
**AL ALAMIYA FOR COOPERATIVE INSURANCE
COMPANY
(A SAUDI JOINT STOCK COMPANY)**

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

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**Financial Statements and Independent Auditors' Report
For the Year Ended 31 December 2017**

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Certified Public Accountants

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Independent Auditors' Report
To the Shareholders of Al Alamiya for Cooperative Insurance Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
<p><u>Gross Outstanding claims</u></p> <p>The Company as at 31 December 2017, has gross outstanding claims including claims incurred but not reported (IBNR) amounting to SR 165,707,733 as reported in Note 10(d) of the financial statements.</p> <p>The valuation of gross outstanding claims is the key judgmental area for management given the level of subjectivity inherent in estimating the impact of claim events that have occurred for which the ultimate outcome remains uncertain.</p> <p>The Company uses a range of actuarial methodologies to estimate these claims. This require significant judgments relating to factors and assumptions such as inflation, claims development pattern and regulatory requirements.</p> <p>Due to significance of amount involved and the exercise of significant judgment by management in the process for determination of gross outstanding claims, we have determined it to be a key audit matter.</p> <p><i>Refer to notes 2(d)(i) which discloses the estimated liability arising from claims under insurance contracts and note 4(i) which discloses accounting policies for claims.</i></p>	<p>We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes for claims processing and payment, including controls over the completeness and accuracy of the claim estimates recorded.</p> <p>We performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves.</p> <p>Using actuarial specialists we performed re-projections on claims incurred but not reported relating to selected operating segments, where we compared our re-projected claims incurred but not reported to those booked by management, and sought to understand any significant differences. For the remaining operating segments, we assessed the reasonableness of methodologies and assumptions used by the management against recognized actuarial practices and industry standards to identify and evaluate any anomalies.</p> <p>We evaluated the completeness and accuracy of data used by management in their calculation of gross outstanding claims; and evaluated the results of liability adequacy test.</p>



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Other Information

The management of the Company are responsible for the other information. The other information comprises the information included in the annual report but does not include 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 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 the Management and Those Charged with Governance for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



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

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

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

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



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Independent Auditors' Report
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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.

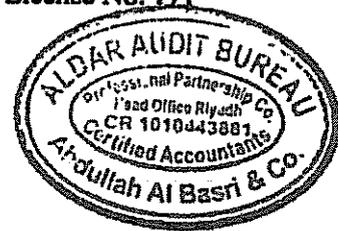
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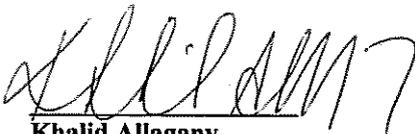
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29 March 2018

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION

As at 31 December

	<i>Notes</i>	2017 SR	2016 SR
INSURANCE OPERATIONS' ASSETS			
Cash and bank balances	5	15,010,117	25,392,144
Term deposits	6	181,537,208	173,980,565
Investments	7(a)	1,923,079	1,923,079
Premium and insurance balances receivable	9	81,184,580	64,217,031
Due from related parties	23	31,065	3,738,030
Due from shareholders' operations		--	10,331,206
Reinsurers' share of unearned premiums	10(a)	49,139,985	65,177,646
Reinsurers' share of outstanding claims	10(d)	66,883,318	59,932,896
Deferred policy acquisition costs	10(b)	3,791,590	4,145,586
Prepayments and other assets	11	2,949,754	2,341,448
Property and equipment	13	685,954	159,872
TOTAL INSURANCE OPERATIONS' ASSETS		403,136,650	411,339,503
SHAREHOLDERS' ASSETS			
Cash and bank balances	5	1,641,181	208,948
Term deposits	6	252,567,514	253,669,070
Investments	7(b)	75,354,830	75,877,200
Due from insurance operations		29,936,364	--
Prepayments and other assets	11	2,429,954	1,624,061
Statutory deposit	12	40,000,000	40,000,000
Return on investment of statutory deposit	12	2,203,640	1,241,902
TOTAL SHAREHOLDERS' ASSETS		404,133,483	372,621,181
TOTAL INSURANCE OPERATIONS AND SHAREHOLDERS' ASSETS		807,270,133	783,960,684


Khalid Allagany
Chief Executive Officer


Fadi Aboul Hosn
Chief Financial Officer

The accompanying notes 1 to 27 form an integral part of these financial statements.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December

	<i>Notes</i>	2017 SR	2016 SR
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Gross outstanding claims	10(d)	165,707,733	170,703,351
Gross unearned premiums	10(a)	100,103,327	120,085,145
Accounts payable		13,018,837	9,549,217
Due to shareholders' operations		29,936,364	--
Reinsurance balances payable		40,721,047	54,019,105
Due to related parties	23	650,776	854,256
Accrued expenses and other liabilities	14	29,671,446	31,471,807
Unearned reinsurance commission	10(c)	4,464,666	6,906,953
Employees' end of service benefits	25	10,921,726	9,803,018
TOTAL INSURANCE OPERATIONS' LIABILITIES		395,195,922	403,392,852
INSURANCE OPERATIONS' SURPLUS			
Accumulated surplus		9,615,756	7,946,651
Actuarial reserves for employee benefits	25	(1,675,028)	--
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		403,136,650	411,339,503
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Due to insurance operations		--	10,331,206
Due to a related party	23	413,035	1,061,027
Deferred return on investment of statutory deposit	12	2,203,640	1,241,902
Accrued expenses and other liabilities	14	34,652,071	29,031,265
TOTAL SHAREHOLDERS' LIABILITIES		37,268,746	41,665,400
SHAREHOLDERS' EQUITY			
Share capital	17	400,000,000	400,000,000
Fair value reserve for available for sale investments		(860,444)	(688,369)
Accumulated losses		(32,274,819)	(68,355,850)
TOTAL SHAREHOLDERS' EQUITY		366,864,737	330,955,781
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		404,133,483	372,621,181
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		807,270,133	783,960,684



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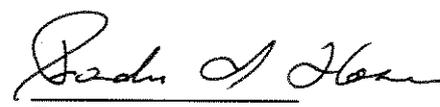
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(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME – INSURANCE OPERATIONS

For the year ended 31 December

	Notes	2017 SR	2016 SR
Gross written premiums	10(a)	263,369,386	310,750,744
Less: Reinsurance premium ceded	10(a)	(108,145,975)	(142,005,815)
Excess of loss premiums	10(a)	(8,854,667)	(8,146,220)
NET WRITTEN PREMIUMS		146,368,744	160,598,709
Changes in unearned premiums		19,981,818	38,303,855
Changes in reinsurers' share of unearned premiums		(16,037,661)	8,394,395
NET PREMIUMS EARNED		150,312,901	207,296,959
Gross claims paid	10(d)	(90,479,346)	(190,962,395)
Reinsurers' share of gross claims paid	10(d)	31,909,569	97,004,634
Changes in outstanding claims		4,995,618	89,450,875
Changes in reinsurers' share of outstanding claims		6,950,422	(97,192,684)
NET CLAIMS INCURRED		(46,623,737)	(101,699,570)
Policy acquisition costs	10(b)	(25,420,547)	(20,893,080)
Reinsurance commission income	10(c)	22,289,939	16,999,892
Other underwriting expenses		(1,383,365)	(1,579,504)
NET UNDERWRITING SURPLUS		99,175,191	100,124,697
General and administrative expenses	20	(57,102,366)	(57,183,073)
Investment income		2,941,812	3,063,725
Other income		15,870	421,006
INSURANCE OPERATIONS' SURPLUS		45,030,507	46,426,355
Shareholders' appropriation from insurance operations' surplus	2(a)	(40,527,456)	(41,783,720)
NET SURPLUS FOR THE YEAR		4,503,051	4,642,635
OTHER COMPREHENSIVE INCOME		--	--
<i>Item that will not be reclassified to the statement of income</i>			
Re-measurements of defined benefit liability – employee benefits	25	(1,675,028)	--
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,828,023	4,642,635


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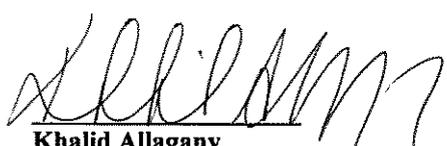
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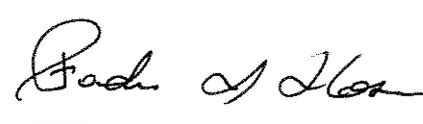
AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME – SHAREHOLDERS’ OPERATIONS

For the year ended 31 December

	<i>Notes</i>	2017 SR	2016 SR
INCOME			
Shareholders’ appropriation from insurance operations’ surplus	2(a)	40,527,456	41,783,720
Investment income		5,763,492	6,297,116
		<u>46,290,948</u>	<u>48,080,836</u>
General and administrative expenses	20	(1,805,936)	(1,579,299)
Realised loss on available for sale investments		--	(155,072)
NET INCOME FOR THE YEAR		<u>44,485,012</u>	<u>46,346,465</u>
OTHER COMPREHENSIVE INCOME			
<i>Item that will be reclassified subsequently to net income when conditions are met in future</i>			
Change in fair value of available for sale investments	8	(172,075)	442,420
Transferred to realized loss on disposal of available for sale investment		--	155,072
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>44,312,937</u>	<u>46,943,957</u>
BASIC AND DILUTED EARNING PER SHARE FOR THE YEAR	18	<u>1.11</u>	<u>1.16</u>
WEIGHTED AVERAGE NUMBER OF ISSUED SHARES	18	<u>40,000,000</u>	<u>40,000,000</u>


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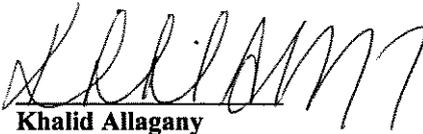
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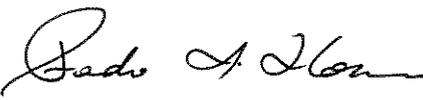
AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December

	<i>Share Capital SR</i>	<i>Fair value reserve for available for sale investments SR</i>	<i>Accumulated losses SR</i>	<i>Total SR</i>
Balance at 1 January 2017	400,000,000	(688,369)	(68,355,850)	330,955,781
Net profit for the year	--	--	44,485,012	44,485,012
<i>Other comprehensive income:</i> Change in fair value of available for sale investments	--	(172,075)	--	(172,075)
Total comprehensive income		(172,075)	44,485,012	44,312,937
Charge for zakat - note 16(c)	--	--	(6,697,498)	(6,697,498)
Charge for tax - note 16(b)	--	--	(1,706,483)	(1,706,483)
Balance as at 31December2017	400,000,000	(860,444)	(32,274,819)	366,864,737
Balance at 1 January 2016	400,000,000	(1,285,861)	(106,249,045)	292,465,094
Net profit for the year	--	--	46,346,465	46,346,465
<i>Other comprehensive income:</i> Change in fair value of available for sale investments	--	597,492	--	597,492
Total comprehensive income	--	597,492	46,346,465	46,943,957
Charge for zakat - note 16(c)	--	--	(6,747,794)	(6,747,794)
Charge for tax - note 16(b)	--	--	(1,705,476)	(1,705,476)
Balance as at 31December 2016	400,000,000	(688,369)	(68,355,850)	330,955,781


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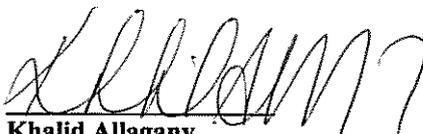
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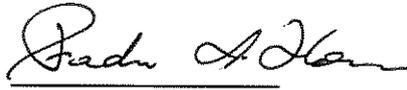
AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASHFLOWS – INSURANCE OPERATIONS

For the year ended 31 December

	<i>Notes</i>	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation		4,503,051	4,642,635
<i>Adjustments to reconcile insurance operations' surplus to net cash provided from operating activities:</i>			
Depreciation	13	127,590	150,655
Employees' end of service benefits	25	2,051,522	3,327,445
Allowance for impairment of receivables	9	1,721,944	(1,004,014)
Operating cash inflows before changes in operating assets and liabilities		<u>8,404,107</u>	<u>7,116,721</u>
<i>Changes in operating assets and liabilities:</i>			
Deposits against letters of guarantee		(900,000)	--
Premiums and insurance balances receivable		(18,689,493)	22,598,632
Due from related parties		3,706,965	(325,733)
Due from shareholders' operations		40,267,570	41,302,177
Reinsurers' share of outstanding claims		(6,950,422)	97,192,684
Prepayments and other assets		(608,306)	(25,020)
Reinsurers' share of unearned premiums		16,037,661	(8,394,395)
Deferred policy acquisition costs		353,996	1,357,285
Gross outstanding claims		(4,995,618)	(89,450,875)
Gross unearned premiums		(19,981,818)	(38,303,855)
Accounts payable		3,469,620	5,806,272
Reinsurance balances payable		(13,298,058)	(15,961,660)
Due to related parties		(203,480)	(2,632,428)
Accrued expenses and other liabilities		(1,800,361)	5,529,608
Unearned reinsurance commission		(2,442,287)	(126,432)
Disbursement of surplus to policyholders		(2,833,946)	(66,663)
Cash (used in)/from operations		<u>(463,870)</u>	<u>25,616,318</u>
Employees' end of service benefits paid	25	(2,607,842)	(2,675,905)
Net cash (used in)/from operating activities		<u>(3,071,712)</u>	<u>22,940,413</u>
INVESTING ACTIVITY			
Purchase of property and equipment, net	13	(653,672)	(104,000)
Term deposits		(7,556,643)	(24,514,476)
Net cash used in investing activities		<u>(8,210,315)</u>	<u>(24,618,476)</u>
NET DECREASE IN CASH AND BANK BALANCES		<u>(11,282,027)</u>	<u>(1,678,063)</u>
CASH AND BANK BALANCES AT BEGINNING OF THE YEAR		<u>25,392,144</u>	<u>27,070,207</u>
CASH AND BANK BALANCES AT END OF THE YEAR	5	<u>14,110,117</u>	<u>25,392,144</u>
<i>Non-cash transactions:</i>			
Disposal of property and equipment		<u>(69,500)</u>	<u>--</u>


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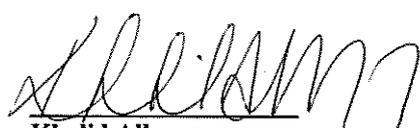
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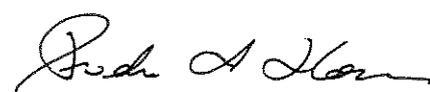
AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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STATEMENT OF CASH FLOWS – SHAREHOLDERS’ OPERATIONS

For the year ended 31 December

	<i>Notes</i>	2017 SR	2016 SR
OPERATING ACTIVITIES			
Net income for the year		44,485,012	46,346,465
<i>Changes in operating assets and liabilities:</i>			
Prepayments and other assets		(805,893)	325,364
Due to a related party		(647,992)	--
Due to insurance operations		(40,267,570)	(41,302,177)
Accrued expenses and other liabilities		(2,783,175)	948,102
Net cash (used in)/from operating activities		(19,618)	6,317,754
INVESTING ACTIVITIES			
Term deposits		1,101,556	(23,125,295)
Disposal of investments	7(b)	350,295	14,307,265
Net cash from/(used in) investing activities		1,451,851	(8,818,030)
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES		1,432,233	(2,500,276)
CASH AND BANK BALANCES AT BEGINNING OF THE YEAR		208,948	2,709,224
CASH AND BANK BALANCES AT END OF THE YEAR	5	1,641,181	208,948
<u>Non-cash transactions:</u>			
Change in fair value of available for sale investments		(172,075)	442,420


Khalid Allagany
Chief Executive Officer


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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 ORGANISATION AND PRINCIPAL ACTIVITIES

Al Alamiya for Cooperative Insurance Company ("the Company") is a Saudi joint stock company registered on 29 Dhu-al Qu'dah, 1430H (17 November 2009) under commercial registration (CR) number 4030194978. The registered head office of the Company is in Riyadh under CR number of 1010287831 with branches in Jeddah (CR 4030194978) and Khobar (CR 2051042939).

The activities of the Company are to transact cooperative insurance and reinsurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 26 Dhu Al Hijjah, 1430H (13 December 2009), the Company received the license from Saudi Arabian Monetary Agency ("SAMA") to transact insurance business in the Kingdom of Saudi Arabia.

The registered office address of the Company is at Prince Mohammed bin Abdul Aziz Road, Home Centre Building, P.O. Box: 6393, Riyadh 11442, Kingdom of Saudi Arabia.

The Company operates in an industry where significant seasonal or cyclical variations in operating income are experienced during the financial year.

2 BASIS OF PREPARATION

a) *Statement of compliance*

The financial statements for the year ended 31 December 2017 have been prepared in accordance with:

- International Financial Reporting Standard ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax, which requires, adoption of all 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 SAMA Circular No.381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and Income tax ("SAMA Circular"), the Zakat and Income tax will continue to be accrued on a quarterly basis through statement of changes in shareholders' equity under retained earnings with a corresponding liability recognized in the statement of financial position.
- The requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As required by Saudi Arabian Insurance Regulations, the Company maintains separate accounts for Insurance Operations 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.

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

b) *Basis of measurement*

The financial statements have been prepared under the historical cost basis, except for the measurement at fair value of available for sale investments and EOSB at present value.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

2 BASIS OF PREPARATION (continued)

c) Functional and presentational currency

The financial statements have been presented in Saudi Riyals, which is the functional and presentational currency of the Company.

d) Critical accounting judgments, 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 liabilities as at the reporting date and the reported amounts of revenue 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.

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims Incurred But Not Reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the end of reporting date, for which the insured event has occurred prior to the end of reporting date. The Company uses the services of a qualified actuary in the valuation of IBNR as well as premium deficiency reserves.

(ii) Impairment on premiums and insurance balances receivable

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.

(iii) Impairment of available for sale financial assets

The Company determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

3 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations. In the current year, the Company has applied number of amendments to IFRS and new interpretations issued by International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 January 2017. The adoption of new standards, amendments and revisions to existing standards, as mentioned below, had no significant financial impact on the financial statements of the Company:

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

3 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS (continued)

New and amendments to existing standards

Disclosure initiative (Amendments to IAS 7)

Amendments to IAS 7 – “Statement of Cash Flows”, applicable for the annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Standards issued but not yet effective

In addition to the above mentioned standards, the following 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. The Company intends to adopt these standards, if applicable, when they become effective. Further, the Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect date in future.

IFRS 2 Share-based payment

Amendments to IFRS 2 – “Share-based Payment”, applicable for the period beginning on or after 1 January 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled.

IFRS 9 Financial Instruments

The implementation of IFRS 9 is expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in OCI, are expected to increase due to the introduction of the expected credit loss methodology. The Company has decided to avail of the exemptions available to insurers and has deferred the implementation of IFRS 9 until a later date, but no later than January 1, 2021.

IFRS 15 Revenue from contracts with customers

IFRS 15 – “Revenue from Contracts with Customers” applicable from 1 January 2018 presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard could have a significant impact on how and when revenue is recognized (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments), with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred. The Company is currently assessing the implication and effects of adopting IFRS 15 and the management believe that the adoption of IFRS 15 will not result in a material impact on the Company’s financial statements.

IFRS 16 Leases

IFRS 16 – “Leases”, applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The impact is not material for the Company.

IFRS 17 - Insurance Contracts

IFRS 17 ‘Insurance contracts’ was published on May 18, 2017 with the effective date of January 1, 2021. IFRS 17 provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features. For non-life and short-term life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk, for which confidence level equivalent disclosure will be required. Further, IFRS 17 will change the presentation of insurance contract revenue, as gross written premium will no longer be presented in profit or loss. At the date of publication of these financial statements, it was not practicable to quantify what the potential impact would be on the financial statements of the company once IFRS 17 will be adopted.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in preparation of these financial statements:

a) Cash and bank balances

Cash and bank balances comprise cash on hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the date of acquisition.

b) Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statements of comprehensive income - insurance operations and statement of comprehensive income shareholders' operations as they are consumed or expire with the passage of time.

c) Accrued expenses and other liabilities

Accrued expenses and other liabilities are recognised for amounts to be paid in the future for goods and services, whether billed by the supplier or not.

d) Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

e) Available for sale investments ("AFS")

Available for sale investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through income statement. 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 investments are subsequently measured at fair value.

Return on debt securities is recognised on an effective yield method. Profit or loss on sale of investments is recognised at the time of sale. Dividend income is recognised when right to receive such dividend is established.

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under 'fair value reserve for available for sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income – shareholders' operations.

Any significant or prolonged decline in value of investments is adjusted for and reported in the statement of comprehensive income – shareholders' operations, as impairment charges. Fair values of investments are based on quoted prices for marketable securities or estimated fair values. The fair value of profit rate-bearing items is estimated based on discounted cash flows using profit rates for items with similar terms and risk characteristics.

f) Provisions

A provision for incurred liabilities is recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) *Liability adequacy test*

As at each year end, an assessment is made of whether provision of unearned premium is adequate. Provision for premiums deficiency reserve is made where the expected claims and related expenses are expected to exceed unearned premiums. At the end of each reporting date, the Company reviews its premiums deficiency reserve and carries out a liability adequacy test to ensure the adequacy of the insurance contracts liabilities using the current best estimates of future contractual cash flows, claims handling and administration expenses. If these estimates show that the carrying amount of insurance liabilities is insufficient, the deficiency is recognized in the statement of income - insurance operations by establishing a provision in the statement of financial position. The company estimates premium deficiency reserve based on actuarial valuation for each line of business separately.

h) *Revenue recognition*

Premiums and commissions are taken into income over the terms of the policies to which they relate, on a pro-rata basis. Unearned premiums and commissions represent the portion of premiums and commissions relating to the unexpired period of coverage. The change in the provision for unearned premium and unearned commission is taken to the statement of income - insurance operations in the same order that revenue is recognised over the period of risk.

Retained premiums and commissions 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 of the period-end, 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 increase towards the end of the tenure of the policy.

i) *Claims*

These include the cost of claims and claims handling expenses paid during the period, together with the movements in provisions for outstanding claims, claims incurred but not reported (IBNR) and claims handling provisions.

Total outstanding claims comprise estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date, net of salvage and other recoveries including claims handling expenses.

The Company estimates its claims provisions based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Company's prior experience, is maintained for Incurred But Not Reported ('IBNR') claims as well as for the cost of settling pending claims at the statement of financial position date. The IBNR amount is based on estimates calculated using widely accepted actuarial techniques such as Chain Ladder, Bornhuetter Ferguson Method and loss ratio which are reviewed at regular intervals by the Company's appointed actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. Regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating provisions are that past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a fair reflection of the likely level of ultimate claims to be incurred for the more recent years.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant reinsurance contract. 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.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) *Premium and insurance balances receivables*

Premiums receivable are non-derivative financial assets with fixed or determinable payments. These are recognized when due and are measured initially at fair value of the consideration received or receivable. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less provision for impairment. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income - insurance operations. An allowance for impairment of receivables is established when there is objective evidence that the carrying amount will not be recoverable. Premiums receivable are derecognized when the de recognition criteria for financial assets have been met.

k) *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value is depreciated on a straight line basis over the estimated useful life as follows:

	Years
Furniture, fixtures and office equipment	3
Motor vehicles	3

The assets' residual values and useful lives are reviewed at each financial position date and adjusted prospectively if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from disposal of property and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the related property and equipment and are recognised in the statement of income – insurance operations when the related property and equipment is disposed.

l) *Reinsurance*

The Company cedes insurance risk in the normal course of business for a portion of risk it is insuring. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' financial position representing premiums due to or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income - insurance operations. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

m) *Deferred policy acquisition costs (DPAC)*

DPAC are those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts that are deferred to the extent that those costs are recoverable out of future premiums. All other policy acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, these costs are amortised based on the term of expected future premiums. Amortisation is recorded in the statement of income - insurance 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.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Salvage and subrogation reimbursement

Some insurance contracts permit the Company to sell (usually damaged) asset acquired in settling a claim (i.e. salvage). The Company may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of property. Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from action against the liable third party.

o) Zakat and income tax

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders and income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged in full to the retained earnings as required by SAMA Circular no. 381000074519 issued in April 2017. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. Zakat is computed on the Saudi shareholders' share of equity and/ or net income using the basis defined under the regulations of GAZT. Income tax is computed on the foreign shareholders' share of net income for the year. Zakat and income tax are charged to retained earnings as these are liabilities of the shareholders.

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

p) Foreign currencies

Transactions in foreign currencies are initially recorded at the spot exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate at the reporting date. All differences arising on non-trading activities are taken to the statements of comprehensive income - insurance operations and shareholders'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

As the Company's foreign currency transactions are primarily in US dollar, which is pegged against Saudi Riyals, therefore foreign exchange gains and losses are not significant and have not been disclosed separately.

q) Impairment of non-financial assets

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

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

r) 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 comprehensive income - insurance operations or statement of comprehensive income - shareholders' operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) *Impairment 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 comprehensive income - insurance operations or statement of comprehensive income - shareholders' 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 comprehensive income of insurance or shareholders' 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.

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

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

t) *Derecognition of financial instruments*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

u) *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.

v) *Expense recognition*

Expenses are recognized in statements of comprehensive income - insurance operations and shareholders' operations when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses are presented using the nature of expense method.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) *Unearned commission income*

Commission receivable 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 income - insurance operations.

x) *Reinsurance claims*

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant reinsurance contract.

y) *Segmental reporting*

An operating segment is a component of the Company that is engaged in business activities from which it may earn revenues and incur expenses and which is subject to risk and rewards that are different from those of other segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions. The Company is organised into business units based on their products and services and has seven reportable operating segments as follows:

- Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting there from.
- Motor insurance products which provide coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Engineering includes long term Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD.
- Medical products which provide health care cover to policyholders.
- Marine insurance for loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.
- Group life insurance which provides life insurance to groups of policyholder
- Others include mainly general accident

Shareholders' operations is a non-operating segment. Income earned from investments is its only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations is allocated to this segment on an appropriate basis.

No inter-segment transactions occurred during the period. If any transactions were to occur, transfer prices between operating segments are set on mutually agreed terms. 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 business segment only.

z) *Statutory reserve*

In accordance with its by-laws, the Company shall allocate 20% of its net income, after setting off the accumulated losses, each year to a statutory reserve until it has built up a reserve equal to the share capital.

aa) *Reinsurance premiums*

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the year and are recognised from the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

5 CASH AND BANK BALANCES

	2017		2016	
	<i>Insurance Operations</i> SR	<i>Shareholders' operations</i> SR	<i>Insurance operations</i> SR	<i>Shareholders' operations</i> SR
Cash on hand	29,768	--	33,616	--
Cash at bank – current accounts	14,080,349	1,641,181	25,358,528	208,948
<i>Cash and bank balances in the statement of cash flows</i>	14,110,117	1,641,181	25,392,144	208,948
Deposit against letter of guarantee	900,000	--	--	--
	15,010,117	1,641,181	25,392,144	208,948

Cash at bank are placed with counterparties who have investment grade credit ratings, as rated by international rating agencies. The Company holds an amount of SR 900,000 (31 December 2016: Nil) in the statement of financial position of Insurance operations, in respect of cash and bank balances against letter of guarantee in favour of the Company's service providers.

6 TERM DEPOSITS

Term deposits are placed with counterparties which have credit ratings of A- to A+ ratings under Standard and Poor's and Fitch ratings methodology. Term deposits are placed with local banks with a maturity of more than three months from the date of original placement and earn investment income at weighted average rate of 1.8% per annum (2016: 2.3% per annum). The carrying amounts of the term deposits approximate the fair value at the statement of financial position date.

The Company holds an amount of SR Nil (31 December 2016 – SR 1,300,000) in the statement of financial position of Insurance operations, in respect of deposits against letter of guarantee in favour of the Company's service providers as placement at the bank.

7 INVESTMENTS

a) Insurance operations – Investments

This represents investments in respect of the Company's shareholding in Najm for Insurance Services which is a claim's service provider. This investment has been carried at cost in the absence of active markets or other means of reliably measuring its fair value.

b) Shareholders' operations – Available for sale investments (AFS)

	2017		2016	
	<i>Amortised cost</i> SR	<i>Market value</i> SR	<i>Amortised cost</i> SR	<i>Market value</i> SR
Bonds – Fixed rate (Quoted)				
Abu Dhabi National Energy Company (TAQA)	3,845,180	3,855,000	4,003,797	4,031,250
SABIC Capital II BV	20,388,588	20,259,518	20,568,786	20,375,550
QNB (Qatar National Bank) Finance	13,665,088	13,367,565	13,733,256	13,459,500
Abu Dhabi Commercial Bank	15,645,363	15,484,872	15,665,254	15,428,400
Sukuks – Fixed rate (Quoted)				
Saudi Electricity Company	--	--	18,765,876	18,768,750
EIB Sukuk Ltd (Emirates Islamic Bank)	3,752,346	3,751,500	3,828,600	3,813,750
KSA Sukuk Ltd	18,918,709	18,636,375	--	--
	76,215,274	75,354,830	76,565,569	75,877,200

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

7 INVESTMENTS (continued)

The investment income ranges between 2% to 3% per annum (2016: 2% to 3% per annum). These investments include Bonds and Sukuks amounting to SR 27,866,018 which are due for maturity in the next twelve months.

The geographical split of investments held as available for sale comprise of bonds/sukuks issued in Kingdom of Saudi Arabia and Gulf Cooperation Council ("GCC") based companies through international stock exchanges.

The movement of available for sale investments in the shareholders' operation is as follows:

	2017 SR	2016 SR
Balance at 1 January	75,877,200	89,586,973
Disposals	(350,295)	(14,307,265)
Unrealized (loss)/ gain	(172,075)	442,420
Realized loss	--	155,072
Balance at 31 December	75,354,830	75,877,200

8 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);

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

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

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

	2017 - SR			
	Level 1	Level 2	Level 3	Total
Bonds	37,482,083	15,484,872	--	52,966,955
Sukuk	18,636,375	3,751,500	--	22,387,875
Total	56,118,458	19,236,372	--	75,354,830
	2016 - SR			
	Level 1	Level 2	Level 3	Total
Bonds	53,294,700	--	--	53,294,700
Sukuk	22,582,500	--	--	22,582,500
Total	75,877,200	--	--	75,877,200

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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8 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

During the year ended 31 December 2017, there were no transfers into or out of level 3 fair value measurements. As at 31 December 2017, available-for-sale investments with a carrying amount of SR 19,236,372 were transferred from Level 1 to Level 2 because these investments were no longer actively traded in the market. To determine the fair value of such investments, management used a valuation technique in which all significant inputs were based on observable market data. There were no transfers from Level 2 to Level 1 during the year ended 31 December 2017.

The unlisted securities of SR 1.92 million (2016: SR 1.92 million), held as part of Company's insurance operations, were stated at cost in the absence of active markets or other means of reliably measuring their fair value. The investment in Najm is classified as Level 3.

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.

As at 31 December 2017, the net change in fair value of AFS investments amounts to a loss of SR 172,075 (31 December 2016: gain of SR 442,420) which has been recorded in the statement of comprehensive income – shareholders' operations.

The Company has not disclosed the fair value of other financial assets and liabilities as their carrying value are approximate to their fair values.

The credit quality of investment portfolio is as follows:

Credit Quality	Credit Rating Agency	Financial Instrument	2017 SR
A to A-	S&P	Bonds/ Sukuks	35,755,440
AA- to A	Fitch	Bonds/ Sukuks	35,744,390
BBB+	S&P	Bonds	3,855,000
			<u>75,354,830</u>
Credit Quality	Credit Rating Agency	Financial Instrument	2016 SR
A to A-	S&P	Bonds/ Sukuks	58,603,950
AA- to A	Fitch	Bonds/ Sukuks	17,273,250
			<u>75,877,200</u>

9 PREMIUM AND INSURANCE BALANCES RECEIVABLE

	2017 SR	2016 SR
Premiums receivable	69,948,828	63,098,370
Receivable from insurance and reinsurance companies	19,968,242	6,692,881
Receivable from related parties	5,960,405	7,396,731
	<u>95,877,475</u>	<u>77,187,982</u>
Less: allowance for impairment of receivables	(14,692,895)	(12,970,951)
	<u>81,184,580</u>	<u>64,217,031</u>

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9 PREMIUM AND INSURANCE BALANCES RECEIVABLE (continued)

Allowance for impairment of receivables include SR 1.2 million (2016: SR 1.4million) against receivables from related parties. Movement in the allowance for impairment of receivables is as follows:

	2017 SR	2016 SR
Balance at 1 January	12,970,951	15,120,764
Debts written off against the provision	--	(1,145,799)
Charge / (release) of provision for the year	1,721,944	(1,004,014)
Balance at 31 December	14,692,895	12,970,951

As at 31 December 2017 and 2016, the ageing of premium and insurance balances receivable are as follows:

	Total SR	Neither past due nor impaired SR	Past due but not impaired		Past due and impaired SR
			90 to 180 days SR	181 to 360 days SR	
2017	95,877,475	65,600,496	5,224,525	11,248,066	13,804,388
2016	77,187,982	35,682,692	19,228,466	12,672,361	9,604,463

The Company classifies balances as "past due and impaired" on case by case basis and an impairment adjustment is recorded in the statement of income- insurance operations. Unimpaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is the normal practice of the Company to not obtain collateral over premiums receivable. These balances are therefore unsecured. The credit quality of these financial assets that are neither past due nor impaired can be assessed by reference to respective policyholders' credit history, where there are minimal account defaults and vast majority of the receivables have been fully recovered in the past.

The Company does not have a formal internal credit ratings assessment process. Amounts which are neither past due nor impaired, in respect of premium receivable balances, are from individuals and unrated corporates.

Premiums and insurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies outside Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. As at 31 December 2017 no individual or company accounts for more than 27% of the premiums receivable (31 December 2016: 29%). In addition, the five largest customers accounts for 43% of the premiums receivable as at 31 December 2017 (31 December 2016: 40%).

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

a) Unearned premium

	2017			2016		
	Gross SR	Reinsurers' share SR	Net SR	Gross SR	*Reinsurers' share SR	Net SR
Balance at 1 January	120,085,145	(65,177,646)	54,907,499	158,389,000	(56,783,251)	101,605,749
Premiums written during the year	263,369,386	(108,145,975)	155,223,411	310,750,744	(142,005,815)	168,744,929
Excess of Loss premium	--	(8,854,667)	(8,854,667)	--	(8,146,220)	(8,146,220)
Premiums earned during the year	(283,351,204)	133,038,303	(150,312,901)	(349,054,599)	141,757,640	(207,296,959)
Balance at 31 December	100,103,327	(49,139,985)	50,963,342	120,085,145	(65,177,646)	54,907,499

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10 MOVEMENT IN UNEARNED PREMIUMS, DEFERRED POLICY ACQUISITION COSTS,
UNEARNED REINSURANCE COMMISSION AND OUTSTANDING CLAIMS (continued)

b) Deferred policy acquisition costs

	2017 SR	2016 SR
Balance at 1 January	4,145,586	5,502,871
Cost incurred during the year	25,066,551	19,535,795
Amortised during the year	(25,420,547)	(20,893,080)
Balance at 31 December	3,791,590	4,145,586

c) Unearned reinsurance commission

	2017 SR	2016 SR
Balance at 1 January	6,906,953	7,033,385
Commission received during the year	19,847,652	16,873,460
Commission earned during the year	(22,289,939)	(16,999,892)
Balance at 31 December	4,464,666	6,906,953

d) Outstanding claims

	2017			2016		
	Gross SR	Reinsurers' share SR	Net SR	Gross SR	Reinsurers' share SR	Net SR
Balance at 31 December						
Claims reported IBNR and other reserves	(86,216,220)	41,545,105	(44,671,115)	(74,327,283)	26,601,099	(47,726,184)
	(77,758,600)	25,338,213	(52,420,387)	(95,046,776)	33,331,797	(61,714,979)
	(163,974,820)	66,883,318	(97,091,502)	(169,374,059)	59,932,896	(109,441,163)
Premium deficiency reserve	(1,732,913)	--	(1,732,913)	(1,329,292)	--	(1,329,292)
Total outstanding claims as at 31 December	(165,707,733)	66,883,318	(98,824,415)	(170,703,351)	59,932,896	(110,770,455)
Claims paid during the year	(90,479,346)	31,909,569	(58,569,777)	(190,962,395)	97,004,634	(93,957,761)
Balance at 1 January						
Claims reported IBNR and other reserves	74,327,283	(26,601,099)	47,726,184	190,700,998	(135,141,189)	55,559,809
	95,046,776	(33,331,797)	61,714,979	67,153,228	(21,984,391)	45,168,837
	169,374,059	(59,932,896)	109,441,163	257,854,226	(157,125,580)	100,728,646
Premium deficiency reserve	1,329,292	--	1,329,292	2,300,000	--	2,300,000
Claims incurred	(85,483,728)	38,859,991	(46,623,737)	(101,511,520)	(188,050)	(101,699,570)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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11 PREPAYMENTS AND OTHER ASSETS

	2017		2016	
	<i>Insurance Operations</i> SR	<i>Shareholders' operations</i> SR	<i>Insurance operations</i> SR	<i>Shareholders' operations</i> SR
Prepaid rent	186,562	--	372,032	--
Employees' housing advances	860,850	--	383,233	--
Employees' prepaid insurance	773,114	--	726,517	--
Accrued investment income	687,853	2,429,954	541,645	1,624,061
Other assets	441,375	--	318,021	--
	<u>2,949,754</u>	<u>2,429,954</u>	<u>2,341,448</u>	<u>1,624,061</u>

12 STATUTORY DEPOSIT

In compliance with Insurance Implementing Regulations of SAMA, the Company deposited 10% of its paid up capital, amounting to SR 40 million (31 December 2016: SR 40million) in a bank designated by SAMA. The received return on investment of statutory deposit as at 31 December 2017 amounts to SR 2,203,640 (31 December 2016: SR1,241,902) and has been disclosed in assets as "Return on investment of statutory deposit" and the corresponding amount is shown in the liabilities as "Deferred return on investment of statutory deposit". As these deposit cannot be withdrawn without SAMA's consent.

13 PROPERTY AND EQUIPMENT

	<i>Furniture and fixtures</i> SR	<i>Office equipment</i> SR	<i>Motor vehicles</i> SR	<i>Total 2017</i> SR	<i>Total 2016</i> SR
<i>Cost:</i>					
Balance at 1 January	3,294,103	6,290,143	384,450	9,968,696	10,020,386
Additions during the year	110,113	543,559	--	653,672	104,000
Disposals during the year	--	--	(69,500)	(69,500)	(155,690)
Balance at 31 December	<u>3,404,216</u>	<u>6,833,702</u>	<u>314,950</u>	<u>10,552,868</u>	<u>9,968,696</u>
<i>Accumulated depreciation:</i>					
Balance at 1 January	(3,256,342)	(6,168,032)	(384,450)	(9,808,824)	(9,813,859)
Charge for the year (note 20)	(43,979)	(83,611)	--	(127,590)	(150,655)
Disposals during the year	--	--	69,500	69,500	155,690
Balance at 31 December	<u>(3,300,321)</u>	<u>(6,251,643)</u>	<u>(314,950)</u>	<u>(9,866,914)</u>	<u>(9,808,824)</u>
<i>Net book value:</i>					
At 31 December 2017	<u>103,895</u>	<u>582,059</u>	<u>--</u>	<u>685,954</u>	
At 31 December 2016	<u>37,761</u>	<u>122,111</u>	<u>--</u>		<u>159,872</u>

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For the year ended 31 December 2017

14 ACCRUED EXPENSES AND OTHER LIABILITIES

	<i>Insurance operations 2017 SR</i>	<i>Shareholders' operations 2017 SR</i>	<i>Insurance operations 2016 SR</i>	<i>Shareholders' operations 2016 SR</i>
Accrued salaries and benefits	5,555,227	--	7,250,000	--
Accrued supervision fees	408,875	--	461,970	--
Board of Directors' remuneration	--	568,955	--	725,957
Provision for zakat and income tax (note 16d)	--	31,054,861	--	25,516,159
Accrued withholding tax	7,168,643	--	6,553,978	--
Provision for levy on insurance policies	3,150,000	--	--	--
Accrued IT related services	1,783,852	--	1,750,000	--
Accrued legal and professional fees	2,784,706	--	3,200,000	--
Outsourced service charges payable	7,698,560	--	8,825,326	--
Office relocation	--	--	1,048,363	--
Training and recruitments	--	--	594,687	--
Hotels and travelling	99,893	--	328,502	--
Others	1,021,690	3,028,255	1,458,981	2,789,149
	<u>29,671,446</u>	<u>34,652,071</u>	<u>31,471,807</u>	<u>29,031,265</u>

15 CLAIMS DEVELOPMENT

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims. During each year, the estimate of ultimate claim cost for respective year presented net of payments. Claims triangulation analysis (gross and net) by accident year spanning a number of financial years are set out as below.

2017 – Gross Basis

<i>Accident Year</i>	<i>2013& earlier</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:						
At the end of accident year	659,615,314	116,010,488	189,703,041	102,701,361	87,590,919	1,155,621,123
One year later	577,527,825	87,713,947	130,995,155	81,802,761	--	878,039,688
Two years later	565,409,685	83,561,421	110,277,702	--	--	759,248,808
Three years later	570,467,453	81,945,624	--	--	--	652,413,077
Four years later and after	568,913,004	--	--	--	--	568,913,004
Current estimate of cumulative claims	568,913,004	81,945,624	110,277,702	81,802,761	87,590,918	930,530,009
Cumulative paid claims	562,158,064	75,204,456	95,450,267	32,009,490	--	764,822,277
Liability recognised in statement of financial position	6,754,940	6,741,168	14,827,435	49,793,271	87,590,919	165,707,733

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15 CLAIMS DEVELOPMENT (Continued)

2017– Net basis

<i>Accident Year</i>	<i>2013 & earlier</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:						
At the end of accident year	57,472,197	60,251,591	86,578,101	64,500,611	42,587,284	311,389,784
One year later	64,490,405	47,676,947	71,615,614	57,430,364	--	241,213,330
Two years later	61,356,716	55,681,311	57,922,932	--	--	174,960,959
Three years later	66,219,169	49,330,420	--	--	--	115,549,589
Four years later and after	63,669,020	--	--	--	--	63,669,020
Current estimate of cumulative claims	63,669,020	49,330,420	57,922,932	57,430,364	42,587,284	270,940,020
Cumulative paid claims	62,114,172	44,663,906	44,942,064	20,395,463	--	172,115,605
Liability recognised in statement of financial position	1,554,849	4,666,514	12,980,868	37,034,901	42,587,284	98,824,416

2016 – Gross Basis

<i>Accident Year</i>	<i>2012 & earlier</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:						
At the end of accident year	140,661,746	628,710,438	101,118,835	190,122,920	105,768,260	1,166,382,199
One year later	96,271,777	565,367,682	83,130,816	134,301,084	--	879,071,359
Two years later	74,345,486	552,235,479	75,118,029	--	--	701,698,994
Three years later	76,209,697	551,028,057	--	--	--	627,237,754
Four years later and after	78,414,622	--	--	--	--	78,414,622
Current estimate of cumulative claims	78,414,622	551,028,057	75,118,029	134,301,084	105,768,260	944,630,052
Cumulative paid claims	76,052,611	546,708,827	66,469,976	84,695,287	--	773,926,701
Liability recognised in statement of financial position	2,362,011	4,319,230	8,648,053	49,605,797	105,768,260	170,703,351

2016– Net basis

<i>Accident Year</i>	<i>2012 & earlier</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:						
At the end of accident year	45,128,089	43,072,735	54,869,038	94,229,698	67,490,245	304,789,805
One year later	49,322,192	49,762,957	41,802,306	82,783,456	--	223,670,911
Two years later	36,796,628	54,244,967	40,301,186	--	--	131,342,781
Three years later	33,636,358	43,141,697	--	--	--	76,778,055
Four years later and after	43,359,713	--	--	--	--	43,359,713
Current estimate of cumulative claims	43,359,713	43,141,697	40,301,186	82,783,456	67,490,245	277,076,297
Cumulative paid claims	41,617,431	41,334,775	35,297,826	48,055,810	--	166,305,842
Liability recognised in statement of financial position	1,742,282	1,806,922	5,003,360	34,727,646	67,490,245	110,770,455

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16 ZAKAT AND INCOME TAX

a) Zakat charge for the year

The Company's zakat and tax calculations and corresponding accruals and payments of zakat and tax are based on the ownership percentages which are 74.97% for zakat and 25.03% for the tax. The Company has submitted its zakat and tax returns up to the year ended 31 December 2016 and obtained the required certificates and acknowledgements.

The zakat charge for the year consists of the current year's provision amounting to SR 6.7 million (2016: SR 6.7million).

The zakat provision is based on the following:

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Share capital	400,000,000	400,000,000
Reserves and provision	(45,581,878)	(81,976,802)
Book value of long term assets	(41,536,471)	(2,171,934)
Adjusted net profit for the year	<u>44,485,012</u>	<u>46,346,465</u>
Zakat base	357,366,663	362,197,729
Saudi shareholders' share of zakat base	267,899,919	269,529,440
Zakat @ 2.5%	<u>6,697,498</u>	<u>6,747,794</u>

The differences between the financial and the zakatable results are mainly due to provisions which are not included in the calculation of zakatable income.

b) Income tax charge for the year

The movement in the provision for income tax for the year is as follows:

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Balance at 1 January	2,533,642	1,959,503
Provided during the year	1,706,483	1,705,476
Payments during the year	(1,668,969)	(1,131,337)
Balance at 31 December	<u>2,571,156</u>	<u>2,533,642</u>

c) Movement in the provision for zakat during the year

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

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Balance at 1 January	21,851,180	15,103,386
Provided during the year	6,697,498	6,747,794
Payments made during the year	(64,973)	--
Balance at 31 December	<u>28,483,705</u>	<u>21,851,180</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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16 ZAKAT AND INCOME TAX (continued)

d) Movement in the provision for zakat and income tax during the year

The movement in the provision for zakat and income tax for the year is as follows:

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Balance at 1 January	24,384,822	17,062,889
Provided during the year	8,403,981	8,453,270
Paid during the year	(1,733,942)	(1,131,337)
Balance at 31 December	<u>31,054,861</u>	<u>24,384,822</u>

e) Status of appeal

The Company has filed an appeal against the General Authority of Zakat and Tax ("GAZT") final assessments for the years ended 31 December 2009 through 2013 with an additional zakat and withholding tax ("WHT") liabilities amounting to SR 11.2 million and SR 8.9 million respectively. GAZT provided the details of assessment through their letter No.25029/16/1438 dated 27.08.1438H (corresponding to 23 May 2017).

17 SHARE CAPITAL

The authorised and paid up share capital of the Company is SR 400 million divided in 40 million shares of SAR 10 each (31 December 2016: SR 400 million divided into 40 million shares of SAR 10 each). The founding shareholders' of the Company have subscribed and paid for 28 million shares which represents 70% of the shares of the Company's share capital and the remaining 12 million shares have been subscribed by the public.

18 BASIC AND DILUTED EARNINGS PER SHARE FOR THE YEAR

Basic and diluted earnings per share for the year has been calculated by dividing the net income for the year by weighted average number of outstanding shares at the year end.

The basic and diluted earnings per share are as follows:

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Net income for the year	44,485,012	46,346,465
Weighted average number of issued shares	40,000,000	40,000,000
Basic and diluted earnings per share	<u>1.11</u>	<u>1.16</u>

19 STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company is required to establish a statutory reserve by appropriating 20% of net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution. No appropriation has been made because the Company has accumulated losses at the end of the year.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2017		2016	
	Insurance operations SR	Shareholders' operations SR	Insurance Operations SR	Shareholders' operations SR
Salaries and benefits	36,017,819	325,000	37,507,357	325,000
End of service benefits	2,051,522	--	3,327,445	--
Remuneration of the Board of Directors (note 23)	--	630,000	--	588,750
Technical service charges (note 23)	5,139,000	--	4,750,000	--
Rent	1,691,036	--	1,192,930	--
Provision for doubtful debts	1,721,944	--	(1,004,014)	--
Depreciation	127,590	--	150,655	--
Legal and professional fees	2,155,220	--	3,166,139	--
Business travel and transport	868,057	--	823,637	--
IT related services	3,350,000	--	4,240,611	--
Provision for levy in insurance policies	3,150,000	--	--	--
Utilities	510,399	--	562,981	--
Stationery	318,752	--	481,171	--
Others	1,027	850,936	1,984,161	665,549
	<u>57,102,366</u>	<u>1,805,936</u>	<u>57,183,073</u>	<u>1,579,299</u>

21 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets and liabilities include cash and bank balances, time deposits, investments, receivables, payables, and certain other assets and liabilities. The fair values of the financial assets and liabilities are not materially different from their carrying values with the exception of unquoted financial instruments amounting to SAR 1.9 million which are carried at cost.

22 CONTINGENCIES AND COMMITMENTS

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 believes that such proceedings (including litigations) will not 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.

Operating lease commitments

Rental expenses under operating leases pertained to leases of office spaces in various locations amounted to SR 1.69 million for the year ended 31 December 2017 (31 December 2016: SR 1.19 million) are recognised in the statement of comprehensive income - insurance operations.

Future minimum lease payments under the operating lease arrangements as at 31 December are as follows:

	2017 SR	2016 SR
Less than one year	<u>399,070</u>	<u>587,384</u>

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

23 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders' and key management personnel of the Company. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken at mutually agreed terms which are approved by the management. Related parties mainly include RSA group in United Kingdom as well as affiliated companies in United Arab Emirates, Sultanate of Oman, Kingdom of Bahrain and Riyadh Bank. Following are the details of significant related party transactions for insurance and shareholders' operations during the year and the balances at the end of the year:

Related party	Nature of transaction	2017 SR	2016 SR
Shareholders' / Companies under common management	- Gross written premiums	60,535,875	49,317,807
	- Gross claims paid	27,310,337	37,259,567
	- Reinsurance premiums ceded	24,741,414	32,091,863
	- Reinsurers' share of gross claims paid	11,842,593	16,754,617
	- Agent commission incurred	2,889,813	98,040
	- Reinsurance commission income	13,389,420	9,128,900
	- Profit commission incurred – group life	6,135,003	--
	- Technical service charges*	5,139,000	4,750,000
	- Brand fee*	30,100	30,100
RSA group entities	- Operational expenses paid on behalf of affiliates and reinsurance placements	323,942	934,654
	- Operation expenses paid by affiliates on behalf of Company	(858,654)	(927,105)
Key management personnel and Board members	- Gross written premiums	187,609	181,604
Board of directors	- Remuneration and meeting fee	630,000	588,750

*Technical service charges and brand fee are included within the accrued expenses and other liabilities appearing on the face of the statement of financial position.

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly and comprise top management executives including the Chief Executive Officer and the Chief Financial Officer of the Company.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

23 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant amounts with the related parties are included in the following balances as at the financial position date:

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Entities controlled, jointly controlled or significantly influenced by related parties- Premiums receivable, net	5,442,023	7,396,731
-Reinsurance balance payable	(4,982,516)	(4,783,057)
- Accrued expenses	(7,728,660)	(9,625,626)
- Reinsurance share of gross outstanding claims	11,263,506	9,365,820
- Gross outstanding claims	(25,586,141)	(25,728,269)
Operational expenses paid on behalf of affiliates and reinsurance placements		
-Due from related parties	31,065	3,738,030
Operation expenses paid by affiliates on behalf of Company		
-Due to related parties:		
Insurance operations	(650,776)	(854,256)
Shareholder's operations	(413,035)	(1,061,027)

Key management personnel's remuneration

Key management personnel of the Company include all directors (executive and non-executive) and senior management including the Chief Executive Officer and the Chief Financial Officer of the Company.

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

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Short term benefits	7,305,025	7,022,061
Charge end of service benefits for the year	320,919	223,448
	<u>7,625,944</u>	<u>7,245,509</u>

24 SEGMENTAL 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 administration expenses and other income.

Segment assets do not include (in respect of insurance operations) property and equipment, due from shareholders' operations, bank balances and cash, prepaid expenses and other assets, premiums and reinsurance balances receivable, net. Accordingly, these are included in unallocated assets and are managed and reported to the chief operating decision maker on a centralised basis.

Segment liabilities do not include (in respect of insurance operations) employees' end of service benefits, reinsurance balances payable, accrued expenses and other liabilities. Accordingly, these are included in unallocated liabilities and are managed and reported to the chief operating decision maker on a centralised basis.

All of the Company's operating assets and principal activities are located in the Kingdom of Saudi Arabia (except certain reinsurance balances and related party receivables).

Shareholders' operations is a non-operating segment. Certain direct operating expenses, other overhead expenses and loss or surplus from the insurance operations are allocated to this segment on an appropriate basis.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

24 SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2017

	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Group Life SR	Others SR	Total SR
Insurance operations								
Gross written premiums	91,652,083	91,653,083	17,017,830	4,992,950	26,004,740	16,871,831	15,176,869	263,369,386
Reinsurance premiums ceded	(61,266,095)	--	(14,925,387)	(2,412,040)	(13,596,592)	(10,360,016)	(5,585,845)	(108,145,975)
Excess of loss premiums	(2,499,818)	(1,707,963)	(1,390,811)	(223,134)	(1,936,431)	(749,973)	(346,537)	(8,854,667)
Net written premiums	27,886,170	89,945,120	701,632	2,357,776	10,471,717	5,761,842	9,244,487	146,368,744
Change in unearned premiums, net	4,467,349	(3,947,742)	213,518	(649,124)	937,355	521,021	2,401,780	3,944,157
Net premiums earned	32,353,519	85,997,378	915,150	1,708,652	11,409,072	6,282,863	11,646,267	150,312,901
Gross claims paid	(8,785,912)	(47,458,525)	(9,431,906)	(3,394,966)	(10,278,897)	(7,363,926)	(3,765,214)	(90,479,346)
Reinsurers' share of gross Claims paid	7,019,030	--	8,392,316	2,140,979	5,600,644	5,517,445	3,239,155	31,909,569
Change in outstanding claims, net	2,793,990	1,572,421	1,850,677	185,561	6,185,714	(935,675)	293,352	11,946,040
Net claims incurred	1,027,108	(45,886,104)	811,087	(1,068,426)	1,507,461	(2,782,156)	(232,707)	(46,623,737)
Policy acquisition costs	(3,676,622)	(8,429,968)	(2,131,703)	(136,996)	(1,587,987)	(8,597,367)	(859,904)	(25,420,547)
Reinsurance commission income	7,950,241	--	8,742,882	(87,632)	5,802,280	(322,760)	204,928	22,289,939
Other underwriting expenses	37,654,246	31,681,306	8,337,416	415,598	17,130,826	(5,419,420)	10,758,584	100,558,556
Net underwriting surplus	--	--	--	--	--	--	--	(1,383,365)
General and administrative expenses								99,175,191
Investment income								(57,102,366)
Other income								2,941,812
Insurance operations' surplus								15,870
								45,030,507

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

24 SEGMENTAL INFORMATION (continued)

	<i>For the year ended 31 December 2016</i>							
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Group Life SR	Others SR	Total SR
Insurance operations								
Gross written premiums	136,185,638	84,345,157	18,732,813	2,355,976	34,607,654	13,174,868	21,348,638	310,750,744
Reinsurance premiums ceded	(95,097,749)	--	(15,415,346)	(1,288,987)	(17,217,828)	(7,004,180)	(5,981,725)	(142,005,815)
Excess of loss premiums	(2,826,972)	(1,224,988)	(749,993)	(182,998)	(1,580,984)	(1,359,986)	(220,299)	(8,146,220)
Net written premiums	38,260,917	83,120,169	2,567,474	883,991	15,808,842	4,810,702	15,146,614	160,598,709
Change in unearned premiums, net	3,616,736	39,583,199	91,141	37,339	1,051,836	2,382,006	(64,007)	46,698,250
Net premiums earned	41,877,653	122,703,368	2,658,615	921,330	16,860,678	7,192,708	15,082,607	207,296,959
Gross claims paid	(75,135,249)	(80,127,199)	(7,338,927)	(2,420,976)	(11,948,881)	(10,949,891)	(3,041,272)	(190,962,395)
Reinsurers' share of gross claims paid	73,783,562	--	6,570,444	1,301,987	6,556,834	8,647,914	143,893	97,004,634
Change in outstanding claims, net	(8,117,384)	(4,001,939)	1,764,584	(56,159)	1,063,943	1,093,576	511,570	(7,741,809)
Net claims incurred	(9,469,071)	(84,129,138)	996,101	(1,175,148)	(4,328,104)	(1,208,401)	(2,385,809)	(101,699,570)
Policy acquisition costs	(5,281,459)	(9,645,456)	(1,964,726)	(19,966)	(2,136,976)	(174,428)	(1,670,069)	(20,893,080)
Reinsurance commission income	7,735,746	--	3,212,379	(104,437)	4,606,169	1,248,003	302,032	16,999,892
Other underwriting expenses	34,862,869	28,928,774	4,902,369	(378,221)	15,001,767	7,057,882	11,328,761	101,704,201
Net underwriting surplus								(1,579,504)
General and administrative expenses								100,124,697
Investment income								(57,183,073)
Other income								3,063,725
Insurance operations' surplus								421,006
								<u>46,426,355</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

24 SEGMENTAL INFORMATION (continued)

	<i>As at 31 December 2017</i>							Total SR
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Group Life SR	Others SR	
Insurance operations' assets								
Reinsurers' share of unearned Premiums	32,907,828	--	7,588,561	1,188,852	4,249,986	92,019	3,112,739	49,139,985
Reinsurers' share of outstanding claims	26,260,875	--	11,228,148	678,541	8,979,914	14,887,151	4,848,689	66,883,318
Deferred policy acquisition Costs	697,148	1,764,784	780,523	196,293	207,998	31,094	113,750	3,791,590
Unallocated assets								<u>283,321,757</u>
								<u>403,136,650</u>
Insurance operations' liabilities								
Gross outstanding claims	37,797,835	68,486,339	14,028,601	1,576,150	14,089,670	21,168,336	8,560,802	165,707,733
Gross unearned premiums	52,061,479	23,805,762	8,589,914	2,428,976	6,911,931	177,998	6,127,267	100,103,327
Unearned reinsurance commission Income	1,861,075	--	1,746,803	--	584,833	--	271,955	4,464,666
Unallocated liabilities & Surplus								<u>132,860,924</u>
								<u>403,136,650</u>

	<i>As at 31 December 2016</i>							Total SR
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Group Life SR	Others SR	
Insurance operations' assets								
Reinsurers' share of unearned Premiums	48,019,520	--	8,500,861	679,993	4,580,654	629,994	2,766,624	65,177,646
Reinsurers' share of outstanding claims	20,307,937	--	11,593,904	203,518	10,063,909	11,508,338	6,255,290	59,932,896
Deferred policy acquisition Costs	1,258,801	1,197,842	1,019,245	51,292	340,000	27,547	250,859	4,145,586
Unallocated assets								<u>282,083,375</u>
								<u>411,339,503</u>
Insurance operations' liabilities								
Gross outstanding claims	34,638,744	70,058,059	16,244,988	1,286,677	21,359,266	16,849,762	10,265,855	170,703,351
Gross unearned premiums	71,640,284	19,857,801	9,715,720	1,270,987	8,180,918	1,236,988	8,182,447	120,085,145
Unearned reinsurance commission Income	3,940,986	--	1,875,521	32,917	936,568	2,517	118,444	6,906,953
Unallocated liabilities & Surplus								<u>113,644,054</u>
								<u>411,339,503</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

25 EMPLOYEE END OF SERVICE BENEFITS

The movement in provision for end-of-service benefits for the year ended 31 December 2017 as follows:

	<u>2017</u> <i>SR</i>	<u>2016</u> <i>SR</i>
Balance as 30 January	9,803,018	9,257,619
Current service cost	1,881,540	3,327,445
Interest cost	169,982	--
	<u>2,051,522</u>	<u>3,327,445</u>
Amount recognized in profit or loss		
Re-measurement loss recognized in other comprehensive income	1,675,028	--
Benefits paid during the year	<u>(2,607,842)</u>	<u>(2,782,046)</u>
Balance as 31 December	<u>10,921,726</u>	<u>9,803,018</u>

a) Re-measurement loss recognized in other comprehensive income for the year ended 31 December 2017 as follows:

	<u>2017</u> <i>SR</i>	<u>2016</u> <i>SR</i>
Effect of experience adjustments	1,675,028	--
Re-measurement loss recognized in other comprehensive income	<u>1,675,028</u>	<u>--</u>

b) Net defined benefit as at year-end as follows:

	<u>2017</u> <i>SR</i>	<u>2016</u> <i>SR</i>
Present value of defined benefit obligation	<u>10,921,726</u>	<u>9,803,018</u>

c) Principal actuarial assumptions

The following were the principal actuarial assumptions:

Key actuarial assumptions	<u>2017</u> <i>SR</i>	<u>2016</u> <i>SR</i>
Discount rate used	2%	2%
Future growth in salary	3%	3%
Retirement Age	<u>60 year</u>	<u>60 year</u>

Discount rate used

This is the rate used to obtain the actuarial present value of the projected benefits. As per International Accounting Standard 19 "Employee Benefits", the rate used to discount post-employment benefit obligations shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The discount rate is derived with reference to the rates available in the market for the duration allowed as per the Company's investment policy. The Company currently considers bonds with a minimum credit rating of A as per Standard & Poor's or the equivalent from Moody's.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

25 EMPLOYEE END OF SERVICE BENEFITS (continued)

c) Principal actuarial assumptions (continued)

Salary increases

With regards to the past trend, it is assumed that the salaries would increase at a rate of 3% per annum compound in the long range. The valuation is sensitive to the gap between the interest and salary increase assumptions. Salary increments are assumed to be given on 1st of April every year.

Turnover

We assumed age-dependent withdrawal rates, with high rates for younger employees. It was assumed that there would be zero withdrawals after age 55 years.

Sensitivity analysis

Reasonably possible changes as to one of the relevant actuarial assumptions, holding other assumptions constant, the amount of defined benefit obligations would have been:

	<i>2017</i>	
	<i>SR</i>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (0.5% movement)	<u>9,924,240</u>	<u>11,722,160</u>
Future salary growth (0.5% movement)	<u>11,499,005</u>	<u>10,725,055</u>
	<i>2016</i>	
	<i>SR</i>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (0.5% movement)	<u>9,610,091</u>	<u>10,003,203</u>
Future salary growth (0.5% movement)	<u>10,000,249</u>	<u>9,611,015</u>

d) Risks associated with defined benefit plans

Longevity risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual salary increases are higher than expectation and impacts the liability accordingly.

26 RISK MANAGEMENT

Risk Governance

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

Risk management structure

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

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

26 RISK MANAGEMENT (continued)

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.

Audit Committee and Internal Audit Department

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

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 policy 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, motor, engineering, 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, casualty, medical and marine classes. These classes of insurance except for long tail engineering policies are generally regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Sources of uncertainty in estimation of future probable claim payments

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at balance sheet date the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of outstanding claims (including IBNR) are given under notes 2 (d) and 10 (d).

Process used to decide on assumptions

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

26 RISK MANAGEMENT (continued)

a) Insurance risk (continued)

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

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

Property

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

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

Engineering

The engineering business includes long term Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD. The long tail EAR/CAR policies cover various projects for the whole project period. Selection of the risks and proper underwriting are the criteria for this line of business. These are adequately covered under the Engineering proportional and non-proportional treaties.

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive policies for owner/drivers over 18 years of age. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 2million (2016: SR 2 million).

Medical

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risks and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has reinsurance cover to limit the losses for any individual claim to SR 1.5 million (2016: SR 1.5 million).

Marine

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

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. The Company has reinsurance cover to limit losses for any individual claim, to SR 1.75million (2016: SR 1.75 million).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

26 RISK MANAGEMENT (continued)

a) Insurance risk (continued)

Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in property and motor. The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location or by the same party. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluate the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company. Since the Company does not have any foreign operations, hence, all the insurance risks relate to policies written in Saudi Arabia.

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 claims ratio would impact income annually in aggregate by:

<i>Change in claim ratio</i>	<i>Effect on income 2017 – SR</i>	<i>Effect on income 2016 – SR</i>
+10%	4.7 million	10 million
-10%	4.7 million	10 million

b) Claims management risk

Claims management risk may arise within the company in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the company and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The company's claims teams are focused on delivering quality, reliability and speed of service the policyholders. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

c) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the company where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions. To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognized techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances. The objective of the company's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business.

d) 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.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

26 RISK MANAGEMENT (continued)

d) Reinsurance risk (continued)

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 in this connection is SR 66.9 million (2016: SR 59.9million).

e) Regulatory framework risk

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

f) Credit risk

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

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

- The Company only enters into insurance and reinsurance contracts with recognised, 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 ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's 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 having strong financial positions and credit ratings.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk on its financial assets as at 31 December 2017 is SR346.6 million for Insurance Operations (31 December 2016: SR 329.2million) and SR 374.2 million for Shareholders' Operations (31 December 2016: SR 372.6 million).

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

	2017		2016	
	SR	SR	SR	SR
	<i>Insurance' Operations</i>	<i>Shareholders' Operations</i>	<i>Insurance' Operations</i>	<i>Shareholders' Operations</i>
Assets				
Cash and bank balances	15,010,117	1,641,181	25,392,144	208,948
Time deposits	181,537,208	252,567,514	173,980,565	253,669,070
Investments	1,923,079	75,354,830	1,923,079	75,877,200
Premiums and insurance balances receivable	81,184,580	--	64,217,031	--
Reinsurers' share of outstanding claims	66,883,318	--	59,932,896	--
Due from related parties	31,065	--	3,738,030	--
Other assets	--	2,429,954	--	1,624,061
Statutory deposits	--	40,000,000	--	40,000,000
Return on investment of statutory deposit	--	2,203,640	--	1,241,902
	346,569,367	374,197,119	329,183,745	372,621,181

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

26 RISK MANAGEMENT (continued)

f) Credit risk

Concentration of credit risk

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

g) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligation and commitments associated with financial liabilities when they fully due. The Company has a proper cash management system, where daily cash collection and payments are monitored and reconciled at the end of the day. At the time of investment, particular emphasis is focused on the selection of those companies which are actively traded. 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 maturity profile of the financial assets and liabilities of the Company based on remaining expected undiscounted contractual obligations:

	2017			2016		
	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>
	SR	SR	SR	SR	SR	SR
INSURANCE OPERATIONS' ASSETS						
Cash and bank balances	15,010,117	--	15,010,117	25,392,144	--	25,392,144
Term deposits	181,537,208	--	181,537,208	173,980,565	--	173,980,565
Investments	--	1,923,079	1,923,079	--	1,923,079	1,923,079
Premiums and insurance balances receivable, net	81,184,580	--	81,184,580	64,217,031	--	64,217,031
Due from related parties	31,065	--	31,065	3,738,030	--	3,738,030
Due from shareholders' operations	--	--	--	10,331,206	--	10,331,206
Reinsurers' share of unearned premiums	49,139,985	--	49,139,985	65,177,646	--	65,177,646
Reinsurers' share of outstanding claims	66,883,318	--	66,883,318	59,932,896	--	59,932,896
Deferred policy acquisition costs	3,791,590	--	3,791,590	4,145,586	--	4,145,586
Prepayments and other assets	2,949,754	--	2,949,754	2,341,448	--	2,341,448
Property and equipment, net	--	685,954	685,954	--	159,872	159,872
TOTAL INSURANCE OPERATIONS' ASSETS	400,527,617	2,609,033	403,136,650	409,256,552	2,082,951	411,339,503

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

26 RISK MANAGEMENT (continued)

g) Liquidity risk (continued)

The tables below summarise the maturity profile of the financial assets and financial liabilities of the Company based on residual Maturity. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums, reinsurance share of unearned premiums and deferred acquisition cost have been excluded from the analysis as they are not contractual obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

	2017				Total
	<i>On Demand</i>	<i>Up to 1 year</i>	<i>2-5 years</i>	<i>More than 5 years</i>	
INSURANCE OPERATIONS' ASSETS					
Cash and bank balances	15,010,117	–	–	–	15,010,117
Term deposits	–	181,537,208	–	–	181,537,208
Investments	–	–	–	1,923,079	1,923,079
Premiums and insurance balances receivable, net	–	81,184,580	–	–	81,184,580
Due from related parties	–	31,065	–	–	31,065
Due from shareholders' operations	–	–	–	–	–
Reinsurers' share of unearned premiums	–	49,139,985	–	–	49,139,985
Reinsurers' share of outstanding claims	–	66,883,318	–	–	66,883,318
Deferred policy acquisition costs	–	3,791,590	–	–	3,791,590
Prepayments and other assets	–	2,949,754	–	–	2,949,754
Property and equipment, net	–	–	685,954	–	685,954
TOTAL INSURANCE OPERATIONS' ASSETS	15,010,117	385,517,500	685,954	1,923,079	403,136,650
SHAREHOLDERS' ASSETS					
Cash and bank balances	1,641,181	–	–	–	1,641,181
Term deposits	–	252,567,514	–	–	252,567,514
Investments	–	27,866,018	47,488,812	–	75,354,830
Due from insurance operations	–	29,936,364	–	–	29,936,364
Other assets	–	2,429,954	–	–	2,429,954
Return on investment of statutory deposit	–	–	–	2,203,640	2,203,640
Statutory deposit	–	–	–	40,000,000	40,000,000
TOTAL SHAREHOLDERS' ASSETS	1,641,181	312,799,850	47,488,812	42,203,640	404,133,483

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

26 RISK MANAGEMENT (continued)

g) Liquidity risk (continued)

	2017				Total
	On Demand	Up to 1 year	2-5 years	More than 5 years	
INSURANCE OPERATIONS' LIABILITIES					
Gross outstanding claims	--	165,707,733	--	--	165,707,733
Gross unearned premiums	--	100,103,327	--	--	100,103,327
Due to shareholders' operations	--	29,936,364	--	--	29,936,364
Accounts payable	--	13,018,837	--	--	13,018,837
Reinsurance balances payable	--	40,721,047	--	--	40,721,047
Due to related parties	--	650,776	--	--	650,776
Accrued expenses and other liabilities	--	29,671,446	--	--	29,671,446
Surplus distribution payable	--	9,615,756	--	--	9,615,756
Unearned reinsurance commission	--	4,464,666	--	--	4,464,666
Employees' end of service benefits	10,921,726	--	--	--	10,921,726
TOTAL INSURANCE OPERATIONS' LIABILITIES	10,921,726	393,889,952	--	--	404,811,678
SHAREHOLDERS' LIABILITIES					
Due to insurance operations	--	--	--	--	--
Due to a related party	--	413,035	--	--	413,035
Deferred return on Investment of Statutory deposit	2,203,640	--	--	--	2,203,640
Accrued expenses and other liabilities	--	34,652,071	--	--	34,652,071
TOTAL SHAREHOLDERS' LIABILITIES	2,203,640	35,065,106	--	--	37,268,746
2016					
	On Demand	Up to 1 year	2-5 years	More than 5 years	Total
INSURANCE OPERATIONS' ASSETS					
Cash and bank balances	25,392,144	--	--	--	25,392,144
Term deposits	--	173,980,565	--	--	173,980,565
Investments	--	--	--	1,923,079	1,923,079
Premiums and insurance balances receivable, net	--	64,217,031	--	--	64,217,031
Due from related parties	--	3,738,030	--	--	3,738,030
Due from shareholders' operations	--	10,331,206	--	--	10,331,206
Reinsurers' share of unearned premiums	--	65,177,646	--	--	65,177,646
Reinsurers' share of outstanding claims	--	59,932,896	--	--	59,932,896
Deferred policy acquisition costs	--	4,145,586	--	--	4,145,586
Prepayments and other assets	--	2,341,448	--	--	2,341,448
Property and equipment, net	--	--	159,872	--	159,872
TOTAL INSURANCE OPERATIONS' ASSETS	25,392,144	383,864,408	159,872	1,923,079	411,339,503

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

26 RISK MANAGEMENT (continued)

g) Liquidity risk (continued)

	2016				
	On Demand	Up to 1 year	2-5 years	More than 5 years	Total
SHAREHOLDERS' ASSETS					
Cash and bank balances	208,948	--	--	--	208,948
Term deposits	--	253,669,070	--	--	253,669,070
Investments	--	18,768,750	57,108,450	--	75,877,200
Due from insurance operations	--	--	--	--	--
Other assets	--	1,624,061	--	--	1,624,061
Return on investment of statutory deposit	--	--	--	1,241,902	1,241,902
Statutory deposit	--	--	--	40,000,000	40,000,000
TOTAL SHAREHOLDERS' ASSETS	208,948	274,061,881	57,108,450	41,241,902	372,621,181
INSURANCE OPERATIONS' LIABILITIES					
2016					
	On Demand	Up to 1 year	2-5 years	More than 5 years	Total
Gross outstanding claims	--	170,703,351	--	--	170,703,351
Gross unearned premiums	--	120,085,145	--	--	120,085,145
Due to shareholders' operations	--	--	--	--	--
Accounts payable	--	9,549,217	--	--	9,549,217
Reinsurance balances payable	--	54,019,105	--	--	54,019,105
Due to related parties	--	854,256	--	--	854,256
Accrued expenses and other liabilities	--	31,471,807	--	--	31,471,807
Surplus distribution payable	--	7,946,651	--	--	7,946,651
Unearned reinsurance commission	--	6,906,953	--	--	6,906,953
Employees' end of service benefits	9,803,018	--	--	--	9,803,018
TOTAL INSURANCE OPERATIONS' LIABILITIES	9,803,018	401,536,485	--	--	411,339,503
SHAREHOLDERS' LIABILITIES					
Due to insurance operations	--	10,331,206	--	--	10,331,206
Due to a related party	--	1,061,027	--	--	1,061,027
Deferred return on Investment of Statutory deposit	1,241,902	--	--	--	1,241,902
Accrued expenses and other liabilities	--	29,031,265	--	--	29,031,265
TOTAL SHAREHOLDERS' LIABILITIES	1,241,902	40,423,498	--	--	41,665,400

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

h) Foreign 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 currencies linked to the Saudi Riyal.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

26 RISK MANAGEMENT (continued)

i) Investment income rate risk

Investment income rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market investment income rates. Floating rate instruments expose the company to cash flow investment income risk, whereas fixed investment income rate instruments expose the company to fair value interest risk. The Company is not exposed to investment income rate risk as rates are fixed.

j) Market rate risk

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

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

The sensitivity of the income on the assumed changes in the market prices of quoted available for sale investments on the statement of shareholders' comprehensive income is set out below:

	<i>Change in market price</i>	<i>Effect on statement of shareholders' comprehensive operations SR</i>
2017	+5%	3,767,742
	-5%	(3,767,742)
2016	+5%	3,793,860
	-5%	(3,793,860)

k) Capital management

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulator's capital requirements of the market in which the Company operates while maximizing the return to stakeholders through the optimization of 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. In order to maintain or adjust the capital structure, the Company may issue right shares.

As per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

- Minimum Capital Requirement of SR 200 million
- Premium solvency margin
- Claims solvency margin

The Company has fully complied with the externally imposed capital requirements during the reported financial year.

27 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 19 March 2018, corresponding to 02 Rajab 1439H.