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

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2017

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2017

INDEX	PAGE
Independent auditors' report	1 - 6
Statement of financial position	7 - 8
Statement of insurance comprehensive operations income	9 - 10
Statement of shareholders' comprehensive operations income	11
Statement of changes in shareholders' equity	12
Statement of insurance operations' cash flows	13
Statement of shareholders' cash flows	14
Notes to the financial statements	15 - 49

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY) – CONTINUED**

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of ultimate claim liabilities arising from insurance contracts</i></p> <p>As at 31 December 2017, outstanding claims including claims incurred but not reported (IBNR) amounted to Saudi Riyals 314,244,478 as reported in Note 11(a) to the financial statements.</p> <p>The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs.</p> <p>In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of methods. Are used by the actuary to determine these technical reserves. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>We considered this as a key audit matter since use of management assumptions and judgments could result in material over / understatement of the Company's profitability.</p> <p><i>Refer to the significant policies in notes 4 to the financial statements, and note 5 which explains the significant accounting estimates and assumptions.</i></p>	<p>We understood and evaluated key controls around the claims handling and technical reserve setting processes of the Company including completeness and accuracy of claims data used in the actuarial reserving process.</p> <p>We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences.</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 utilized by the Company's actuary in estimating the IBNR by comparing it to accounting records.</p> <p>In order to assess management's methodologies and assumptions, we were assisted by our actuary to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the Company's actuarial report, our actuary performed the following:</p> <ul style="list-style-type: none"> - Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods; - Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We assess 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 sensitivities to the key assumptions.

**INDEPENDENT AUDITORS' REPORT
 TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
 (A SAUDI JOINT STOCK COMPANY) – CONTINUED**

Key Audit Matters (Continued)

Key audit matter

Impairment of available for sale investments

As described in note 13, as at 31 December 2017, the Company had available-for-sale investments of SR 41.4 million under policyholders' operations and SR 118 million under shareholders' operations carried at fair value. These investments are mainly in funds, shares and Sukuks.

For assessing the impairment of the above mentioned investments, management monitors volatility of the net assets value "NAV"/ market value thereof and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost thereof at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value thereof has been below its original cost at initial recognition.

We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the financial statements.

Refer to the Company's disclosures about above mentioned key audit matter included in note 4,5,13 and 14 of the financial statements

How our audit addressed the key audit matter

We assessed the design and implementation and tested the operating effectiveness of the sample of controls over management's processes for identifying significant or prolonged decline in the fair value of available-for-sale investments.

We have carried out the following audit procedures on a sample basis:

- assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments;
- evaluated the basis for determining the costs and fair value of investments;
- tested the costs and valuations; and
- considered the NAV/ market value and fluctuation/ movement during the holding period to determine if the investment meets the significant or prolonged criteria.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY) – CONTINUED**

Other information included in the Company's 2017 Annual Report

The Board of Directors of the Company (the Directors) are responsible for the other information in the Company's annual report. Other information consists of the information included in the Company's 2017 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by SAMA for the accounting of zakat and tax, the applicable requirements of the Regulations for Companies, the Company's by-laws and for such internal control as the Directors determines 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY) – CONTINUED**

Auditors' responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

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

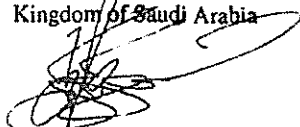
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**INDEPENDENT AUDITORS' REPORT
 TO THE SHAREHOLDERS OF BURUJ COOPERATIVE INSURANCE COMPANY
 (A SAUDI JOINT STOCK COMPANY) – CONTINUED**

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

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

PKF Al-Bassam & Co.
Allied Accountants
 P.O. Box 69658
 Riyadh 11557
 Kingdom of Saudi Arabia



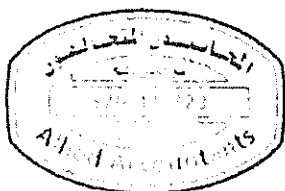
Ibrahim A. Al-Bassam
 Certified Public Accountant
 Registration No. 337

Aldar Audit Bureau
Abdullah Al Basri & Co
 P. O. Box 2195
 Riyadh 11451
 Kingdom of Saudi Arabia



Abdullah M. Al Basri
 Certified Public Accountant
 Registration No. 171

6 March 2018
 18 Jumada Al-Thani 1439



BURUJ COOPERATIVE INSURANCE COMPANY
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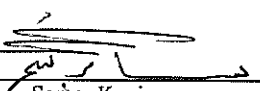
STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

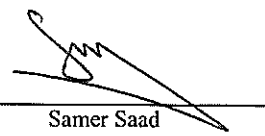
	<i>Note</i>	<i>2017 SR</i>	<i>2016 – Restated (Note 27) SR</i>
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	6	194,470,790	209,890,732
Time deposits	7	333,373,598	207,468,182
Premiums and reinsurance balances receivable, net	9	39,876,887	38,215,596
Available for sale investments	13(i)(a)	41,401,450	42,692,814
Reinsurers' share of outstanding claims	11(a)	101,460,176	100,594,541
Prepayments and other assets	8	15,252,380	16,733,954
Deferred policy acquisition costs	10(a)	15,907,131	16,113,034
Reinsurers' share of unearned premiums	10(b)	10,763,509	13,011,258
Property and equipment, net	12	3,302,164	2,448,458
TOTAL INSURANCE OPERATIONS' ASSETS		755,808,085	647,168,569
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	6	44,405,740	103,520,629
Time deposits	7	79,817,228	-
Available for sale investments	13(ii)(a)	118,077,276	91,538,840
Due from insurance operations		144,367,831	106,814,050
Prepayments and other assets	8	2,303,935	1,551,006
Held to maturity investments	13(ii)(c)	10,000,000	10,000,000
Investment in an associate	13(ii)(d)	1,220,388	441,482
Statutory deposit	20	25,000,000	25,000,000
Statutory deposit investment returns	20	527,829	399,070
TOTAL SHAREHOLDERS' ASSETS		425,720,227	339,265,077
TOTAL ASSETS		1,181,528,312	986,433,646



Yasser Yousef Naghi
Chairman



Samer Kanj
Chief Executive Officer



Samer Saad
Finance Manager

The accompanying notes 1 to 31 form part of these financial statements.

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

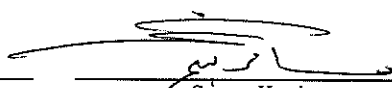
STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2017

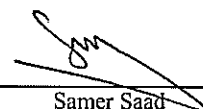
	<i>Note</i>	<i>2017 SR</i>	<i>2016 – Restated (Note 27) SR</i>
INSURANCE OPERATIONS' LIABILITIES & SURPLUS			
INSURANCE OPERATIONS' LIABILITIES			
Gross outstanding claims	11(a)	314,244,478	271,975,776
Reinsurance and insurance balances payable	15	33,134,204	17,198,491
Accrued expenses and other liabilities	16	30,594,161	19,017,855
Employees' end of service benefits	17	8,912,564	5,647,053
Due to shareholders' operations		144,367,831	106,814,050
Unearned reinsurance commission	10(c)	1,713,540	1,753,681
Gross unearned premiums	10(b)	203,643,613	204,001,357
Other reserves		12,332,859	8,731,425
TOTAL INSURANCE OPERATIONS' LIABILITIES		748,943,250	635,139,688
INSURANCE OPERATIONS' SURPLUS			
Accumulated surplus		10,221,968	14,339,519
Changes in fair values of available for sale investments	13(i)(b)	(1,454,347)	(2,310,638)
Accumulated actuarial loss on employees' end of service benefits	17	(1,902,786)	-
TOTAL INSURANCE OPERATIONS' LIABILITIES & SURPLUS		755,808,085	647,168,569
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Zakat payable	24	25,840,869	20,492,110
Accrued expenses and other liabilities	16	2,375,013	3,308,430
Statutory deposit investment returns	20	527,829	399,070
TOTAL SHAREHOLDERS' LIABILITIES		28,743,711	24,199,610
SHAREHOLDERS' EQUITY			
Share capital	21	250,000,000	250,000,000
Statutory reserve	22,27	34,224,026	14,674,338
Retained earnings		105,742,042	50,517,990
Change in fair values of available for sale investments	13(ii)(b)	7,010,448	(126,861)
TOTAL SHAREHOLDERS' EQUITY		396,976,516	315,065,467
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		425,720,227	339,265,077
TOTAL LIABILITIES AND EQUITY		1,181,528,312	986,433,646



Yasser Yousef Naghi
Chairman



Samer Kanj
Chief Executive Officer



Samer Saad
Finance Manager


The accompanying notes 1 to 31 form part of these financial statements.

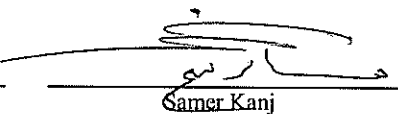
BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

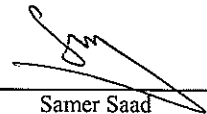
STATEMENT OF INSURANCE COMPREHENSIVE OPERATIONS INCOME

For the year ended 31 December 2017

	<i>Note</i>	<i>2017 SR</i>	<i>2016 SR</i>
Gross written premiums	10(b)	511,508,751	437,565,727
Reinsurance premiums ceded	10(b)	(28,393,563)	(35,033,664)
Excess of loss premiums	10(b)	(19,005,738)	(14,330,253)
NET PREMIUMS WRITTEN		464,109,450	388,201,810
Movement in unearned premiums, net	10(b)	(1,890,005)	10,554,786
NET PREMIUMS EARNED	10(b)	462,219,445	398,756,596
Reinsurance commission income	10(c)	8,011,446	8,386,523
Policy fees and other underwriting income		17,721,056	13,146,682
TOTAL REVENUES		487,951,947	420,289,801
Gross claims paid	11(a)	(251,324,368)	(201,766,880)
Reinsurance share of claims paid	11(a)	18,213,493	21,412,422
NET CLAIMS PAID		(233,110,875)	(180,354,458)
Movement in outstanding claims, net	11(a)	(41,403,067)	(29,047,878)
Movement in other reserves	11(a)	(3,601,434)	(5,229,087)
NET CLAIMS INCURRED		(278,115,376)	(214,631,423)
Policy acquisition costs	10(a)	(44,144,575)	(37,782,860)
Inspection and supervision fees		(4,418,783)	(3,602,166)
Third party administrator fees		(9,452,175)	(7,153,162)
Other underwriting expenses		(1,840,792)	(1,315,666)
TOTAL UNDERWRITING COSTS		(337,971,701)	(264,485,277)
NET UNDERWRITING SURPLUS		149,980,246	155,804,524
General and administrative expenses	18	(55,726,587)	(50,255,025)
Allowance for doubtful debts	9(c)	(121,048)	(6,581,778)
Special commission income from time deposits	6,7	9,129,157	5,733,799
Dividend income		998,534	1,551,820
Realized gain (loss) from available for sale investments		1,771,017	(6,755,878)
Impairment of available for sale investments	13(i)(b)	(4,206,494)	-
Other income		394,850	827,110
SURPLUS FROM INSURANCE OPERATIONS		102,219,675	100,324,572
Surplus transferred to shareholders' operations		(91,997,708)	(90,292,115)
NET RESULT FOR THE YEAR		10,221,967	10,032,457


Yasser Yousef Naghi
Chairman


Samer Kanj
Chief Executive Officer


Samer Saad
Finance Manager

The accompanying notes 1 to 31 form part of these financial statements.

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

STATEMENT OF INSURANCE COMPREHENSIVE OPERATIONS INCOME
(continued)

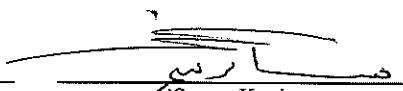
For the year ended 31 December 2017

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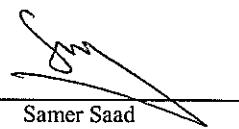
	<i>Note</i>	<i>2017 SR</i>	<i>2016 SR</i>
NET RESULT FOR THE YEAR		10,221,967	10,032,457
<i>OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT:</i>			
Realized (gain) loss from available for sale investments		(1,771,017)	6,755,878
Change in fair values of available for sale investments	13(i)(b)	2,627,308	(3,000,662)
Net change in fair values of available for sale investments		856,291	3,755,216
<i>OTHER COMPREHENSIVE LOSS NOT TO BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT:</i>			
Actuarial loss on employees' end of service benefits		(1,902,786)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		9,175,472	13,787,673



Yasser Yousef Naghi
Chairman



Samer Kanj
Chief Executive Officer



Samer Saad
Finance Manager

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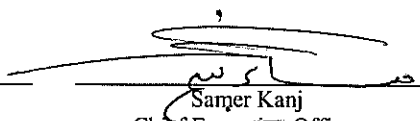
**BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS INCOME
For the year ended 31 December 2017

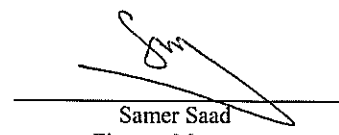
	<i>Note</i>	2017 SR	2016 – Restated (Note 27) SR
Surplus transferred from insurance operations		91,997,708	90,292,115
EXPENSES			
General and administrative	18	(2,558,049)	(2,879,542)
INCOME FROM OPERATIONS		89,439,659	87,412,573
Special commission income from time deposits	6,7	1,839,171	1,407,610
Special commission income from investments		2,681,503	1,675,365
Dividend income		4,130,000	384,616
Realized (loss)/gain from available for sale investments		(1,120,800)	847,682
Share of profit/(loss) from investment in associate		778,906	(758,518)
NET INCOME FOR THE YEAR		97,748,439	90,969,328
OTHER COMPREHENSIVE INCOME (LOSS) TO BE RECLASSIFIED SUBSEQUENTLY TO INCOME:			
Realized loss/(gain) from available for sale investments		1,120,800	(847,682)
Change in fair values of available for sale investments	13(ii)(b)	6,016,509	85,265
Net change in fair values of available for sale investments		7,137,309	(762,417)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		104,885,748	90,206,911
BASIC AND DILUTED EARNINGS PER SHARE FOR THE YEAR	23	3.91	3.64



Yasser Yousef Naghi
Chairman



Samer Kanj
Chief Executive Officer



Samer Saad
Finance Manager

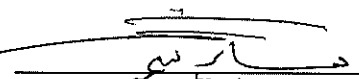
The accompanying notes 1 to 31 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2017

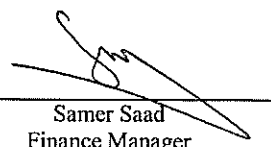
	<i>Share Capital SR</i>	<i>Statutory Reserve SR</i>	<i>Retained earnings (Accumulated losses) SR</i>	<i>Change in fair values of available for sale investments SR</i>	<i>Total SR</i>
2016					
Balance as at 1 January 2016	250,000,000	-	(17,597,642)	635,556	233,037,914
Net income for the year – <i>before adjustment</i>	-	-	82,789,970	-	82,789,970
<i>Prior year adjustment (Note 27)</i>	-	-	8,179,358	-	8,179,358
Net income for the year – <i>after adjustment</i>	-	-	90,969,328	-	90,969,328
<i>Other comprehensive income:</i>					
Net change in fair value of available for sale investments	-	-	-	(762,417)	(762,417)
<i>Total comprehensive income for the year – after adjustment</i>	-	-	90,969,328	(762,417)	90,206,911
Zakat for the year (Note 24)	-	-	(8,179,358)	-	(8,179,358)
Transfer to statutory reserve	-	14,674,338	(14,674,338)	-	-
Balance as at 31 December 2016	250,000,000	14,674,338	50,517,990	(126,861)	315,065,467
2017					
Balance as at 1 January 2017 – <i>before adjustment</i>	250,000,000	13,038,466	52,153,862	(126,861)	315,065,467
<i>Prior year adjustment (Note 27)</i>	-	1,635,872	(1,635,872)	-	-
Balance as at 1 January 2017 – <i>after adjustment (Note 27)</i>	250,000,000	14,674,338	50,517,990	(126,861)	315,065,467
Net income for the year	-	-	97,748,439	-	97,748,439
<i>Other comprehensive income:</i>					
Net change in fair value of available for sale investments	-	-	-	7,137,309	7,137,309
<i>Total comprehensive income for the year</i>	-	-	97,748,439	7,137,309	104,885,748
Dividends distributed (Note 28)	-	-	(12,500,000)	-	(12,500,000)
Transfer to statutory reserve	-	19,549,688	(19,549,688)	-	-
Zakat for the year (Note 24)	-	-	(10,474,699)	-	(10,474,699)
Balance as at 31 December 2017	250,000,000	34,224,026	105,742,042	7,010,448	396,976,516



Yasser Yousef Naghi
Chairman



Samer Kanj
Chief Executive Officer



Samer Saad
Finance Manager


The accompanying notes 1 to 31 form part of these financial statements.

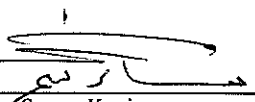
BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

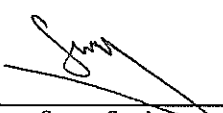
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2017

	<i>Note</i>	<i>2017 SR</i>	<i>2016 SR</i>
OPERATING ACTIVITIES			
Net result for the year		10,221,967	10,032,457
<i>Adjustments for:</i>			
Surplus transferred to shareholders' operations		91,997,708	90,292,115
Depreciation	12	1,022,708	1,037,753
Provision for employees' end of service benefits	17	1,959,823	1,949,643
Allowance for of doubtful debts		7,486	6,568,298
Realized (gain)/loss from available for sale investments		(1,771,017)	6,755,878
Impairment of available for sale investments	13(i)(b)	4,206,494	-
Gain on disposal of property and equipment		-	(33,229)
Loss on write-off of property and equipment		29,881	-
<i>Net surplus before changes in operating assets and liabilities</i>		<u>107,675,050</u>	<u>116,602,915</u>
<i>Changes in operating assets and liabilities:</i>			
Premiums and reinsurance balances receivable		(1,668,777)	2,204,106
Reinsurers' share of outstanding claims		(865,635)	10,936,487
Prepayments and other assets		1,481,574	(5,740,175)
Deferred policy acquisition costs		205,903	1,662,925
Reinsurers' share of unearned premiums		2,247,749	1,190,051
Gross outstanding claims		42,268,702	18,111,390
Reinsurance and insurance balances payable		15,935,713	(783,476)
Accrued expenses and other liabilities		11,576,306	1,387,148
Unearned reinsurance commission		(40,141)	(1,331,837)
Gross unearned premiums		(357,744)	(11,744,837)
Other reserves		3,601,434	5,229,087
<i>Cash generated from operations</i>		<u>182,060,134</u>	<u>137,723,784</u>
Employees' end of service benefits paid	17	(597,098)	(128,539)
Insurance surplus paid		(14,339,519)	(2,310,153)
<i>Net cash generated from operating activities</i>		<u>167,123,517</u>	<u>135,285,092</u>
INVESTING ACTIVITIES			
Time deposits		(125,905,416)	(58,269,007)
Purchase of available for sale investments	13(i)(b)	(33,647,942)	(37,918,858)
Proceeds from available for sale investments	13(i)(b)	33,360,120	37,405,527
Purchase of property and equipment	12	(1,906,294)	(953,632)
Proceeds from disposal of property and equipment		-	35,050
<i>Net cash used in investing activities</i>		<u>(128,099,532)</u>	<u>(59,700,920)</u>
FINANCING ACTIVITY			
Due to shareholders' operations		(54,443,927)	(17,511,780)
<i>Net cash used in financing activity</i>		<u>(54,443,927)</u>	<u>(17,511,780)</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(15,419,942)</u>	<u>58,072,392</u>
Cash and cash equivalents at beginning of the year		209,890,732	151,818,340
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	<u>194,470,790</u>	<u>209,890,732</u>
<i>Non-cash transactions:</i>			
Transfer of surplus to shareholders' comprehensive operations		91,997,708	90,292,115
Net change in fair value of available for sale investments		856,291	3,755,216


Yasser Yousef Naghi
Chairman


Samer Kanj
Chief Executive Officer


Samer Saad
Finance Manager


The accompanying notes 1 to 31 form part of these financial statements.

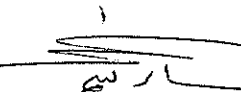
BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

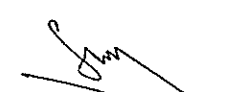
STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2017

	<i>Note</i>	2017 SR	2016 SR
OPERATING ACTIVITIES			
Net income for the year		97,748,439	90,969,328
<i>Adjustments for:</i>			
Surplus transferred from insurance operations		(91,997,708)	(90,292,115)
Realised loss/(gain) from available for sale investments		1,120,800	(847,682)
Share of (profit)/loss of an associate		(778,906)	758,518
Net surplus before changes in operating assets and liabilities		6,092,625	588,049
<i>Changes in operating assets and liabilities:</i>			
Prepayments and other assets		(752,929)	(860,278)
Accrued expenses and other liabilities		(933,417)	377,672
<i>Cash generated from operations</i>		4,406,279	105,443
Zakat paid	24	(5,125,940)	(2,378,604)
Net cash used in operating activities		(719,661)	(2,273,161)
INVESTING ACTIVITIES			
Time deposits		(79,817,228)	60,000,000
Purchase of available for sale investments	13(ii)(b)	(57,648,967)	(49,900,195)
Proceeds from available for sale investments	13(ii)(b)	37,127,040	21,547,769
Purchase of held to maturity investments		-	(5,000,000)
Net cash (used in)/generated from investing activities		(100,339,155)	26,647,574
FINANCING ACTIVITIES			
Dividends paid	28	(12,500,000)	-
Due from insurance operations		54,443,927	17,511,780
Net cash generated from financing activities		41,943,927	17,511,780
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(59,114,889)	41,886,193
Cash and cash equivalents at the beginning of the year		103,520,629	61,634,436
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	44,405,740	103,520,629
<i>Non-cash transactions:</i>			
Transfer of surplus from insurance operations		(91,997,708)	(90,292,115)
Net change in fair value of available for sale investments		7,137,309	(762,417)


Yasser Yousef Naghi
Chairman


Samer Kanj
Chief Executive Officer


Samer Saad
Finance Manager

The accompanying notes 1 to 31 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

1 ORGANISATION AND PRINCIPAL ACTIVITIES

Buruj Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010280606 dated 10 Safar 1431H, corresponding to 26 January 2010. The registered office address of the Company is P O Box 51855, Riyadh 11553, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed on the Tadawul (the Saudi Arabian Stock Market) on 15 February 2010.

The Company was licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree numbered 72/M dated 28 Shawal 1429H (corresponding to 29 October 2008), pursuant to Council of Ministers resolution numbered 313 dated 27 Shawal 1429H (corresponding to 28 October 2008). On 10 Muharram 1431H (corresponding to 27 December 2009), the Ministry of Commerce and Industry issued a resolution declaring the incorporation of the Company.

On 15 Jumada Thani 1431H (corresponding to 29 May 2010), the Saudi Arabian Monetary Authority ("SAMA") issued a formal approval to transact insurance business.

The Company launched its insurance operations on 1 July 2010 after receipt of an authorization from SAMA to commence insurance operations as product approval and related formalities were completed.

The Company obtained the necessary approvals from SAMA and Ministry of Commerce and Investment for the amendment of the Company's by-laws to be in accordance with the new companies' laws and regulations. Based on the above, the Company's extraordinary general assembly meeting was held on 26 Sha'ban 1438 (corresponding to 22 May 2017) and approved the new by-laws.

2 BASIS OF PREPARATION

Basis of measurement

The accompanying financial statements have been prepared on the historical cost basis, except for the measurement at fair value of "available for sale investments" and employees' end of service benefits at present value.

Statement of compliance

The financial statements of the Company have been prepared by the management in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax, which requires adoption of IFRS as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12-"Income Taxes and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a separately quarter basis through shareholders equity under retained earnings. Until 31 December 2016, the financial statements of the Company were prepared in accordance with IFRS. This change in framework, however, doesn't result in any change in the Company's accounting policy for zakat and tax.

As required by Saudi Arabian insurance regulations, the Company maintains separate books of accounts for Insurance and Shareholders' Operations. The physical custody 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 other revenue and expenses from joint operations is determined by the management and Board of Directors.

Functional and presentational currency

The functional and presentation currency of the Company is Saudi Riyals.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2 BASIS OF PREPARATION (continued)

Transfer of surplus

The Company is required to distribute 10% of the net surplus from insurance operations to policyholders and the remaining 90% to the shareholders of the Company in accordance with the Insurance Law and Implementation Regulations issued by SAMA. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

The insurance operations resulted in a surplus for the year ended 31 December 2017 amounting to SR 102.22 million (31 December 2016: SR 100.32 million). Accordingly, 90% of the net surplus amounting to SR 91.99 million (31 December 2016: SR 90.29 million) has been transferred to the shareholders' operations.

3A CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND AMENDMENTS ISSUED

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2016, except for the following:

• ***Employees' end of service benefits***

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. From the current year, the cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method by actuary as the year end.

Re-measurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to insurance other comprehensive income of the policy holders in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognizes related restructuring costs

Net special commission income is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income of insurance operations under general and administrative expenses:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine-settlements
- Net special commission expense or income

• ***Zakat***

On 14 Rajab 1438 (corresponding to 11 April 2017), SAMA has issued a new circular (number 381000074519) regarding the accounting policy of Zakat and income tax in which it is mentioned that they should be charged directly to the retained earnings of all insurance companies irrespective of their ownership structure for the current and comparative periods and this will be effective starting 1 January 2017.

Therefore, the Company has adopted the above new accounting policy in the preparation of these financial statements and has restated the comparative financial statements accordingly (*Note 27*).

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3B STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

However, on 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9) amending IFRS 9 to include the new general hedge accounting model. In its February 2014 meeting, the IASB decided that IFRS 9 would be mandatorily effective for annual reporting periods beginning on or after 1 January 2018 with an optional temporary exception to defer the application of IFRS 9 till 1 January 2021 for companies whose activities are predominantly connected with insurance.

IFRS 17 Insurance Contracts

The IASB issued IFRS 17 in May 2017. IFRS 17 will be mandatorily effective for annual reporting periods beginning on or after 1 January 2021. Once effective, IFRS 17 replaces IFRS 4 Insurance Contracts that was issued in 2005. The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Product classification

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

Premiums earned and commission income

Premiums are taken into income and recorded in the statement of insurance comprehensive operations, over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

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

- Last three months from the period in respect of marine cargo;
- Actual number of days for other lines of business and
- Pre-defined calculation for Engineering class of business for risks undertaken that extend beyond a single year. In accordance with this calculation, lower premiums are earned in the first year which gradually increases towards the end of the tenure of the policy.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Premiums and reinsurance balances receivable

Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premiums receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in the statement of insurance comprehensive operations. Premiums receivable are derecognised when the derecognition criteria for financial assets have been met.

Any difference between the provisions at the end of reporting period and settlements and provisions in the following year is included in the statement of insurance operations.

Claims

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to the statement of insurance operations, in the period in which they are 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 the 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 ("IBNR") at the reporting date. The ultimate liability may be in excess of or less than the amount provided. The Company also relies primarily on the IBNR reserves as ultimately set out by the Company's actuary.

Any difference between the provisions at reporting date and settlements and provisions in the following year is included in the statement of insurance comprehensive operations 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.

Fair value measurement

The Company measures financial instruments, such as investments in available for sale or derivatives if any, and non-financial assets, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 13. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements 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. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as set out above. The Company's management determines the policies and procedures for both recurring fair value measurement, such as available for sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation, if any.

External valuers are involved for valuation of significant assets, such as available for sale financial assets if any, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by investment committee after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The investment committee decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case. At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The investment committee, in conjunction with the Company's external valuers, also compares at each reporting date, changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the investment committee and the Company's external valuers present the valuation results to the audit committee and the Company's independent auditors. This includes a discussion of the major assumptions used in the valuations.

Liability adequacy test

At each end of reporting period, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities net of related deferred policy acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of insurance comprehensive operations initially by writing off related deferred policy acquisition costs and subsequently by establishing a provision for losses arising from liability adequacy tests, captioned as movement in other reserves.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2017

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Unearned commission income

Commission income on outwards reinsurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate. Amortisation is recorded in the statement of insurance comprehensive operations.

Deferred policy acquisition costs

Commissions paid are deferred and amortised over the terms of the insurance contracts to which they relate as premiums are earned. For marine and engineering, such costs are deferred on the same basis as premiums are earned. Amortisation is recorded in the statement of insurance comprehensive operations.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value an impairment loss is recognised in the statement of insurance comprehensive operations. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting period.

Reinsurance

Reinsurance contracts are contracts entered into by the Company with reinsurers under which the Company is compensated for losses on insurance contracts issued.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers on settlement of claims and other receivables such as profit commissions, if any, and reinsurers' share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognised consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

At each reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount.

Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment, if any is recognised in the statement of insurance comprehensive operations.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation. Depreciation is charged to the statement of insurance comprehensive operations on a straight line basis over the estimated useful lives of the assets. The carrying values of property and equipment are reviewed to determine any impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Expenditure for repairs and maintenance is charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Accounts payable and accruals

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

Provisions

Provisions are recognised 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 may be measured reliably.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Special commission income

Special commission income is recognised on an effective yield basis.

Statutory deposit

Statutory deposit represents 10% of the paid up capital of the Company which is maintained with a bank designated by SAMA in accordance with The Cooperative Insurance Companies Control Law for insurance companies. This statutory deposit cannot be withdrawn without the consent of SAMA.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and at banks and time deposits with original maturities of less than three months from the date of the acquisition.

Statutory reserve

In accordance with its by-laws, the Company allocates 20% of its net income of each year to the statutory reserve until it has built up a reserve equal to the share capital.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the rates of exchange ruling at the reporting date. All differences are taken to the statement of insurance or shareholders comprehensive operations.

Offsetting

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

Trade date accounting

All regular way purchases and sales of financial assets are recognised / derecognised 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.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the statement of operations. Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of operations;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Segmental 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. For management purposes, the Company is organised into business units based on products and services and has five reportable operating segments as follows:

- Motor insurance which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Medical products which provide health care cover to policyholders.
- Property which provides coverage against fire, and any other insurance included under this class of insurance.
- Marine products which provide cover for unpredictable events during sea voyage and inland transit with solutions against unfortunate events incidences during travel and transit.
- Others which include Engineering products and General Accident and liability which provides coverage against unfortunate events with respect to activities undertaken during construction projects, accidental death to individual and group of persons under Personal Accident Insurance and insures the interest of employers under Fidelity Guarantee and affords cover for loss or damage under Money and certain public liability insurances.

Shareholders' Funds is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The deficit or surplus from the insurance operations' is allocated to this segment on an appropriate basis. Segment performance is evaluated based on income or loss which, in certain respects, is measured differently from income or loss in the financial statements.

Transfer pricing for intersegment transactions 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. As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by operating segment only.

Investments

All investments are initially recognised at their fair value, including acquisition charges associated with the investment, excluding those held at fair value through income statement. For investments that are traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without any deduction for transaction costs.

Available for sale investments ("AFS")

Available for sale investments include equity, debt securities and investment funds. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under 'change in fair values of available for sale investments'. When the investment is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the statement of insurance comprehensive operations and shareholders' comprehensive operations. Where the Company holds more than one investment in the same security they are deemed to be disposed of on a 'first in first out' basis. Interest earned whilst holding AFS financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding AFS investments are recognised in the statement of statement of insurance comprehensive operations and shareholders' comprehensive income when the right of payment has been established. The losses arising from impairment of such investments are recognised in the statement of insurance or shareholders' comprehensive operations.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Held to maturity investments ("HTM")

Held to maturity investments are non-derivative financial assets which have fixed or determinable payments that the Company has the positive intention and ability to hold to maturity and are initially measured at amortised cost adjusted by the amount of amortisation of premium or accretion of discount using the effective interest method. Any permanent decline in value of HTM investments is recognised in the statement of shareholders' comprehensive operations. Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Company's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the longer-term nature of these investments.

Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies of an investee entity.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements of the Company include the Company's share of the profit or loss and other comprehensive income, until the date on which significant influence ceases. Unrealised profits and losses resulting from transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate. The reporting dates of the associate are identical to the Company's reporting dates and their accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the foreseeable future are discussed below.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported is an estimation of claims which are expected to be reported subsequent to the end of reporting period, for which the insured event has occurred prior to the end of reporting period. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Impairment losses on receivables

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms.

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.

Deferred policy acquisition costs

Certain acquisition costs related to sale of new policies are recorded as deferred acquisition costs and are amortised over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment.

Fair value of financial instruments that are not quoted in an active market

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

6 CASH AND CASH EQUIVALENTS

	2017		2016	
	<i>Insurance operations SR</i>	<i>Shareholders' operations SR</i>	<i>Insurance operations SR</i>	<i>Shareholders' operations SR</i>
Cash in hand and at banks	129,470,790	28,655,320	184,661,982	25,014,413
Short term deposits	65,000,000	15,750,420	25,228,750	78,506,216
Cash and cash equivalents	<u>194,470,790</u>	<u>44,405,740</u>	<u>209,890,732</u>	<u>103,520,629</u>

Short term deposits placed with local banks and financial institutions have an original maturity of less than three months from the date of acquisition and earned special commission income at an average rate of 2.13% per annum (2016: 2.60% per annum).

The carrying amounts disclosed above reasonably approximate their fair values at the reporting date.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

7 TIME DEPOSITS

Time deposits are placed with local banks and financial institutions with an original maturity of more than three months from the date of acquisition and earned special commission income at an average rate of 2.79% per annum (2016: 3.02% per annum).

The carrying amounts of the time deposits reasonably approximate their fair values at the reporting date.

8 PREPAYMENTS AND OTHER ASSETS

	<i>2017</i>		<i>2016</i>	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Insurance syndicate receivable	4,921,924	-	4,103,723	-
Prepaid third party administrator fees	3,448,970	-	3,386,570	-
Accrued commission income	3,352,192	1,333,959	1,817,516	699,217
Advances paid to suppliers	1,498,757	-	2,453,541	-
Prepaid rent	1,118,006	-	996,072	-
Prepaid excess of loss premiums	-	-	3,155,625	-
Others	912,531	969,976	820,907	851,789
	<u>15,252,380</u>	<u>2,303,935</u>	<u>16,733,954</u>	<u>1,551,006</u>

9 PREMIUMS AND REINSURANCE BALANCES RECEIVABLE, NET

(a) Premiums and reinsurance balances receivable are comprised of the following:

	<i>2017</i>	<i>2016</i>
	<i>SR</i>	<i>SR</i>
Premiums receivable	44,855,075	50,285,767
Less: Allowance for doubtful debts	(17,351,691)	(17,100,342)
	<u>27,503,384</u>	<u>33,185,425</u>
Reinsurance balances receivable	12,891,251	5,791,782
Less: Allowance for doubtful debts	(517,748)	(761,611)
	<u>12,373,503</u>	<u>5,030,171</u>
Total premiums and reinsurance balances receivable, net	<u>39,876,887</u>	<u>38,215,596</u>

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2017

9 PREMIUMS AND REINSURANCE BALANCES RECEIVABLE, NET (continued)

(b) As at 31 December 2017 and 2016, the ageing of unimpaired balances is as follows:

	<i>Total SR</i>	<i>Neither past due nor impaired SR</i>	<i>Past due but not impaired</i>		
			<i>91 to 180 days SR</i>	<i>181 to 365 days SR</i>	<i>More than 365 days SR</i>
2017					
Policyholders	27,503,384	9,637,618	7,939,050	9,926,716	-
Reinsurers	12,373,503	9,309,304	2,652,457	294,639	117,103
2016					
Policyholders	33,185,425	10,254,327	9,515,495	13,415,603	-
Reinsurers	5,030,171	4,254,704	446,167	311,016	18,284

The Company classifies policyholders' and reinsurers' balances as 'past due and impaired' on a case by case basis. An impairment adjustment, if any, is recorded in the statement of insurance comprehensive operations. It is not the practice of the Company to obtain collateral over premiums and reinsurance balances receivables and these are, therefore, unsecured.

Balances due from reinsurers are with counterparties who have investment grade credit ratings which is equivalent to AA+ to BBB under Standard and Poor's rating methodology.

(c) The movement in provision for doubtful policyholders' and reinsurance balances for the years ended 31 December 2017 and 2016 are set out below:

	<i>Policyholders SR</i>	<i>Reinsurers' SR</i>	<i>Total SR</i>
2017			
Beginning balance	17,100,342	761,611	17,861,953
Charge (reversal) for the year	251,349	(130,301)	121,048
Written-off	-	(113,562)	(113,562)
Closing balance	17,351,691	517,748	17,869,439
2016			
Beginning balance	10,268,615	1,025,040	11,293,655
Charge (reversal) for the year	6,831,727	(249,949)	6,581,778
Written-off	-	(13,480)	(13,480)
Closing balance	17,100,342	761,611	17,861,953

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

10 MOVEMENT IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED PREMIUMS AND UNEARNED REINSURANCE COMMISSION

(a) DEFERRED POLICY ACQUISITION COSTS

	2017 SR	2016 SR
Beginning balance	16,113,034	17,775,959
Paid during the year	43,938,672	36,119,935
Amortised during the year (<i>insurance operations</i>)	(44,144,575)	(37,782,860)
<i>Closing balance</i>	<u>15,907,131</u>	<u>16,113,034</u>

(b) UNEARNED PREMIUMS

	2017			2016		
	<i>Gross SR</i>	<i>Reinsurers' share SR</i>	<i>Net SR</i>	<i>Gross SR</i>	<i>Reinsurers' share SR</i>	<i>Net SR</i>
Beginning balance	204,001,357	(13,011,258)	190,990,099	215,746,194	(14,201,309)	201,544,885
Premiums written during the year (see note below)	511,508,751	(47,399,301)	464,109,450	437,565,727	(49,363,917)	388,201,810
Premiums earned during the year	(511,866,495)	49,647,050	(462,219,445)	(449,310,564)	50,553,968	(398,756,596)
<i>Closing balance</i>	<u>203,643,613</u>	<u>(10,763,509)</u>	<u>192,880,104</u>	<u>204,001,357</u>	<u>(13,011,258)</u>	<u>190,990,099</u>

Note: Reinsurers' share of premiums written during the year includes excess of loss premiums of SR 19,005,738 for the year ended 31 December 2017 (2016: SR 14,330,253).

(c) UNEARNED REINSURANCE COMMISSION

	2017 SR	2016 SR
Beginning balance	1,753,681	3,085,518
Commission received during the year	7,971,305	7,054,686
Commission earned during the year (<i>insurance operations</i>)	(8,011,446)	(8,386,523)
<i>Closing balance</i>	<u>1,713,540</u>	<u>1,753,681</u>

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

11 CLAIMS

(a) OUTSTANDING CLAIMS

	2017			2016		
	Gross SR	Reinsurers' share SR	Net SR	Gross SR	Reinsurers' share SR	Net SR
Outstanding at 31 December	(185,196,009)	76,882,260	(108,313,749)	(178,643,319)	86,951,737	(91,691,582)
Incurred but not reported	(129,048,469)	24,577,916	(104,470,553)	(93,332,457)	13,642,804	(79,689,653)
Total outstanding claims	(314,244,478)	101,460,176	(212,784,302)	(271,975,776)	100,594,541	(171,381,235)
Other reserves	(12,332,859)	-	(12,332,859)	(8,731,425)	-	(8,731,425)
	<u>(326,577,337)</u>	<u>101,460,176</u>	<u>(225,117,161)</u>	<u>(280,707,201)</u>	<u>100,594,541</u>	<u>(180,112,660)</u>
Claims paid during the year	(251,324,368)	18,213,493	(233,110,875)	(201,766,880)	21,412,422	(180,354,458)
Outstanding at 1 January	(178,643,319)	86,951,737	(91,691,582)	(163,379,200)	89,366,323	(74,012,877)
Incurred but not reported	(93,332,457)	13,642,804	(79,689,653)	(90,485,185)	22,164,705	(68,320,480)
Total outstanding claims	(271,975,776)	100,594,541	(171,381,235)	(253,864,385)	111,531,028	(142,333,357)
Other reserves	(8,731,425)	-	(8,731,425)	(3,502,338)	-	(3,502,338)
	<u>(280,707,201)</u>	<u>100,594,541</u>	<u>(180,112,660)</u>	<u>(257,366,723)</u>	<u>111,531,028</u>	<u>(145,835,695)</u>
Claims incurred	(297,194,504)	19,079,128	(278,115,376)	(225,107,358)	10,475,935	(214,631,423)

Note

Gross outstanding claims in the statement of financial position include claims outstanding at the reporting date and IBNR. The other reserves which comprise mainly of data deficiency reserves and catastrophe reserves are disclosed separately in the statement of financial position.

(b) CLAIMS DEVELOPMENT TABLE

Claims triangulation analysis by accident year

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date. In setting claims provisions the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2017

11 CLAIMS (continued)

(b) CLAIMS DEVELOPMENT TABLE (continued)
GROSS

<i>Accident year</i>	<i>2017</i>					<i>Total</i>
	<i>31 December 2012 and earlier</i>	<i>31 December 2013</i>	<i>31 December 2014</i>	<i>31 December 2015</i>	<i>31 December 2016</i>	<i>31 December 2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Estimate of cumulative claims:						
At end of accident year	139,961,586	154,955,171	222,925,179	348,139,465	262,477,634	330,756,483
One year later	138,929,703	141,478,033	221,574,214	311,066,696	238,101,886	-
Two years later	140,808,597	148,710,230	216,300,364	306,455,600	-	-
Three years later	142,830,072	148,662,634	218,149,751	-	-	-
Four years later	142,741,866	147,927,573	-	-	-	-
Five years later	148,744,024	-	-	-	-	-
<i>Current estimate of cumulative claims incurred</i>	<u>148,744,024</u>	<u>147,927,573</u>	<u>218,149,751</u>	<u>306,455,600</u>	<u>238,101,886</u>	<u>330,756,483</u>
Cumulative payments to date	(142,739,867)	(137,040,161)	(195,743,964)	(244,525,462)	(174,610,315)	(181,261,070)
Total cumulative gross outstanding claims recognised in statement of financial position	<u>6,004,157</u>	<u>10,917,412</u>	<u>22,405,787</u>	<u>61,930,138</u>	<u>63,491,571</u>	<u>149,495,413</u>
						<u>314,244,478</u>

NET (after considering effect of reinsurance)

<i>Accident year</i>	<i>2017</i>					<i>Total</i>
	<i>31 December 2012 and earlier</i>	<i>31 December 2013</i>	<i>31 December 2014</i>	<i>31 December 2015</i>	<i>31 December 2016</i>	<i>31 December 2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Estimate of cumulative claims:						
At end of accident year	118,882,521	120,085,398	190,270,352	247,768,390	230,423,840	301,670,219
One year later	116,898,249	113,722,642	197,179,277	226,934,157	202,841,835	-
Two years later	120,285,227	120,220,720	194,813,568	230,491,592	-	-
Three years later	122,468,205	121,358,724	198,103,650	-	-	-
Four years later	123,202,129	122,889,044	-	-	-	-
Five years later	125,847,756	-	-	-	-	-
<i>Current estimate of cumulative claims incurred</i>	<u>125,847,756</u>	<u>122,889,044</u>	<u>198,103,650</u>	<u>230,491,592</u>	<u>202,841,835</u>	<u>301,670,219</u>
Cumulative payments to date	(123,200,125)	(115,604,861)	(183,905,884)	(204,112,071)	(168,897,121)	(173,339,732)
Total cumulative net outstanding claims recognised in statement of financial position	<u>2,647,631</u>	<u>7,284,183</u>	<u>14,197,766</u>	<u>26,379,521</u>	<u>33,944,714</u>	<u>128,330,487</u>
						<u>212,784,302</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

11 CLAIMS (continued)

(b) CLAIMS DEVELOPMENT TABLE (continued)

GROSS

2016

<i>Accident year</i>	<i>31 December 2011 and earlier SR</i>	<i>31 December 2012 SR</i>	<i>31 December 2013 SR</i>	<i>31 December 2014 SR</i>	<i>31 December 2015 SR</i>	<i>31 December 2016 SR</i>	<i>Total SR</i>
Estimate of cumulative claims:							
At end of accident year	48,666,959	139,961,586	154,955,171	222,925,179	348,139,465	267,915,110	-
One year later	52,187,517	138,929,703	141,478,033	221,574,214	311,066,696	-	-
Two years later	49,315,376	140,808,597	148,710,230	216,300,364	-	-	-
Three years later	49,802,099	142,830,072	148,662,634	-	-	-	-
Four years later	49,648,452	142,741,866	-	-	-	-	-
Five years later	49,859,660	-	-	-	-	-	-
<i>Current estimate of cumulative claims incurred</i>	49,859,660	142,741,866	148,662,634	216,300,364	311,066,696	267,915,110	1,136,546,330
Cumulative payments to date	(44,569,392)	(136,071,238)	(135,529,419)	(191,067,559)	(231,825,772)	(125,507,174)	(864,570,554)
Total cumulative gross outstanding claims recognised in statement of financial position	<u>5,290,268</u>	<u>6,670,628</u>	<u>13,133,215</u>	<u>25,232,805</u>	<u>79,240,924</u>	<u>142,407,936</u>	<u>271,975,776</u>

NET (after considering effect of reinsurance)

2016

<i>Accident year</i>	<i>31 December 2011 and earlier SR</i>	<i>31 December 2012 SR</i>	<i>31 December 2013 SR</i>	<i>31 December 2014 SR</i>	<i>31 December 2015 SR</i>	<i>31 December 2016 SR</i>	<i>Total SR</i>
Estimate of cumulative claims:							
At end of accident year	27,780,509	118,882,521	120,085,398	190,270,352	247,768,390	235,861,310	-
One year later	29,168,892	116,898,249	113,722,642	197,179,277	226,934,157	-	-
Two years later	28,144,906	120,285,227	120,220,720	194,813,568	-	-	-
Three years later	28,665,211	122,468,205	121,358,724	-	-	-	-
Four years later	28,651,306	123,202,129	-	-	-	-	-
Five years later	28,924,814	-	-	-	-	-	-
<i>Current estimate of cumulative claims incurred</i>	28,924,814	123,202,129	121,358,724	194,813,568	226,934,157	235,861,310	931,094,702
Cumulative payments to date	(27,243,211)	(118,266,484)	(114,471,574)	(180,658,621)	(196,612,604)	(122,460,973)	(759,713,467)
Total cumulative net outstanding claims recognised in statement of financial position	<u>1,681,603</u>	<u>4,935,645</u>	<u>6,887,150</u>	<u>14,154,947</u>	<u>30,321,553</u>	<u>113,400,337</u>	<u>171,381,235</u>

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

12 PROPERTY AND EQUIPMENT, NET

The estimated useful lives of property and equipment for the calculation of depreciation are as follows:

Leasehold improvements	6-7 years	Furniture, fixtures and office equipment	6-10 years
Computer equipment and software	4 years	Motor vehicles	4 years

	<i>Leasehold improvements SR</i>	<i>Furniture, fixtures and office equipment SR</i>	<i>Computer equipment and software SR</i>	<i>Motor vehicles SR</i>	<i>Total 2017 SR</i>	<i>Total 2016 SR</i>
<i>Cost:</i>						
Beginning balance	2,359,634	2,238,127	8,003,140	796,202	13,397,103	12,871,746
Additions during the year	121,247	285,262	1,056,485	443,300	1,906,294	953,632
Disposals during the year	(227,276)	(66,283)	(1,180,709)	-	(1,474,268)	(428,275)
	<u>2,253,605</u>	<u>2,457,106</u>	<u>7,878,916</u>	<u>1,239,502</u>	<u>13,829,129</u>	<u>13,397,103</u>
<i>Accumulated depreciation:</i>						
Beginning balance	2,036,266	1,290,041	7,188,023	434,315	10,948,645	10,337,346
Charge for the year (note 19)	130,534	237,370	480,286	174,518	1,022,708	1,037,753
Disposals during the year	(227,276)	(39,143)	(1,177,969)	-	(1,444,388)	(426,454)
	<u>1,939,524</u>	<u>1,488,268</u>	<u>6,490,340</u>	<u>608,833</u>	<u>10,526,965</u>	<u>10,948,645</u>
<i>Net book value:</i>						
<i>At 31 December 2017</i>	<u>314,081</u>	<u>968,838</u>	<u>1,388,576</u>	<u>630,669</u>	<u>3,302,164</u>	
<i>At 31 December 2016</i>	<u>323,368</u>	<u>948,086</u>	<u>815,117</u>	<u>361,887</u>		<u>2,448,458</u>

13 INVESTMENTS

(i) Insurance operations (Available for sale)

(a) Available for sale investments of insurance operations comprise the following:

	<i>Source of fair value</i>	<i>2017 SR</i>	<i>2016 SR</i>
Local "DPM" equity securities*	Quoted	21,134,185	21,382,559
Units in local investment funds	NAV**	10,945,265	11,310,255
Units in local real estate funds	NAV**	9,322,000	10,000,000
		<u>41,401,450</u>	<u>42,692,814</u>

* Managed at the discretion of a local regulated financial institution ("DPM").

** NAV: Net Asset Value as announced by asset manager.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

13 INVESTMENTS (continued)

(b) The movement during the year in available for sale investments are as follows:

	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
At the beginning of the year	42,692,814	45,180,145
Purchased during the year	33,647,942	37,918,858
Sold during the year	(33,360,120)	(37,405,527)
Impaired during the year	(4,206,494)	-
	<u>38,774,142</u>	<u>45,693,476</u>
Change in fair values	2,627,308	(3,000,662)
At the end of the year	<u>41,401,450</u>	<u>42,692,814</u>

The change in fair value of this portfolio amounting to SR (1,454,347) (31 December 2016: SR (2,310,638)) is presented within 'insurance operations surplus' in the statement of financial position and the current year change in fair value has been reported in the statement of insurance comprehensive operations' under 'other comprehensive income (loss) to be reclassified subsequently to the income statement'.

(ii) Shareholders' operations (Available for sale)

(a) Available for sale investments of shareholders operations comprise of the following:

	<i>Source of fair value</i>	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
GCC bonds and sukuks	Quoted	60,168,535	39,323,518
Units in local investment funds	NAV*	9,986,080	18,980,090
Units in local real estate funds	NAV*	45,999,583	31,312,154
Unquoted local equity investment	Unquoted	1,923,078	1,923,078
		<u>118,077,276</u>	<u>91,538,840</u>

* NAV: Net Asset Value as announced by asset manager.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

13 INVESTMENTS (continued)

(b) The movement during the year in available for sale investments are as follows:

	2017 SR	2016 SR
At the beginning of the year	91,538,840	63,101,149
Purchased during the year	57,648,967	49,900,195
Sold during the year	(37,127,040)	(21,547,769)
	<u>112,060,767</u>	<u>91,453,575</u>
Change in fair values	6,016,509	85,265
At the end of the year	<u>118,077,276</u>	<u>91,538,840</u>

The cumulative change in fair values of available for sale investments for the year ended 31 December 2017 amounting to SR 7,010,448 (31 December 2016: SR (126,861)) is presented within shareholders' equity in the statement of financial position.

(ii) Shareholders' operations (Held to maturity)

- (c) Held to Maturity ("HTM") investment amounting to SR 10,000,000 (31 December 2016: SR 10,000,000) are comprised of quoted Sukuk issued by listed companies registered in the Kingdom of Saudi Arabia. The rate of return on the Sukuk are calculated based on 6-month Saudi Arabian Inter-Bank Offered Rate ("SIBOR") plus a specified margin basis points per annum for each Sukuk and paid semi-annually. The fair value of the HTM investment as at 31 December 2017 was not different from its carrying value.

(ii) Shareholders' operations (Investment in associate)

- (d) The Company has a 40% interest in Gulf Warranties Insurance Services Company (the "associate"), which is involved in the administration of insurance claims. The associate is a limited liability company in the Kingdom of Saudi Arabia and is not listed on any public exchange. The associate received its operating license from Saudi Arabian Monetary Agency ("SAMA") on 21 March 2016. The Company has significant influence, therefore this investment has been accounted as an associate as it does not control or jointly control the financial and operating policies of the associate. This investment has increased by SR 778,906 which represents the Company's share of Gulf Warranties audited results for the year ended 31 December 2016.

(iii) The analysis of total investments (insurance and shareholders' operations) by counterparties is as follows:

	2017 SR	2016 SR
Government and quasi government	35,767,439	23,423,939
Banks and financial institutions	22,395,052	18,523,304
Corporates and investment funds	112,536,623	102,725,893
Total	<u>170,699,114</u>	<u>144,673,136</u>

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2017

13 INVESTMENTS (continued)

(iv) *The credit quality of total investments (insurance and shareholders' operations) is as follows:*

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
A- To AA+	32,767,366	26,261,870
BBB- To BBB+	23,666,331	15,684,149
Below BBB- and unrated	114,265,417	102,727,117
Total	<u>170,699,114</u>	<u>144,673,136</u>

Credit ratings are based on Standard and Poor's rating methodology or the issuer in case of unrated investments.

14 DETERMINATION OF FAIR VALUE AND FAIR VALUES HIERARCHY

The following table shows an analysis of financial instruments recorded at fair value (excludes HTM and investment in associate) by level of the fair value hierarchy:

<u>2017</u>	<u>Level 1</u> <u>SR</u>	<u>Level 2</u> <u>SR</u>	<u>Level 3</u> <u>SR</u>	<u>Total</u> <u>SR</u>
Bonds and sukuk	60,168,535	-	-	60,168,535
Investment and real estate funds	20,931,345	55,321,583	-	76,252,928
Equities	21,134,185	-	1,923,078	23,057,263
	<u>102,234,065</u>	<u>55,321,583</u>	<u>1,923,078</u>	<u>159,478,726</u>
<u>2016</u>				
Bonds and sukuk	39,323,518	-	-	39,323,518
Investment and real estate funds	30,290,345	41,312,154	-	71,602,499
Equities	21,382,559	-	1,923,078	23,305,637
	<u>90,996,422</u>	<u>41,312,154</u>	<u>1,923,078</u>	<u>134,231,654</u>

Transfers between levels

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

During the years ended 31 December 2016 and 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.

There was no recurring fair value measurements categorised within Level 3 of the fair value hierarchy as set out in the table above.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2017

15 REINSURANCE AND INSURANCE BALANCES PAYABLE

	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
Payable to policyholders	14,387,592	2,514,678
Payable to healthcare providers	6,947,424	448,841
Brokers and salesmen commissions payable	6,880,952	6,730,076
Reinsurance balances payable	2,833,089	5,682,409
Other insurance payables	2,085,147	1,822,487
	<u>33,134,204</u>	<u>17,198,491</u>

16 ACCRUED EXPENSES AND OTHER LIABILITIES

	<i>2017</i>		<i>2016</i>	
	<i>Insurance operations</i> <i>SR</i>	<i>Shareholders' operations</i> <i>SR</i>	<i>Insurance operations</i> <i>SR</i>	<i>Shareholders' operations</i> <i>SR</i>
Excess of loss premiums and reinsurance commissions adjustments accruals	13,182,823	-	3,769,015	-
Third party claims payables	8,117,979	-	6,936,051	-
Employees' related accruals and payables	7,321,009	-	7,289,683	-
Board of directors and committee's remuneration fees and expenses	-	1,841,571	-	2,918,350
Others	1,972,350	533,442	1,023,106	390,080
	<u>30,594,161</u>	<u>2,375,013</u>	<u>19,017,855</u>	<u>3,308,430</u>

17 EMPLOYEES' END OF SERVICE BENEFITS

The following tables summarise the components of end of service benefits recognised in the statement of insurance comprehensive operation income, accumulated surplus and amounts recognised in the statement of comprehensive income and statement of financial position of insurance operations:

Amount recognised in the statement of financial position	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
Present value of end of service benefits	8,912,564	5,647,053
Fair value of plan assets	-	-
Net liability at end of the year	<u>8,912,564</u>	<u>5,647,053</u>
 Benefit expense (recognised in profit or loss)	 <i>2017</i> <i>SR</i>	 <i>2016</i> <i>SR</i>
Current service costs	1,692,773	1,949,643
Commission rate costs	267,050	-
Benefit expense (recognised in profit or loss)	<u>1,959,823</u>	<u>1,949,643</u>

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2017

17 EMPLOYEES' END OF SERVICE BENEFITS (continued)

	2017	2016
	SR	SR
Movement in the present value of end of service benefits		
End of service benefits at beginning of the year	5,647,053	3,825,949
Current service costs	1,692,773	1,949,643
Commission rate costs	267,050	-
Actuarial loss from experience adjustments	1,902,786	-
Benefits paid	(597,098)	(128,539)
Present value of end of service benefits at end of the year	<u>8,912,564</u>	<u>5,647,053</u>
Movement in net liability recognised in balance sheet	2017	2016
	SR	SR
Net liability at beginning of the year	5,647,053	3,825,949
Charge recognised in profit or loss	1,959,823	1,949,643
Actuarial loss recognised in other comprehensive income	1,902,786	-
Benefits paid	(597,098)	(128,539)
Net liability at end of the year	<u>8,912,564</u>	<u>5,647,053</u>
Principal actuarial assumption	2017	2016
Discount rate	4.50%	-
Salary increase rate	6.73%	-

18 GENERAL AND ADMINISTRATIVE EXPENSES

	2017		2016	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
	SR	SR	SR	SR
Employees' salaries and related costs	42,245,120	-	39,725,839	-
Office rent	4,119,150	-	3,639,971	-
Legal and professional fees	3,412,942	-	1,489,814	-
Utilities and telecommunications	1,633,776	-	1,349,103	-
Depreciation (note 12)	1,022,708	-	1,037,753	-
Stationery and office supplies	658,774	-	630,643	-
Information technology expenses	676,531	-	387,343	-
Withholding taxes	354,906	-	607,484	-
Board of Directors and committees remuneration fees and expenses	-	1,791,384	-	1,776,000
Listing fees	-	343,699	-	300,000
Others	1,602,680	422,966	1,387,075	803,542
	<u>55,726,587</u>	<u>2,558,049</u>	<u>50,255,025</u>	<u>2,879,542</u>

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

19 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) *The following are the details of major related party transactions during the year, and the related balances at the end of the year:*

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amounts of transactions</i>		<i>Balance as at</i>	
		<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
		<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Shareholders	Gross written premiums	12,878,064	12,652,911	12,500,723	9,716,767
	Reinsurance premium ceded	(3,001,002)	(1,859,842)	(1,164,406)	(222,805)
	Gross claims incurred	(3,275,493)	(1,376,559)	-	-
Board of Directors and committees' members	Remuneration fees, allowances and other expense	(1,791,384)	(1,776,000)	(1,841,571)	(2,918,350)
	Gross written premiums	14,095,794	13,466,282	4,315,317	3,114,451
	Insurance brokerage contracts	(2,219,406)	(3,375,914)	(1,556,714)	(1,740,780)
Associate	General and administrative expenses paid on behalf of the associate	-	-	844,638	851,788

Balances in respect of the above transactions with related parties are included in the relevant accounts in the statements of financial position and comprehensive income.

b) *Compensation of key management personnel*

Key management personnel of the Company include senior management. The summary of compensation of key management personnel for the year is as follows:

	<i>2017</i>	<i>2016</i>
	<i>SR</i>	<i>SR</i>
Short-term benefits	5,478,917	4,780,100
End of service benefits	424,340	462,271
	<u>5,903,257</u>	<u>5,242,371</u>

20 STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid up capital of the Company which is maintained with a bank designated by SAMA in accordance with the Cooperative Insurance Companies Control Law for insurance companies. This statutory deposit cannot be withdrawn without the consent of SAMA.

Accrued interest on the statutory deposit amounting to SR 527,829 (31 December 2016: SR 399,070) has been presented in the statement of financial position.

21 SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 250 Million divided into 25 million shares of SR 10 each.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

22 STATUTORY RESERVE

In accordance with the Company's By-laws and in compliance with Article 70 (2) of the Insurance Implementing Regulations of SAMA, the Company allocates 20% of net shareholders' income each year to the statutory reserve until this reserve equals to 100% of the paid capital. The statutory reserve is not available for distribution to shareholders until liquidation of the Company.

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year have been calculated by dividing the net income for the year by the number of issued and outstanding shares at the year end of 25 million shares.

24 ZAKAT

The movement in provision during the year is set out below:

	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
At the beginning of the year	20,492,110	14,691,356
Provided during the year	10,474,699	8,179,358
Payments during the year	(5,125,940)	(2,378,604)
At the end of the year	<u>25,840,869</u>	<u>20,492,110</u>

The provision for the year is based on the following:

	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
Shareholders' equity	315,192,328	232,402,358
Dividends distributed	(12,500,000)	-
Book value of long term assets	(6,445,630)	(29,813,018)
Provisions	<u>22,911,908</u>	<u>25,084,231</u>
	319,158,606	227,673,571
Adjusted income for the year	<u>99,829,309</u>	<u>99,500,749</u>
Zakat base	<u>418,987,915</u>	<u>327,174,320</u>

Status of assessments

The Company has filed its zakat returns for all the years ended up to 31 December 2016.

On review of the zakat return by the General Authority of Zakat and Tax ("GAZT") for the long period ended 31 December 2010, a demand of SR 2,256,659 was raised by the GAZT. The Company paid this demand and filed an appeal with GAZT. During 2014, GAZT revised its assessment of the zakat return for the long period ended 31 December 2010 after taking into consideration the effect of portfolio transfer and raised an additional demand of SR 64,738. The Company paid this demand. The final assessment has not yet been carried out by the GAZT.

On review of the zakat return by the GAZT for the year 2011, a demand of SR 2,378,604 has been raised by the GAZT. The Company paid this demand and filed an appeal with GAZT. The final assessments have not yet been carried out by the GAZT.

On review of the zakat return by the GAZT for the years 2012, 2013 and 2014 a demand of SR 544,407, SR 2,885,577 and SR 2,885,577 respectively, have been raised by the GAZT. However, the Company has filed appeals with the GAZT. These appeals are in progress. The final assessments have not yet been carried out by the GAZT.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

25 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. The Company is exposed to insurance, reinsurance, commission rate, credit, liquidity and currency 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 the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior management

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

Risk Management and Audit committees

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

The risks faced by the Company and the way these risks are mitigated by management are summarised below.

a) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands. The Company underwrites mainly property and fire, general accident, engineering, motor, medical and marine risks.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly property, engineering, motor, general accidents, medical and marine classes. These classes of insurance except for long tail engineering policies are general regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company only underwrites comprehensive policies for owner/drivers over 21 years of age.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims. The Company also has risk management procedures to control cost of claims. The Company has reinsurance excess of loss cover to limit the losses for any individual claim to SR 750,000 (2016: SR 750,000).

Property

For property insurance contracts the main risks are fire and business interruption. The Company only underwrites policies for properties containing fire detection equipment. These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. Besides treaty and facultative reinsurance arrangements, the Company has reinsurance excess of loss cover to limit losses for any individual claim to SR 500,000 (2016: SR 500,000).

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

25 RISK MANAGEMENT (continued)

a) Insurance risk (continued)

General accident and liability

For general accident contracts, the various insurance covers provided by the Company can be broadly classified under Personal Accident (excluding illness), Fidelity Guarantee, and Cash in Transit, Cash in Premises, Cash in Safe, Public Liability, Workmen's Compensation, Medical Malpractice and the like. These insurances afford protection for business enterprises towards loss or damage to person, property and interest giving cover per collusion accumulation as well. Besides treaty and facultative reinsurance arrangements, the Company has reinsurance excess of loss cover to limit losses for any individual claim to SR 500,000 (2016: SR 500,000).

Marine

For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. Besides treaty and facultative reinsurance arrangements, the Company has reinsurance excess of loss cover to limit losses for any individual claim to SR 500,000 (2016: SR 500,000).

Engineering

For engineering the main risks is loss or damage to buildings and civil work under construction like erection for plant or equipment and their related testing and commissioning. Engineering policies extend beyond annual periods in respect of tenure. The Company mitigates such risks by recognition of lower earned premiums during the first year of long-term policies and reinsures significant risks by undertaking treaty, facultative as well as excess of loss reinsurance arrangements.

The underwriting policy is to ensure that construction all risks are comprehensive in terms of documentation of specific coverage and the risks are well diversified. Engineering all risks cover normally plant and machinery erection and is usually extended beyond erection to include testing and commissioning. Besides treaty and facultative reinsurance arrangements, the Company has reinsurance excess of loss cover to limit losses for any individual claim to SR 500,000 (2016: SR 500,000).

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. A hypothetical 10% change in the net claims ratio would impact income by approximately SR 27.8 million (2016: SR 21.5 million) annually in aggregate.

b) Reinsurance risk

In order to minimise its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for reinsurance purpose. 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. Reinsurance program is effected under treaty, facultative and excess of loss reinsurance contracts. To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk arising from similar geographic regions, activities and economic characteristics of reinsurers.

Reinsurance ceded contracts do not relieve the Company from its obligations to the policyholders and as a result the Company remains liable for a portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The credit exposure for outstanding claims in this connection is SR 101.5 million (2016: 100.6 million).

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2017

25 RISK MANAGEMENT (continued)

c) Credit risk

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

- The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables 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 deals with only those reinsurers who have a credit rating of not less than BBB. These credit ratings are monitored on a yearly basis.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company investment portfolio is managed by the management in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks and financial institutions having strong financial positions and credit ratings.

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

	2017		2016	
	<i>Insurance'</i> <i>operations</i>	<i>Shareholders'</i> <i>operations</i>	<i>Insurance'</i> <i>operations</i>	<i>Shareholders'</i> <i>operations</i>
<i>Assets</i>				
Cash and cash equivalents	194,470,790	44,405,740	209,890,732	103,520,629
Time deposits	333,373,598	79,817,228	207,468,182	-
Premiums and reinsurance balances receivable, net	39,876,887	-	38,215,596	-
Investments	41,401,450	128,077,276	42,692,814	101,538,840
Reinsurers' share of outstanding claims	101,460,176	-	100,594,541	-
Statutory deposit	-	25,527,829	-	25,399,070
Other assets	8,274,115	1,333,959	5,921,239	699,217
	<u>718,857,016</u>	<u>279,162,032</u>	<u>604,783,104</u>	<u>231,157,756</u>

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

25 RISK MANAGEMENT (continued)

d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations and commitment associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and the Company manages this risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Company's assets in highly liquid financial assets.

Maturity table

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

31 December 2017						
	Insurance operations			Shareholders' operations		
	Up to one year SR	No term SR	Total SR	Up to one year SR	No term SR	Total SR
ASSETS						
Statutory deposit	-	-	-	-	25,527,829	25,527,829
Prepayments and other assets	10,330,456	4,921,924	15,252,380	2,303,935	-	2,303,935
Reinsurers' share of outstanding claims	101,460,176	-	101,460,176	-	-	-
Premiums and reinsurance balances receivable, net	39,876,887	-	39,876,887	-	-	-
Due from insurance operations	-	-	-	144,367,831	-	144,367,831
Available for sale investments	41,401,450	-	41,401,450	116,154,198	1,923,078	118,077,276
Time deposits	333,373,598	-	333,373,598	79,817,228	-	79,817,228
Cash and cash equivalents	194,470,790	-	194,470,790	44,405,740	-	44,405,740
TOTAL ASSETS	720,913,357	4,921,924	725,835,281	387,048,932	27,450,907	414,499,839
31 December 2017						
	Insurance operations			Shareholders' operations		
	Up to one year SR	No term SR	Total SR	Up to one year SR	No term SR	Total SR
LIABILITIES						
Gross outstanding claims	314,244,478	-	314,244,478	-	-	-
Employees' end of service benefits	-	8,912,564	8,912,564	-	-	-
Reinsurance and insurance balances payable	33,134,204	-	33,134,204	-	-	-
Zakat payable	-	-	-	25,840,869	-	25,840,869
Accrued expenses and other liabilities	30,594,161	-	30,594,161	2,375,013	-	2,375,013
Due to shareholders' operations	144,367,831	-	144,367,831	-	-	-
TOTAL LIABILITIES	522,340,674	8,912,564	531,253,238	28,215,882	-	28,215,882

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

25 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

	31 December 2016					
	Insurance operations			Shareholders' operations		
	Up to one year SR	No term SR	Total SR	Up to one year SR	No term SR	Total SR
ASSETS						
Statutory deposit	-	-	-	-	25,000,000	25,000,000
Prepayments and other assets	12,630,131	4,103,823	16,733,954	1,551,006	-	1,551,006
Reinsurers' share of outstanding claims	100,594,541	-	100,594,541	-	-	-
Premiums and reinsurance balances receivable, net	38,215,596	-	38,215,596	-	-	-
Due from shareholders' operations	-	-	-	106,814,050	-	106,814,050
Available for sale investments	42,692,814	-	42,692,814	89,615,762	1,923,078	91,538,840
Time deposits	207,468,182	-	207,468,182	-	-	-
Cash and cash equivalents	209,890,732	-	209,890,732	103,520,629	-	103,520,629
TOTAL ASSETS	611,491,996	4,103,823	615,595,819	301,501,447	26,923,078	328,424,525

	31 December 2016					
	Insurance operations			Shareholders' operations		
	Up to one year SR	No term SR	Total SR	Up to one year SR	No term SR	Total SR
LIABILITIES						
Gross outstanding claims	271,975,776	-	271,975,776	-	-	-
Employees' end of service benefits	-	5,647,053	5,647,053	-	-	-
Reinsurance and insurance balances payable	17,198,491	-	17,198,491	-	-	-
Zakat payable	-	-	-	20,492,110	-	20,492,110
Accrued expenses and other liabilities	19,017,855	-	19,017,855	3,308,430	-	3,308,430
Due to shareholders' operations	106,814,050	-	106,814,050	-	-	-
TOTAL LIABILITIES	415,006,172	5,647,053	420,653,225	23,800,540	-	23,800,540

To manage the liquidity risk arising from financial liabilities mentioned above, the Company holds liquid assets comprising cash and cash equivalents and investments securities for which there is an active market. These assets can be readily sold to meet liquidity requirements.

e) Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to special commission rate risk on its cash and cash equivalents. The sensitivity of the income is the effect of assumed changes in special commission rates, with all other variables held constant, on the Company's income for one year, based on the floating rate financial assets held at 31 December 2016. The Company had a floating rate HTM investment of SR 10,000,000 as at 31 December 2017 (2016: SR 10,000,000) and the impact of any commission rate changes on the net income of this investment is not expected to be significant.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

25 RISK MANAGEMENT (continued)

f) Currency risk

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in Saudi Riyals or currencies pegged to the Saudi Riyal.

g) Market price risk

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

The Company has investments in quoted 'sukuks', fixed rate bonds and locally quoted equities and investment funds (see note 13), which have been classified under 'available for sale' investments. The Company limits its market price risks by closely monitoring developments in markets in which such investments are quoted. A 5% change in the market price of these quoted investments, with all other variables held constant, would change the 'other comprehensive income' and consequently 'shareholders' equity (for investments held under shareholders' operations) by SR 3.51 million (2016: SR 2.91 million) and insurance operations' surplus (for investments held under insurance operations) by SR 1.66 million (2016: SR 1.63 million).

h) Capital management

The Company manages its capital to ensure that it is able to continue as going concern and comply with regulator's capital requirements in the Kingdom of Saudi Arabia while maximising the return to stakeholders through the equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital and reserves.

The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to 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.

i) Fair values of financial instruments

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Company include cash and cash equivalents, statutory deposit, investments, premiums and reinsurance balances receivables, and reinsurers' share of outstanding claims; its financial liabilities consist of gross outstanding claims, reinsurance and insurance balances payable, accrued expenses and other liabilities. Accounting policies for financial assets and liabilities are set out in note 4.

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The fair value of the Company's financial assets and liabilities are not materially different from their carrying values.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

26 SEGMENT INFORMATION

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

Segment results do not include general and administrative expenses, allowance for doubtful debts, income on term deposits and available for sale investments, gain or loss on property, plant and equipment and investments. Accordingly, they are included in unallocated assets.

Segment assets do not include insurance operations' property and equipment, prepayments and other assets, premiums and reinsurance balances receivable and cash and cash equivalents. Accordingly they are included in unallocated assets. Segment liabilities do not include insurance operations' due to shareholders operations, employees' end-of-service benefits, and reinsurance and insurance balances payable, accrued expenses and other liabilities and insurance operations' surplus. Accordingly they are included in unallocated liabilities.

Operating segments

<i>For the year ended 31 December 2017</i>	<i>Motor SR</i>	<i>Medical SR</i>	<i>Property SR</i>	<i>Marine SR</i>	<i>Others SR</i>	<i>Total SR</i>
Gross written premiums	276,899,240	190,284,636	14,268,803	8,820,217	21,235,855	511,508,751
Reinsurance premiums ceded	-	-	(11,391,258)	(5,230,986)	(11,771,319)	(28,393,563)
Excess of loss premiums	(8,868,326)	(7,532,312)	(687,217)	(892,639)	(1,025,244)	(19,005,738)
Net premiums written	268,030,914	182,752,324	2,190,328	2,696,592	8,439,292	464,109,450
Movement in unearned premiums, net	339,648	(1,246,201)	54,977	(53,114)	(985,315)	(1,890,005)
Net premiums earned	268,370,562	181,506,123	2,245,305	2,643,478	7,453,977	462,219,445
Reinsurance commission income	-	-	2,231,420	3,596,635	2,183,391	8,011,446
Policy fees and other underwriting income	17,396,126	-	30,720	193,100	101,110	17,721,056
Total revenues	285,766,688	181,506,123	4,507,445	6,433,213	9,738,478	487,951,947
Net claims paid	(167,955,245)	(62,109,974)	(473,148)	(1,199,440)	(1,373,068)	(233,110,875)
Movement in outstanding claims, net	(2,123,422)	(35,093,705)	(1,898,366)	36,727	(2,324,301)	(41,403,067)
Movement in other reserves	(1,769,355)	(1,559,132)	(5,269)	-	(267,678)	(3,601,434)
Net claims incurred	(171,848,022)	(98,762,811)	(2,376,783)	(1,162,713)	(3,965,047)	(278,115,376)
Policy acquisition costs	(21,737,723)	(19,255,206)	(1,142,920)	(683,233)	(1,325,493)	(44,144,575)
Inspection and supervision fees	(1,377,989)	(2,854,269)	(50,081)	(40,407)	(96,037)	(4,418,783)
Other underwriting expenses	(1,004,873)	(10,278,229)	(9,501)	-	(364)	(11,292,967)
Total underwriting costs	(195,968,607)	(131,150,515)	(3,579,285)	(1,886,353)	(5,386,941)	(337,971,701)
Net underwriting surplus	89,798,081	50,355,608	928,160	4,546,860	4,351,537	149,980,246
Unallocated expenses						(55,847,635)
Unallocated income						8,087,064
Surplus from insurance operations						102,219,675

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

26 SEGMENT INFORMATION (continued)

Operating segments

<i>For the year ended 31 December 2016</i>	<i>Motor SR</i>	<i>Medical SR</i>	<i>Property SR</i>	<i>Marine SR</i>	<i>Others SR</i>	<i>Total SR</i>
Gross written premiums	238,501,613	147,366,420	16,203,134	8,677,028	26,817,532	437,565,727
Reinsurance premiums ceded	(74,765)	-	(13,214,332)	(5,152,811)	(16,591,756)	(35,033,664)
Excess of loss premiums	(8,086,828)	(2,866,657)	(925,973)	(1,659,450)	(791,345)	(14,330,253)
Net premiums written	230,340,020	144,499,763	2,062,829	1,864,767	9,434,431	388,201,810
Movement in unearned premiums, net	17,167,522	(4,452,686)	473,853	342,441	(2,976,344)	10,554,786
Net premiums earned	247,507,542	140,047,077	2,536,682	2,207,208	6,458,087	398,756,596
Reinsurance commission income	54,303	-	3,016,511	3,326,155	1,989,554	8,386,523
Policy fees and other underwriting income	12,821,117	-	32,145	224,950	68,470	13,146,682
Total revenues	260,382,962	140,047,077	5,585,338	5,758,313	8,516,111	420,289,801
Net claims paid	(152,226,353)	(26,879,470)	(113,196)	(600,002)	(535,437)	(180,354,458)
Movement in outstanding claims, net	(13,926,684)	(12,862,154)	(1,116,212)	772,045	(1,914,873)	(29,047,878)
Movement in other reserves	(1,280,922)	(117,311)	(3,653,584)	-	(177,270)	(5,229,087)
Net claims incurred	(167,433,959)	(39,858,935)	(4,882,992)	172,043	(2,627,580)	(214,631,423)
Policy acquisition costs	(19,499,171)	(14,389,768)	(1,729,722)	(783,616)	(1,380,583)	(37,782,860)
Inspection and supervision fees	(1,186,202)	(2,210,499)	(44,150)	(39,169)	(122,146)	(3,602,166)
Other underwriting expenses	(600,246)	(7,828,131)	(40,451)	-	-	(8,468,828)
Total underwriting costs	(188,719,578)	(64,287,333)	(6,697,315)	(650,742)	(4,130,309)	(264,485,277)
Net underwriting surplus (deficit)	71,663,384	75,759,744	(1,111,977)	5,107,571	4,385,802	155,804,524
Unallocated expenses						(56,836,803)
Unallocated income						1,356,851
Surplus from insurance operations						100,324,572

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2017

26 SEGMENT INFORMATION (continued)

Operating segments
As at 31 December 2017

	<i>Motor SR</i>	<i>Medical SR</i>	<i>Property SR</i>	<i>Marine SR</i>	<i>Others SR</i>	<i>Total SR</i>
ASSETS						
Reinsurers' share of unearned premiums	-	-	4,234,751	989,943	5,538,815	10,763,509
Reinsurers' share of outstanding claims	18,838,183	3,155,217	48,740,442	13,267,995	17,458,339	101,460,176
Deferred policy acquisition costs	7,615,946	6,721,244	311,415	132,593	1,125,933	15,907,131
SEGMENT ASSETS	26,454,129	9,876,461	53,286,608	14,390,531	24,123,087	128,130,816
Unallocated assets						627,677,269
TOTAL ASSETS						755,808,085
LIABILITIES						
Gross unearned premiums	114,359,594	68,979,126	5,032,936	1,698,716	13,573,241	203,643,613
Gross outstanding claims	151,236,337	64,580,837	54,621,672	18,479,603	25,326,029	314,244,478
Unearned reinsurance commission	-	-	804,429	384,226	524,885	1,713,540
Other reserves	6,387,194	1,676,443	3,780,882	-	488,340	12,332,859
SEGMENT LIABILITIES	271,983,125	135,236,406	64,239,919	20,562,545	39,912,495	531,934,490
Unallocated liabilities and surplus						223,873,595
TOTAL LIABILITIES AND SURPLUS						755,808,085

Operating segments
As at 31 December 2016

	<i>Motor SR</i>	<i>Medical SR</i>	<i>Property SR</i>	<i>Marine SR</i>	<i>Others SR</i>	<i>Total SR</i>
ASSETS						
Reinsurers' share of unearned premiums	-	-	4,468,829	887,499	7,654,930	13,011,258
Reinsurers' share of outstanding claims	14,460,770	1,538,613	59,598,285	8,741,312	16,255,561	100,594,541
Deferred policy acquisition costs	8,080,291	6,610,015	374,001	121,509	927,218	16,113,034
SEGMENT ASSETS	22,541,061	8,148,628	64,441,115	9,750,320	24,837,709	129,718,833
Unallocated assets						517,449,736
TOTAL ASSETS						647,168,569
LIABILITIES						
Gross unearned premiums	114,699,242	67,732,925	5,321,991	1,543,158	14,704,041	204,001,357
Gross outstanding claims	144,735,502	27,870,528	63,581,149	13,989,647	21,798,950	271,975,776
Unearned reinsurance commission	-	-	813,904	341,274	598,503	1,753,681
Other reserves	4,617,839	117,311	3,775,613	-	220,662	8,731,425
SEGMENT LIABILITIES	264,052,583	95,720,764	73,492,657	15,874,079	37,322,156	486,462,239
Unallocated liabilities and surplus						160,706,330
TOTAL LIABILITIES AND SURPLUS						647,168,569

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2017

27 PRIOR YEAR RESTATEMENT

Further to the new SAMA's circular (number 381000074519) regarding the accounting policy of Zakat and income tax (Note 4), below is the restatement impact on the comparative financial statements:

Financial Position – shareholders' equity as at 31 December 2016 and statement of shareholders' comprehensive operations for the year ended 31 December 2016

	<u>Before Adjustment</u>	<u>Adjustment</u>	<u>After Adjustment</u>
Accumulated losses as at 1 January 2016	(17,597,642)	-	(17,597,642)
Income before Zakat for the year ended 31 December 2016	90,969,328	-	90,969,328
Zakat	(8,179,358)	8,179,358	-
Net Income for the year ended 31 December 2016	82,789,970	8,179,358	90,969,328
Statutory Reserve as at 31 December 2016	13,038,466	1,635,872*	14,674,338
Retained Earnings as at 31 December 2016	52,153,862	(1,635,872)*	50,517,990

*The above mentioned adjustment was carried out to the net income, statutory reserve and retained earnings for the year ended and as of 31 December 2016 as a result of the Zakat restatement from income statement to the statement of shareholders' equity following the new accounting policy of Zakat and Income Tax as disclosed in Note 4 whereby there was no effect on the total shareholders' equity as of 31 December 2016.

Statement of Shareholders' Comprehensive Income – (for the year ended 31 December 2016)

	<u>Before Adjustment</u>	<u>Adjustment</u>	<u>After Adjustment</u>
Net Income before Zakat for the year ended 31 December 2016	90,969,328	-	90,969,328
Zakat for the year ended 31 December 2016	(8,179,358)	8,179,358*	-
Net Income for the year ended 31 December 2016	82,789,970	8,179,358*	90,969,328
Total Comprehensive Income for the year ended 31 December 2016	82,027,553	8,179,358*	90,206,911
Basic and Diluted Earnings per Share for the year	3.31	0.33	3.64

*The above mentioned adjustment was carried out to the net income/comprehensive income for the year ended 31 December 2016 as a result of the Zakat restatement from income statement to the statement of shareholders' equity following the new accounting policy of Zakat and Income Tax as disclosed in Note 4.

28 DIVIDENDS DISTRIBUTION

On 6 April 2017, the Company's board of directors has recommended a dividend distribution with regards to the year ended 31 December 2016 amounting to SR 12.5 million for a total number of entitled shares of 25 million each of which is entitled to SR 0.5 which represents 5% of the par value thereof. The above proposed dividend was approved by the Company's general assembly extraordinary meeting that was held on 22 May 2017 and the dividend was paid on 6 June 2017.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

29 CONTINGENCIES AND COMMITMENTS

a) Legal proceedings and regulations

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 proceedings (including litigations) will have a material effect on its results and financial position. The Company did not have any significant outstanding legal proceedings as at the reporting date.

b) Operating lease commitments

The minimum future lease payments for the use of the Company's premises total SR 3,996,260 payable during 2018 (2017: SR 3,850,730).

30 COMPARATIVE FIGURES

Certain figures in the notes to the financial statements for the year ended 31 December 2016 have been reclassified to conform to the presentation of the current year.

31 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 6 March 2018 (corresponding to 18 Jumada Al-Thani 1439H).