Commission rate risk (continued)

2016	Commission bearing				Non-commission bearing	Total
	Less than 1 year	1 to 5 years	More than 5 years	Effective rate of commission (%age)		
Insurance operations						
Loans and receivables						
Cash and cash equivalents	112,393	-	-	2.46%	20,269	132,662
Short term deposits	380,074	-	-	3.27%	-	380,074
Long-term deposit	-	7,500	-	2.00%	-	7,500
	492,467	7,500	-		20,269	520,236
Available-for-sale investments	120,080	-	-	3.51%		120,080
Held-to-maturity investments	-	-	75,000	3.34%		75,000
31 December 2016	612,547	7,500	75,000		20,269	715,316
Shareholders' operations						
Loans and receivables						
Short-term deposits	60,000	-	-	3.16%	-	60,000
Long-term deposits	-	116,250	-	2.69%	-	116,250
Statutory deposit	-	45,000	-	2.00%	-	45,000
	60,000	161,250	-		-	221,250
Available-for-sale investments	141,559	-	-	3.68%	-	141,559
Held-to-maturity investments	-	-	60,000	3.21%	-	60,000
31 December 2016	201,559	161,250	60,000		-	422,809

There is no significant difference between contractual re-pricing and maturity dates, except for certain held-to-maturity investments, which are subject to variable commission rates based on SIBOR.

The following table demonstrates the sensitivity of statements of shareholders' operations and statement of changes in shareholders' equity to reasonably possible change in commission rates of the Company's deposits, with all other variables held constant:

Currency	Change in variable	Impact on net income	
		2017	2016
Saudi Riyals	basis points +50	4,000	3,319
Saudi Riyals	basis points -50	(4,000)	(3,319)

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss.

The Company only enters into insurance and reinsurance contracts with recognised and credit worthy 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 on-going basis in order to reduce the Company's exposure to bad debts. The Company limits its credit risk with regard to time deposits by dealing with reputed banks only.

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23 Risk management (continued)

23.9 Financial risk (continued)

(ii) Credit risk (continued)

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

The Company maintains its bank balances, short term, long term and statutory deposits with banks which have investment grade credit ratings. Investment are made in instruments with grade credit rating.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk on its financial assets at 31 December 2017 is Saudi Riyals 1,882 million (2016: Saudi Riyals 1,441 million).

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade (satisfactory) or past due but not impaired:

Insurance operations' financial assets as at 31 December 2017:

	Investment grade	Non-investment grade Satisfaction	Past due but not impaired	Total
Cash and cash equivalents, Investments and deposits				
Fixed-rate securities	805,465	41,143	-	846,608
Floating-rate securities	66,720	8,812	-	75,532
Equities and mutual funds	14,564	3,677	-	18,241
Other - non-interest bearing	100,400	-	-	100,400
Other financial assets				
Premiums and insurance balances receivable	-	126,724	26,674	153,398
Prepayments and other receivable	-	11,182	-	11,182
Reinsurer's share of outstanding claims	-	154,754	-	154,754
	987,149	346,292	26,674	1,360,115

Shareholders' operations' financial assets as at 31 December 2017:

	Investment grade	Non-investment grade Satisfaction	Past due but not impaired	Total
Fixed-rate securities	364,158	10,851	-	375,009
Floating-rate securities	44,976	5,024	-	50,000
Equities and mutual funds	2,393	14,571	-	16,964
Other - non-interest bearing	-	-	-	-
Other financial assets				
Prepayments and other receivable	-	1,412	-	1,412
Due from insurance operations	-	78,456	-	78,456
	411,527	110,314	-	521,841

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23 Risk management (continued)

23.9 Financial risk (continued)

(ii) Credit risk (continued)

Insurance operations' financial assets as at 31 December 2016:

	Investment grade	Non-investment grade Satisfaction	Past due but not impaired	Total
Fixed-rate securities	656,046	-	-	656,046
Floating-rate securities	39,000	-	-	39,000
Equities and mutual funds	14,731	-	-	14,731
Other non-interest bearing	20,269	-	-	20,269
Other financial assets				
Premiums and insurance balances receivable	-	100,790	21,882	122,672
Prepayments and other receivable	-	12,279	-	12,279
Reinsurer's share of outstanding claims	-	105,316	-	105,316
	730,046	218,385	21,882	970,313

Shareholders' operations' financial assets as at 31 December 2016:

	Investment grade	Non-investment grade Satisfaction	Past due but not impaired	Total
Fixed-rate securities	350,809	-	-	350,809
Floating-rate securities	72,000	-	-	72,000
Equities and mutual funds	18,907	-	-	18,907
Other financial assets				
Prepayments and other receivable	-	3,515	-	3,515
Due from insurance operations	-	25,448	-	25,448
	441,716	28,963	-	470,679

Credit quality of investments as at 31 December 2017:

	Insurance operations	Shareholders' operations
A and above	990,684	407,992
B	39,268	3,764
Not rated but considered satisfactory	10,829	30,217
	1,040,781	441,973

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23 Risk management (continued)

23.9 Financial risk (continued)

(ii) Credit risk (continued)

Credit quality of investments

Credit quality of investments as at 31 December 2016:

	Insurance operations	Shareholders' operations
A and above	391,551	354,174
B	178,810	64,413
Not rated but considered satisfactory	139,416	23,129
	709,777	441,716

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

(iii) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise may encounter difficulty in raising funds to meet commitments associated with insurance contracts. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise. The Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

Substantially all the financial liabilities of the Company are due within one year of the date of the statement of financial position.

The table below summarizes the maturities of the company's undiscounted contractual obligations at 31 December 2017 and 2016. As the Company does not have any commission bearing liabilities, contractual cash flow of financial liabilities approximates their carrying value.

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23 Risk management (continued)

23.9 Financial risk (continued)

(iii) Liquidity risk (continued)

	Less than 12 months		More than 12 months		Total	Total
	2017	2016	2017	2016	2017	2016
<u>Insurance operations'</u>						
<u>liabilities - amortized</u>						
<u>cost</u>						
Reinsurers' balances payable	59,093	33,547	-	-	59,093	33,547
Outstanding claims	761,002	557,152	-	-	761,002	557,152
Accrued and other liabilities	130,542	86,295	-	-	130,542	86,295
Due to a related party	4,335	3,534	-	-	4,335	3,534
Employee benefit Obligations	-	-	24,744	22,402	24,744	22,402
	954,972	680,528	24,744	22,402	979,716	702,930
<u>Shareholders' liabilities</u>						
<u>amortized cost</u>						
Accrued and other liabilities	1,020	1,016	-	-	1,020	1,016
Commission on statutory deposit	2,693	1,863	-	-	2,693	1,863
	3,713	2,879	-	-	3,713	2,879

Maturity profiles

The table below summarises the maturity profile of the financial assets of the Company based on remaining contractual obligations. Financial liabilities are summarised in table above. For insurance contract liabilities maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities. The amount disclosed are the contractual undiscounted cash flows which equal their carrying balances as the impact of discounting is not significant.

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23 Risk management (continued)

23.9 Financial risk (continued)

(iii) Liquidity risk (continued)

31 December 2017						
	Insurance operation			Shareholder's operation		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Financial assets						
Cash and cash equivalents	117,776	-	117,776	-	-	-
Short-term deposits	500,862	-	500,862	76,111	-	76,111
Premiums and insurance balances receivable - net	153,398	-	153,398	-	-	-
Reinsurers' share of outstanding claims	154,754	-	154,754	-	-	-
Available-for-sale investments	239,927	-	239,927	155,862	-	155,862
Prepayments and other receivable	11,182	-	11,182	1,412	-	1,412
Long-term deposit	-	103,380	103,380	-	105,000	105,000
Held-to-maturity investments	-	78,836	78,836	-	60,000	60,000
Statutory deposit	-	-	-	-	45,000	45,000
Due from insurance operations	-	-	-	-	78,456	78,456
	1,177,899	182,216	1,360,115	233,385	288,456	521,841

31 December 2016						
	Insurance operation			Shareholder's operation		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Financial assets						
Cash and cash equivalents	132,662	-	132,662	-	-	-
Short-term deposits	380,074	-	380,074	60,000	-	60,000
Premiums and insurance balances receivable - net	122,672	-	122,672	-	-	-
Reinsurers' share of outstanding claims	105,316	-	105,316	-	-	-
Available-for-sale investments	134,810	-	134,810	160,466	-	160,466
Prepayments and other receivable	12,279	-	12,279	3,515	-	3,515
Long-term deposit	-	7,500	7,500	-	116,250	116,250
Held-to-maturity investments	-	75,000	75,000	-	60,000	60,000
Statutory deposit	-	-	-	-	45,000	45,000
Due from insurance operations	-	-	-	-	25,448	25,448
	887,813	82,500	970,313	223,981	246,698	470,679

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23 Risk management (continued)

23.9 Financial risk (continued)

(iv) Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument may fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company's financial instruments are not exposed to market risk. Market risk is limited by investing in companies with good credit rating. In addition, the key factors that affect market are monitored, including operational and financial performance of the Company

(v) Currency risk

The Company's exposure to foreign currency risk is limited to United States Dollars which is pegged against Saudi Riyals. Management believes that currency risk to the Company is not significant

(vi) Price risk

Price risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Company has an unquoted equity investment carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired and then the statement of income insurance operation and accumulated surplus / shareholders' operation will be impacted.

The Company's all the available for sales investments are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its equity investment portfolio and by actively monitoring the developments in equity and money markets.

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

	Fair value	Price change	Estimated fair value	Effect on shareholders' equity
31 December 2017	395,789	Increase 10%	435,368	39,579
		Decrease 10%	265,748	(39,579)
31 December 2016	295,276	Increase 10%	324,804	29,528
		Decrease 10%	265,748	(29,528)

23.10 Capital risk management

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements as set out in the Law. The Company's current paid-up share capital is in accordance with Article 3 of the Law;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

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23 Risk management (continued)

23.10 Capital risk management (continued)

As per Article 66 of the Regulations, the Company shall maintain solvency margin equivalent to the highest of the following three methods:

- Minimum capital requirement of Saudi Riyals 200 million
- Premium solvency margin
- Claims solvency margin

The company's solvency margin at 31 December 2017 is 161% (2016: 166%) of the required margin of solvency.

23.11 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Determination of fair value and fair value hierarchy

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

For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company's investment in Najm, under Insurance operations is stated at Nil value and therefore not considered in the above fair value table.

During the year ended 31 December 2017 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

During the year ended 31 December 2017 there were no changes in the valuation techniques from the previous periods.

Level 1: quoted prices in active markets for the identical assets or liabilities (i.e. without modification or repacking)

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

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23 Risk management (continued)

23.11 Fair value of financial assets and liabilities (continued)

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

	Level 1	Level 2	Level 3	Total
2017				
Available-for-sale investments:				
Insurance operations	239,927	-	-	239,927
Shareholders' operations	155,862	-	-	155,862
Total	395,789	-	-	395,789
2016				
Available-for-sale investments:				
Insurance operations	134,810	-	-	134,810
Shareholders' operations	160,466	-	-	160,466
Total	295,276	-	-	295,276

Except as mentioned above, fair value of remaining financial assets and liabilities approximate their fair value.

24 Basic and diluted earning per share

Basic and diluted earnings per share at 31 December 2017 and 2016 has been computed by dividing the shareholders' net income for the year ended 31 December 2017 and 2016 by the weighted average number of shares outstanding during such periods.

25 Contingencies and commitments

(a) Contingencies

- The Company has provided bank guarantee in favour of the GAZT of Saudi Riyals 4.87 million against the settlement of zakat and income tax from 2009 till 2012. The Company has issued various other bank guarantees for an amount of Saudi Riyals 1.9 million in the normal course of business..
- The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceeding (including litigations) will have a material effect on its results and financial position.
- The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. The Company, based on independent legal advice, does not believe that the outcome of these cases will have a material impact on the Company's financial performance

(b) Operating lease commitment

The Company has operating leases for its offices which generally have a term of one year. Rental expense for the year ended 31 December 2017 amounted to Saudi Riyals 4.9 million (2016: Saudi Riyals 5 million). There were no significant committed lease rentals outstanding at 31 December 2017.

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26 Segmental information

Insurance operations for the year ended 31 December 2017:

	General and medical							
	Accident and liability	Motor	Property	Marine	Engineering	Health	Other general insurance	Protection
								Grand Total
Gross premiums written	26,693	1,022,646	71,314	51,200	34,713	265,866	5,642	21,403
Less: reinsurance premiums ceded	(1,806)	(106,913)	(45,873)	(28,751)	(12,878)	(187)	(187)	(3,952)
Net premiums written	24,887	915,733	25,441	22,449	21,835	266,623	5,455	17,451
Changes in unearned premiums, net	(2,835)	(79,502)	(3,865)	570	(79)	(3)	(3)	(645)
Net premiums earned	22,052	836,231	21,576	23,019	21,756	291,228	5,452	16,806
Reinsurance commissions	273	9,879	6,747	7,398	1,530	-	-	212
Total revenue	22,325	846,110	28,323	30,417	23,286	291,253	5,452	17,018
Gross claims paid and other expenses	1,122	622,672	16,859	16,521	3,603	238,781	98	12,236
Less: reinsurers' share of claims paid	(117)	(54,125)	(3,018)	(10,492)	(726)	(1,178)	-	(2,802)
Net claims paid	1,005	568,547	13,841	6,129	2,877	237,603	98	9,434
Changes in outstanding claims and reserves, net	6,052	122,922	4,123	11,968	13,019	(4,539)	369	498
Net claims incurred	7,057	691,469	17,964	18,097	15,896	233,064	467	9,932
Policy acquisition costs	3,191	61,237	8,646	4,011	3,930	20,012	163	3,049
Operating and administrative salaries	2,382	90,311	2,330	2,486	2,350	31,452	589	1,813
Total costs and expenses	12,630	843,017	28,940	24,594	22,176	284,528	1,219	14,794
Surplus from insurance operations								1,231,898
Commission income								32,286
Net surplus from insurance operations								23,018
Shareholders' appropriation of surplus from insurance operations								55,304
Net result from insurance operations after appropriation of surplus								(49,774)
								5,530

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Segmental information (continued)

Insurance operations for the year ended 31 December 2016:

2016	General and medical							Grand Total
	Accident and Liability	Motor	Property	Marine	Engineering	Health	Other general insurance	
Gross premiums written	26,841	646,556	59,894	45,549	30,927	319,719	4,157	1,133,643
Less: reinsurance premiums ceded	(1,932)	(3,358)	(44,139)	(19,613)	(13,755)	(4,986)	(267)	(88,050)
Net premiums written	24,909	643,198	15,755	25,936	17,172	314,733	3,890	1,045,593
Changes in unearned premiums	481	(34,455)	3,294	(105)	2,005	17,857	(92)	(11,015)
Net premiums earned	25,390	608,743	19,049	25,831	19,177	332,590	3,798	1,034,578
Reinsurance commissions	358	8	7,302	4,954	1,256	131	-	14,009
Total revenue	25,748	608,751	26,351	30,785	20,433	332,721	3,798	1,048,587
Gross claims paid	3,373	467,676	38,614	8,230	734	270,596	384	789,607
Less: reinsurers' share	(3)	(2)	(28,194)	(3,086)	(37)	(2,555)	-	(33,877)
Net claims paid	3,370	467,674	10,420	5,144	697	268,041	384	755,730
Changes in outstanding claims	4,385	41,774	15,349	11,270	12,499	7,855	143	93,275
Net claims incurred	7,755	509,448	25,769	16,414	13,196	275,896	527	849,005
Policy acquisition costs	2,967	34,408	8,132	3,314	3,274	17,784	225	70,104
General and administrative expenses	2,600	62,330	1,950	2,545	1,953	34,054	389	105,931
Total costs and expenses	13,322	606,186	35,851	22,373	18,433	327,734	1,141	1,025,040
Net underwriting result								15,961
Investment income								22,879
Net surplus from insurance operations								16,551
Shareholders' appropriation of surplus from insurance operations								39,430
Net result from insurance operations after appropriation of surplus								(35,487)
								3,943

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Segmental information (continued)

Insurance operations' financial position as of 31 December 2017:

	General and medical							
	Accident and liability	Motor	Property	Marine	Engineering	Health	Other general insurance	Grand Total
Insurance operations' assets								
Reinsurers' share of unearned premiums	217	2	13,300	2,332	4,339	196	-	22,059
Reinsurers' share of outstanding claims and reserves	274	32,576	32,973	78,428	9,081	289	-	154,754
Deferred policy acquisition costs	1,184	17,890	3,213	322	1,199	3,236	14	28,158
Segment assets	1,675	50,468	49,486	81,082	14,619	3,721	14	204,971
Unallocated assets								1,227,291
Total insurance operations' assets								1,432,262
Insurance operations' liabilities and accumulated surplus								
Gross unearned premiums	13,759	178,370	24,612	4,899	16,408	99,594	599	345,030
Gross outstanding claims and reserves	27,101	345,650	83,921	127,855	59,037	99,339	609	761,002
Unearned reinsurance commission income	32	-	2,870	573	675	-	-	4,284
Segment liabilities	40,892	524,020	111,403	133,327	76,120	198,933	1,208	1,110,316
Unallocated liabilities								321,946
Total insurance operations' liabilities and accumulated surplus								1,432,262

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Segmental information (continued)

Insurance operations' financial position as of 31 December 2016:

	Accident and Liability	General and medical					Other general insurance	Health	Total	Protection	Grand Total
		Motor	Property	Marine	Engineering	Health					
Insurance operations' assets											
Reinsurers' share of unearned premiums	304	7	13,514	2,480	9,532	-	-	2,209	28,046	1,032	29,078
Reinsurers' share of outstanding claims	338	4	30,351	65,819	8,138	-	-	615	105,255	51	105,316
Deferred policy acquisition costs	1,181	9,045	2,892	203	1,240	26	26	3,754	16,341	783	19,130
Segment assets	1,823	9,056	46,757	68,502	18,910	26	26	6,578	151,652	1,812	153,524
Unallocated assets											885,228
Total insurance operations' assets											1,038,752
Insurance operations' liabilities and accumulated surplus											
Unearned premiums	11,011	98,873	20,961	5,616	21,523	597	597	126,212	284,793	5,502	290,295
Outstanding claims	21,114	188,592	77,176	103,277	46,639	237	237	104,206	541,241	15,911	557,152
Unearned reinsurance commission	44	-	2,857	746	1,514	-	-	199	5,360	64	5,424
Segment liabilities	32,169	287,465	100,994	109,639	69,676	834	834	230,617	831,394	21,477	852,871
Unallocated liabilities											185,881
Total insurance operations' liabilities and accumulated surplus											1,038,752

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27 Date of approval

These financial statements including explanatory notes were approved and authorized for issue by the Company's Board of Directors on 27 March 2018.