



His Royal Highness  
**Prince Mohammad Bin Salman  
Bin Abdulaziz Al-Saud**  
Crown Prince, First Deputy Prime  
Minister And Minister of Defense.



Custodian of the  
Two Holy Mosques  
**King Salman Bin  
Abdulaziz Al-Saud**



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# Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I present the 10th Annual Report and Financial Statements of Allianz Saudi Fransi Cooperative Insurance Company pertaining to the fiscal year ending 31 December 2017.

Market conditions were more challenging in 2017 with limited growth compared to the previous years. Nevertheless, the Company adjusted its strategies to these conditions in order to ensure ongoing "Profitable-Growth" development. Customer Centricity is at the center of our strategy. To improve the services provided to our clients, the Company introduced a new Customer Excellence Unit that is analyzing customer journeys in order to identify possible pain points, to resolve them systematically and to improve the customer experience.

In 2017, we launched an Online Motor Fast Quotation tool. It allows the customers to issue an instant third party motor insurance quote based on customer's loss experience with only limited parameters being captured. The Company also started its online motor sales through an aggregator website.

As part of our Multi-distribution strategy, we expanded our sales channels in the 3 main regions of the country to better serve our customers and partners.

These initiatives helped us in reaching a Net Profit before Zakat & Tax of SAR 35 Million, the highest since establishment in 2007. This increase represents a growth of 43% compared to 2016. This also shows how efficient the company's underwriting policies have been over the past few years.

Under our Corporate Social Responsibility activities the company launched two CSR Campaigns in 2017. At the beginning of the School Year, Company Employees distributed 600 bags complete with stationery to students in 9 schools. The Company also collaborated with King Fahad Medical City (KFMC) to organize a Blood Donation Campaign.

In 2018, the Company will focus on further enhancing the customer experience and the digitalization of services and operations. Furthermore, we will continue to develop our multi-distribution channels strategy for both Retail and Corporate Customers.

Development and empowering our employees are an essential part of our renewal agenda in order to reinforce the culture of the Company where people and performance matter without excluding anyone.

I express my sincere gratitude to all of our employees and distribution partners for this outstanding achievement. I remain convinced that a motivated and well-qualified workforce is of utmost importance and the basis for our success. Likewise the positive results of our annual Allianz Engagement Survey show that our employees continue to value Allianz Saudi Fransi as an attractive employer.

I would also like to express my deepest gratitude to the Custodian of the Two Holy Mosques King Salman Bin Abdul Aziz Al Saud and his Crown Prince Mohammad Bin Salman Al Saud for their continuous support to the Insurance Industry. I would also like to thank the Saudi Arabian Monetary Agency, the Council of Cooperative Health Insurance, the Capital Market Authority and the Ministry of Commerce & Industry. I take this opportunity to thank the Board of Directors, the Management and the Staff for their support and dedication.

**Al Waleed Abdulrazak Al Dryaan**

Chairman

# The Board of Directors' Report

The Board of Directors (BOD) of Allianz Saudi Fransi Cooperative Insurance Company has the pleasure to present to the shareholders, the Company's 10th Annual Report together with the audited financial statements for the fiscal year ending on 31st December 2017.

Following is a presentation of the most significant developments, operational activities and financial results:

## 1. Introduction

Allianz Saudi Fransi Cooperative Insurance Company is a joint stock company, founded upon the decision of the Council of Ministers No. 233 dated 161427/9/ H, 9th October 2006 and the Royal Decree No. 60/M dated 181427/09/ H, 11th October 2006.

The initial authorized and issued Capital of the Company was SAR 100 million. In April 2010, the Company increased its capital through rights issue. The share capital of the Company became SAR 200 million consisting of 20 million shares. The ownership of Allianz Saudi Fransi's shares as of 31st December 2017 is as follows:

- 32.50% Banque Saudi Fransi (BSF)
- 16.25% Allianz France – (100% owned by Allianz SE)
- 16.25% Allianz MENA Holding Bermuda – (100% owned by Allianz SE)
- Within the remaining 35% public shareholders, the following owns more than 1% share:
  - 4.14% Prince Abdullah Bin Mosaed Bin Abdul Aziz Al Saud
  - 1.15% Adel Mohammed Abdul Samad Izzat
  - 1.08% Mustafa Fouad Ali Redha
  - 1.03% Abdullah Abdul Aziz Al Khalifa

The Company has received its operational license (Ref: TMN/1120083/) from the Saudi Arabian Monetary Agency (SAMA) on 301429/02/ H, 8th March 2008 and has successfully renewed it on 301432/02/ H– 5th February 2011, on 291435/02/ H - 1st January 2014 and on 281438/02/ corresponding to 28th November 2016 for a period of another 3 years.

On 25th October 2017, Allianz Saudi Fransi (AzSF) has been informed that Allianz Group has reached a legally binding agreement with Banque Saudi Fransi (BSF) to purchase from BSF 57% of its shareholding in AzSF, representing 18.5% of the share capital of the company, at a price of SAR 22.0 per share. The transaction received SAMA non-objection and will be completed by Allianz Europe BV (a 100% subsidiary of Allianz SE).

The transaction will be subject to further regulatory approvals. Following the completion of the transaction, Allianz Group will hold 51.0% of the share capital of Allianz Saudi Fransi Cooperative Insurance Company (Allianz Europe BV will hold 18.5%, Allianz France International will hold 16.25% and Allianz Mena Holding Bermuda will hold 16.25%) and Banque Saudi Fransi will hold 14.0% respectively. Banque Saudi Fransi will remain a strategic partner of Allianz Saudi Fransi. With this transaction, Allianz Group is increasing its commitment to further develop its operations in the Kingdom of Saudi Arabia.

## 2. The Company's Vision, Mission, Strategy & Values

### Our Vision is

To be amongst top Saudi Insurers with global expertise and local insight,  
providing world class products and services in all lines of business,  
with nationwide reach using diverse channels of distribution,  
through highly trained and motivated employees.

## Our Mission Statement is

Create Trust – Deliver Excellence from A to z

## Our Strategy is

To provide insurance solutions in all lines of business through three axes of development:

- Banque Saudi Fransi: to provide Retail and Corporate Bancassurance products.
- Direct Sales Force: to provide individual insurance solutions.
- Selected brokers and dedicated account executives: to provide comprehensive solutions for corporate customers.

The Company will keep investing strongly to develop those distribution channels with the aim to further develop its market position in Property, Casualty and Health Business as well as in Protection and Savings products.

## Our Values are

Expertise, Integrity and Sustainability.

## 3. Allianz Saudi Fransi Key Dates and Developments

Allianz Saudi Fransi witnessed since its incorporation many significant developments:

### 2006

**October**  
The founders received the authorization to establish the Company as per Royal Decree No. 60/M

### 2007

**March**  
The Company went public through an Initial Public Offering

**June**  
The Constituting General Assembly was held

### 2008

**March**  
The Operational License from SAMA (Ref: TMN/11/20083) was obtained

**September**  
The Company moved to the New Head Office in Riyadh and received its first products' approval

**November**  
SAMA approved the transfer of Insaudi portfolio subject to no goodwill

### 2009

**January**  
Insaudi portfolio transfer was completed and integrated in the opening balance sheet for 2009

**March**  
The individual Protection & Savings products approvals were received

**November**  
Banque Saudi Fransi Bancassurance Protection & Savings products approvals are received

### 2010

**April**  
The Company Completed its 10 million shares rights issue and the Capital became SAR 200 Million

**November**  
BSF Bancassurance Portfolio transfer was completed

### 2011

**February**  
The Company renewed its operational license from SAMA (Ref: TMN/1120083/) for another 3 years

**June**  
The Company launched the Sharia Compliant Protection & Savings "Gold" Products



## 2012

### January

The Company restructured its Direct Sales Force for Retail Business as well as its branches

### August

The Company restructured its Corporate Sales Force to better serve corporate and commercial customers

## 2013

### January

Launched common workflow platform for all Sales Channels including Sales Support function

### August

Xavier Denys succeeded Antoine Issa as Chief Executive Officer

## 2014

### January

The Company obtained from SAMA the renewal of its operational license for 3 years

### May

Mr. Ammar Al Khudairy appointed as new Chairman of the Company

### September

D&O Liability and Medical Malpractice Insurance Products approved by SAMA

### November

Mr. Oliver Bäte, Future CEO of Allianz SE (Effective 7th of May 2015) visited the company

## 2015

### September

Mr. Sergio Balbinot, Member of Allianz SE Board of Management, Insurance Western & Southern Europe, Middle East, Africa, India visited the company

### October

The Company obtained from SAMA the Visitor insurance product approval. Claims Workflow launched in the H.O. and Branches

### November

Launching the new strategic initiatives (Renewal Agenda)

### December

The Company achieved the highest Net Profit - before zakat and tax since the establishment

## 2016

### February

Renewal Agenda official kick off and announcement to employees

### February

The Company participated in the Janadriyah Festival as part of the German Guest of Honor Pavilion

### November

The Company obtained from SAMA the renewal of its operational license for 3 years.

### December

Full Fledged Customer Call Center launched.

## 2017

### March

The Company opened Travel Insurance Points of Sale at the VFS Centers in Riyadh, Jeddah and Khobar

### September

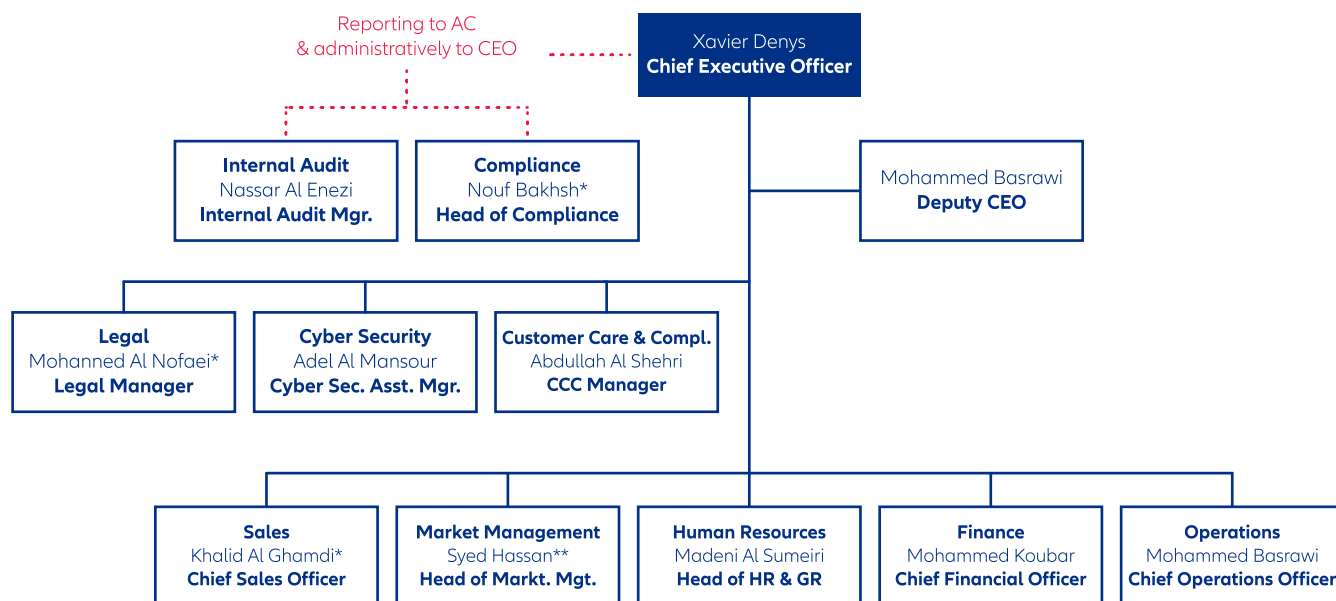
Fast Quote online Motor Quotation Tool launched.

### October

Allianz Group reached an agreement with Bank Saudi Fransi to purchase an 18.5% shareholding in Allianz Saudi Fransi from the Bank.

## 4. Organization Chart

Allianz Saudi Fransi organization structure as of 31st December 2017 is shown here below:



\* Joined in 2018

\*\* Resigned with effective date 31/1/2018

## 5. Top Management

The members of the Top Management of the Company are:

Name	Position	Year of Birth	Latest Degree
Xavier Denys	Chief Executive Officer	1968	Masters of Commercial Engineering
Mohammed Basrawi	Deputy Chief Executive Officer	1957	Masters of Science, BA Civil Engineering,
Madeni Al Sumeiri	Head of HR & Gov. Relations	1963	Bachelor of Business Administration
Syed Hassan *	Head of Market Management	1957	Masters of Science
Mohammad Koubar	Chief Financial Officer	1979	BA in Finance and Accounting

\* Resigned with effective date 31/1/2018

## 6. Human Resources

As part of our Renewal Agenda, we introduced the Inclusive Meritocracy initiative to re-enforce a culture where both people and performance matter. We foster knowledge and strive for excellence at every point with the customer. Thus its important that we empower our employees and provide them with purpose and direction, encourage them to take the initiative to improve our customer experience and move forward in their careers. In 2017 Allianz Saudi Fransi continued its efforts to preserve the ratio of Saudization. As of 31st December 2017 the percentage of Saudi nationals within the company represented **68.6%**.



## 7. Geographical Presence

Our geographical presence in the Kingdom of Saudi Arabia is shown here below:

Office	Address	Telephone & Fax	
<b>Riyadh Head Office &amp; Riyadh Branch</b>	Al Safwa Commercial Building, Khorais Road, Al Khaleej Bridge, Malaz District, P.O. Box 3540, Riyadh 11481	Tel: +966 (11) 821 3000 Tel: +966 (11) 920028727 Fax: +966 (11) 821 3999 Toll Free: 800301001	
<b>Jeddah Regional Office</b>	Ewan Center, 1st Floor, Suite 102,, Ibrahim Juffali Street (intersection with Tahlia Street), Andalus District, P.O. Box 122901, Jeddah 21332	Tel: +966 (12) 283 0228 Fax: +966 (12) 283 0718	
<b>Khobar Branch (Corporate Sales &amp; Claims)</b>	Al Sharq Tower, 3rd Floor, Office No. 12, Al Dhahran Street, P.O. Box 15217, Khobar 31952	Tel: +966 (13) 898 2671 Fax: +966 (13) 898 2646	
<b>Hassa Branch (Retail Sales &amp; Claims)</b>	Al Harshan Tower, 1st Floor,, Al Dhahran Street, Al Mubarraz, Al Shroufiyah District P.O. Box 3996, Dammam 31429	Tel: +966 (13) 531 4521 Fax: +966 (13) 582 8118	
<b>Dammam Branch (Retail Sales)</b>	Reviera Building, Al Khaleej Road, P.O. Box 36622, Dammam 31429	Tel: +966 (13) 802 0385 Fax: +966 (13) 802 0392	
<b>Madinah Branch (Retail Sales &amp; Claims)</b>	AlDiola Building, King Abdul Aziz Road P.O. Box 501, Madinah 41421	Tel: +966 (14) 834 0627 Fax: +966 (14) 834 3788	

## 8. The Company's Products and Services

Allianz Saudi Fransi provides comprehensive insurance services to corporate and individual customers. With the General line of business (Property and Casualty insurance), Allianz Saudi Fransi embraces the entire spectrum of risk management supported by a diversified range of insurance products for corporate and individual customers. With the Protection, Savings and Health insurances, the company plays a leading role in the field of Employee Benefits schemes as well as in retail with Health, Retirement and Education savings plans. The Company provides corporate and individual solutions as listed hereunder:

Corporate Solutions	Individual Solutions	Bancassurance Solutions
<b>Employee Benefits</b>	<b>Protection &amp; Savings</b>	<b>Protection &amp; Savings</b>
Group Protection & Health	Waad Al Ousra Gold (Protection)	Al Anjal (Education)
Workmen Compensation	Waad Al Ajyal Gold (Education)	Al Ghad (Retirement)
Group Personal Accidents (PA)	Waad Al Isteqrar Gold (Retirement)	<b>Protection &amp; Savings (Takaful)</b>
<b>Engineering</b>	<b>Property, Casualty &amp; Health</b>	Takaful Al Anjal (Education)
Contractors All Risks (CAR)	ASF Property & House Occupants	Takaful Al Ghad (Retirement)
Erection All Risks (EAR)	Comprehensive	<b>Property, Casualty &amp; Health</b>
Machinery Breakdown	ASF Motor	<b>Comprehensive Motor Insurance</b>
Electronic Equipment	ASF Health	<b>Third Party Liability Motor Insurance</b>
Boiler Pressure & Vessel	ASF Personal Accident	<b>Travel Insurance</b>
Contractors Plant & Machinery	ASF Travel	
<b>Property &amp; Casualty</b>		
Property All Risks		
Fire, Theft, Money		
Sabotage and Terrorism		
Motor Fleet		
<b>Liability</b>		
<b>Fidelity Guarantee</b>		
<b>Comprehensive Crime</b>		
Third Party Liability		
Public & Product Liability		
Public Liability		
Bankers Blanket Bond and Electronic and Computer Crime		
<b>Marine &amp; Cargo</b>		
<b>Credit Insurance</b>		
<b>D&amp;O Insurance</b>		
<b>Medical Malpractice Insurance</b>		

## 9. Financial Highlights

### a) Gross Written Premiums

The Gross Written Premiums amounted to SAR 925.5 Million for the twelve months ended December 2017 against SAR 836.2 Million for the twelve months ended December 2016 showing an increase of 10.7%. The split per line of business is as follows:

SAR Million	2017	2016	2015	2014	2013
■ Property, Casualty & Health:	788.9	788.9	632.2	546.3	568.3
a) Motor:	428.1	299.0	199.0	155.2	153.5
b) Engineering:	50.4	74.0	107.2	116.6	152.9
c) Medical:	104.4	123.8	103.1	55.3	61.6
d) Other General:	206	189.5	222.9	219.2	200.3
■ Protection & Savings:	136.6	149.9	171.0	178.8	177.6

Gross Written Premiums increased by 14.9% compared to 2016. This was mainly driven by 43.2% growth in Motor. Engineering was influenced by the economical slowdown and therefore show a decrease of 31.9% in GWP. Medical Business fell behind 2016 by 15.7%. This was mainly influenced by the measures taken to clear the portfolio from a number of loss making accounts. Other General lines showed a growth of 8.7% driven by our competitive pricing and technical excellence. Protection & Savings Gross Written Premiums declined by 8.9% compared to 2016 due to the limited new business influenced by the economical slowdown as well.

Although all the premiums are booked in the Head Office in Riyadh, the sales process is decentralized in the various offices in the Kingdom of Saudi Arabia.

The volumes generated in each region are summarized below:

SAR Million	2017	2016	2015	2014	2013
Central Region:	684.7	611.0	582.6	455.4	469.0
Western Region:	135.3	99.8	126.1	111.3	146.6
Eastern Region:	105.5	125.4	94.5	158.4	130.3

### b) Net Premiums Earned

The Net Premiums Earned calculated after deducting the premiums ceded to reinsurers and the reserves for unearned premiums, amounted to SAR 638.2 Million for the year ended December 2017 against SAR 500.0 Million for the year ended December 2016.

The company retains the bigger part of the business in Motor and Medical while in Engineering and other general lines, reinsurance cession are more important in view of the size of the risk and the exposure. Therefore, and as a result of the growth of premium in Motor, the net earned premium increased by 27.6% in 2017 compared to the previous year.

### c) Mathematical Reserve Change

The Mathematical Reserve Change applicable to Protection & Savings products amounted to SAR 20.6 Million for the twelve months ended December 2017 against SAR (0.9) Million in 2016 due to the net impact of written premiums, Surrenders and revaluation of Unit Link Investments.

The unrealized gain on unit-linked investment related to Protection & Savings products amounted to SAR 16.6 Million for the twelve months ended December 2017 against SAR 14.6 Million in 2016. This is coming from the market fluctuation of the underlying funds.

### d) Other Income

Other Income represents the income generated from the available for sale investments allocated to insurance operations along with other operational income and amounted to SAR 6.4 Million in 2017 against SAR 8.0 Million in 2016. The decrease is mainly driver by lower income booked from "Manafeth" agreement.

#### e) Net Incurred Claims

The Net Incurred Claims during the period after deducting the reinsurance shares and reserves amounted to SAR (498.7) Million for the twelve months ended December 2017 against SAR (376.5) Million for the twelve months ended December 2016, representing an increase of 32.5%. This is mainly due to the growth in Motor business which was associated with an increase in its net incurred claims by 48.5%.

#### f) Net Commissions

The commissions paid to producers, net of the commissions received from reinsurers amounted to SAR (32.1) Million for the twelve months ended December 2017 against SAR (31.4) Million for the twelve months ended December 2016. No significant movement due to higher commission expenses incurred on the Motor business compensated by higher commission earned from RI in General Lines.

#### g) General Expenses

The Company has incurred during 2017 insurance operations expenses of SAR (105.4) Million, against insurance operations expenses of SAR (75.9) Million during 2016. The increase was driven by expenses incurred to reinforce the company's structure and to support the growth in Motor business.

In addition, the Company incurred during 2017 expenses of SAR (0.9) Million allocated to the shareholders operations against expenses of SAR (3.1) Million during 2016 which was mainly driven by the consultant fees incurred.

#### h) Net Surplus from insurance operations (Operating Results)

The technical result before shareholder investment income and before shareholder general expenses is showing a Net Surplus of SAR 33.5 Million for the twelve months ended December 2017 against a Net Surplus of SAR 26.5 Million for the twelve months ended December 2016, representing an increase by 26.4%.

The excellent performance in Property & Casualty lines of business with a combined ratio of 93.5% as of December 31, 2017, is an important driver for such result.

Note: The operating result announced on Tadawul represents the operating results explained above and amounting to SAR 33.5 Million, minus the revaluation of the policyholders' investments amounting to SAR 16.5 Million in 2016.

This is done only to comply with the announcement requirements on Tadawul and does not reflect the actual operating results.

#### i) Investments

The Company investments excluding investments from unit-linked Protection & Savings products as of December 2017 are summarized here below:

SAR Million	2017	2016	2015	2014	2013
Cash & cash equivalents:	133.3	77.2	56.8	68.6	52
Sukuk/Funds:	305.8	237.2	226.6	213.5	183.9
Subscription in Najm & NextCare Companies:	3.2	3.2	3.2	3.2	3.2
Held to maturity	-	-	-	-	-

The investment income excluding unrealized gain on investments from unit-linked Protection & Savings products and excluding Other Operational Income amounted to SAR 7.8 Million as of December 2017 against SAR 6.3 Million as of December 2016. The shareholders' share of the investment income is SAR 5.6 Million as of December 2017 compared to SAR 3.7 Million as of December 2016.

#### j) Net Income before Zakat and Tax

The result for the twelve months ended 31st December 2017 is a Net Income before zakat & tax of SAR 35 Million after a distribution of 10% of the Net Surplus from insurance operations amounting to SAR 3.4 Million against a Net Income of SAR 24.4 Million after a distribution of 10% of the Net Surplus from insurance operations amounting to SAR 2.7 Million for the twelve months ended 31st December 2016. The increase in net profit before zakat is mainly due to the increase of net earned premium by 27.6%.

The increase in Net Profit before Zakat is mainly driven by the company's focus on profitable growth, which is demonstrated in an increase of 138.2 Mn in Net Earned Premium compared to an increase of 122.3 Mn in Net Incurred Claims. This profitable growth was mainly driven by the Motor Business where Gross Written Premiums increased by 43.2% and operating results increased by 133.5%. The excellent performance in other general lines also contributed in the presented results and was demonstrated in the increase of 47% in commissions earned from the reinsurers. Also the results were influenced by a higher return on investments and lower expenses in shareholders activities.

#### k) Assets

The total Assets of the Company as of 31st December 2017 amounted to SAR 2,008.1 Million divided as follows:

SAR Million	2017	2016	2015	2014	2013
Insurance Operations' Assets	1,734.6	1,756.5	1,692.4	1,536.1	1,295.1
Shareholders' Assets	273.6	238.1	215.9	195.5	180.4

#### l) Shareholder's Equity

The Shareholder's Equity as of 31st December 2017 amounted to SAR 251.1 Million, split as follows:

SAR Million	2017	2016	2015	2014	2013
Share Capital	200.0	200.0	200.0	200.0	200.0
Retained Earnings (Accumulated Losses)	19.9	(0.4)	(19.5)	(38.1)	(49.6)
Statutory Reserve	7	-	-	-	-
Other Reserves	24.2	21.7	20.4	22.9	22.5

The share premium included in the other Reserves remained constant at SAR 22.7 Million.

#### m) Profit Distribution Strategy

As stated in the articles of association of the Company, article 44, shareholder's profits shall be distributed in the following way:

- Zakat & Tax allocations are to be withheld.
- As per bylaws of the Company, the Company shall allocate 20% of the Net Income of each period to the statutory reserve.
- The Ordinary General Assembly may, at the recommendation of the Board, set aside a specific percentage of net profits to build up reserves allocated for specific purposes.
- The remainder shall be distributed to shareholders as share profits or to be transferred to retained profits account.
- By resolution of the Board of Directors, periodic profits, deducted from the annual profits, may be distributed in accordance with applicable rules and regulations issued by competent authorities.

As a cooperative insurance company, Allianz Saudi Fransi distributes on a yearly basis 10% of the annual Net Surplus arising from its insurance operation to the policyholders in accordance with the rules and regulations applicable to cooperative insurance companies. This 10% of Net Surplus, if any, is calculated at the end of each fiscal year, audited and distributed upon approval of the Saudi Arabian Monetary Authority (SAMA). For the year ending 2017, this 10% of Net Surplus represents SAR 3.4 Million. It corresponds to the Net Insurance Operations Surplus after shareholders' appropriation.

## n) Financial highlights

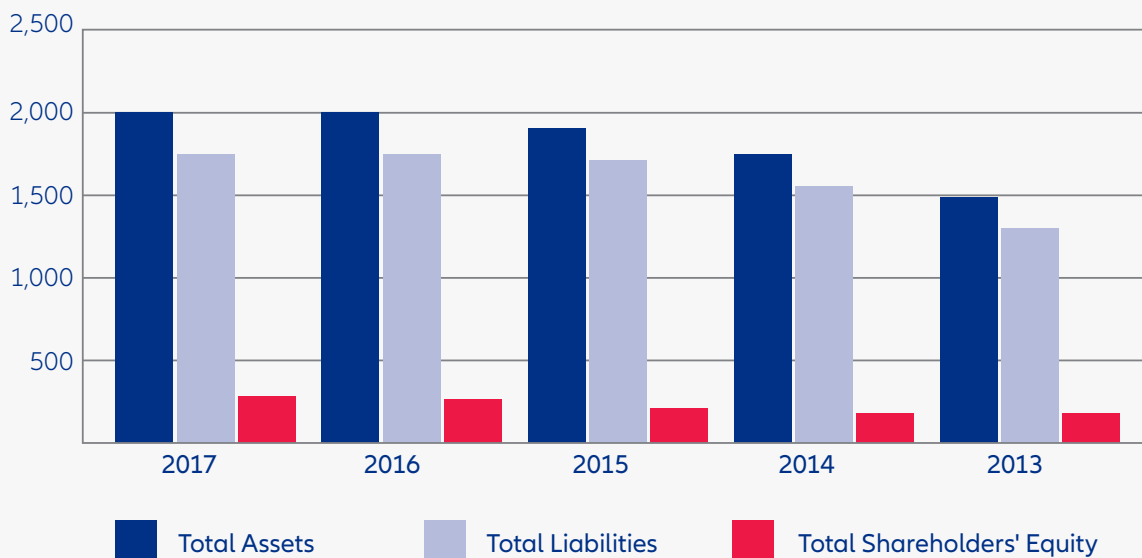
The following is a summary of the most important indicators for the past five years:

SAR Million	2017	2016	2015	2014	2013
Gross Written Premium	925.5	836.2	803.2	725.1	745.9
Net Premium Earned	638.2	500.0	388.2	420.6	354.5
Mathematical Reserve Change	20.6	(0.9)	0.8	(17.5)	(41.7)
Unrealized gain on UL	16.6	14.5	0.7	9.4	15.0
Other Income	6.4	8	6.4	3.2	1.8
Net Incurred Claims	(498.7)	(376.5)	(277.9)	(316.7)	(233.0)
Net Commissions	(32.2)	(31.4)	(20.1)	(18.2)	(9.2)
Premium Deficiency Reserve	(4.6)	(6.1)	-	0.9	(0.9)
Additional Premium Reserve	(1.3)	-	-	-	-
General Expenses Insurance operations (Including Inspection and Supervision Fees)	(111.5)	(81.2)	(75.6)	(68.8)	(77.2)
Net Surplus for the year	33.5	26.5	22.5	12.9	9.3
Net insurance operations surplus after shareholders' appropriation for the year	(3.4)	(2.6)	(2.2)	(1.3)	(0.9)
Net Investment Income Shareholders	5.6	3.7	4.5	5.0	5.2
General Expenses Shareholders	(0.9)	(3.1)	(0.8)	(0.7)	(0.8)
Net Income – Profit *	35	24.4	23.8	15.9	12.8

\* After surplus distribution, before Tax and Zakat.

Balance Sheet "SAR Million"	2017	2016	2015	2014	2013
Total Assets	2,008.2	1,994.6	1,908.3	1,731.6	1,480.8
Total Liabilities	1,757.1	1,773.3	1,707.4	1,546.8	1,307.9
Total Shareholders' Equity	251.1	221.3	200.9	184.8	172.9

## Balance Sheet (SAR Million)



## 10. Corporate Governance, Regulations & Committees

### a) Compliance with Corporate Governance

In 2017, Allianz Saudi Fransi was in full compliance with the CMA corporate governance regulations, Insurance Corporate Governance regulations issued by SAMA, and other guidelines except in the following issues:

- CMA guidelines suggest practicing a cumulative voting mechanism for the General Assembly decisions. However, the Company follows the Ministry of Commerce regulations in this regard; resolutions of all General Assemblies and Board of Directors meetings shall be adopted by simple majority vote of the members present in person or by proxy who are entitled to vote at such meeting.
- CMA imposed a fine of SAR 10,000 for failing to obtain the approval of the General Assembly on the Remuneration of the Audit Committee as required by the Corporate Governance Law issued by the CMA. This will be corrected by having the approval of the General Assembly scheduled to take place in May 2018.

Certain paragraphs from the CMA regulations (listed below), are not applicable and accordingly no further disclosure is required on the related topics:

- Article 43 of the listing rules paragraphs (7),(8),(13),(14),(15), and (19)
- Article 6 of the Corporate Governance Regulations paragraph (d)

Subsequent to year end (31 December 2017), SAMA suspended the company from issuing or renewing any Third Part Motor Insurance policies due to the following incompliances with the Insurance Supervisory Law and its implementing regulations:

1. Conducting transactions with unlicensed parties and not applying the KYC Principle as required by the above-mentioned regulations.
2. Not covering insured persons under 21 years old.

The Company addressed the raised points through immediate corrective measures and is under discussion to resolve this matter. This suspension is not expected to have a significant impact on the Company's operations and its financial position.

## b) Board of Directors

Two members of the Board of Directors representing Banque Fransi have been nominated by the Board of Directors to continue the mandate up to 7 August 2019 subject to the approval of the General Assembly scheduled to take place on May 2018.

- 2 representing Banque Saudi Fransi (BSF)
- 2 representing Allianz France & Allianz MENA Holding Bermuda
- 2 independent

Name of the Board Members	No. of Shares beginning of year**	No. of Shares end of year**	Change in No. of Shares	Board Member	Rep.	Member Classification
Alwaleed Al Dryaan	1,000	1,000	Nil	Alkhaleej Training & Education Co. Arabian Cement Company Malaz Capital SNS/BATCO Company Care Medical Company New Horizons	Public	Independent
<b>Qualification: B.S &amp; M.S Electrical Engineering</b>			<b>Experience: MD of Al Khaleej Traning Egypt - MD of Fast Lane Co. - Chairman of Online Trading Academy Dubai - Chairman of Franklin Covey Co. Dubai</b>			
Abdullah Al-Hussaini	1,000	1,000	Nil	Nil	Public	Independent
<b>Qualification: PhD in Accounting</b>			<b>Experience: Dean of Student Affairs - Financial Manager - Financial Advisor - Financial Accountant and internal auditor</b>			
Adel Mallawi (Replacing Abdulrahman Al Sughayer as of 05/12/2017)	Nil	Nil	Nil	Nil	Banque Saudi Fransi	Non Executive
<b>Qualification: B.S Education (Chemistry)</b>			<b>Experience: •Chief Financial Officer (Banque Saudi Fransi) - Head of Global Markets Group – Treasurer (Banque Saudi Fransi)</b>			
Mazen AlTamimi (Replacing Patrice Couvegnes as of 10/01/2018)	Nil	Nil	Nil	Nil	Banque Saudi Fransi	Non Executive
<b>Qualification: B.S Computer Science</b>			<b>Experience: •Senior Executive Director (Banque Saudi Fransi) - Western Region Manager (Banque Saudi Fransi)</b>			
Hicham Raissi	Nil	Nil	Nil	Nil	Allianz MENA Holding Bermuda	Non Executive
<b>Qualification: M.S. Engineering</b>			<b>Experience: Head of Business Division Africa, MENA and India - Allianz SE</b>			
Antoine Issa	Nil	Nil	Nil	Nil	Allianz France	Non Executive
<b>Qualification: M.S. Finance</b>			<b>Experience: Allianz MENA &amp; Allianz SNA CEO</b>			

\*Owned by Board of Directors, their spouses or their children in Allianz Saudi Fransi.

Members of the Top Management		X. Denys	M. Basrawi	M. Sumeiri	S. Hassan	M. Koubar
Number of Shares *	beginning of year	Nil	Nil	Nil	Nil	Nil
	End of year	Nil	Nil	Nil	Nil	Nil

\* Owned by the Top Management, their spouses or their children in Allianz Saudi Fransi.

## BOD Responsibilities

The Board of Directors is ultimately responsible for the policies and management of the Company. The Board of Directors approves strategic, accounting, organizational, and financing policies adopted by the Company as well as strategic plans and major transactions. Its responsibilities include the appointment and appropriate succession planning of executive officers and authorized signatories of the Company, in addition to supervision over the Company's management and performance. It establish and monitor internal controls and risk managements systems. The Board of Directors also ensures the integrity of the accounting and financial reporting as well as the appropriateness of its disclosure. It promotes high standards of Corporate Governance and ensures compliance with applicable laws and regulation. It ensures that the interest of the policyholders is always protected. The Board of Directors is also entrusted with organizing the Shareholders' meetings and carrying out Shareholders' resolutions.

### BOD Investment Related Responsibilities

- The Board of Directors shall be responsible for the approval of the investment policy and activities, taking into account the analysis of the asset/liability relationship, the Company's overall risk tolerance, its long-term risk-return requirements, its liquidity requirement and its solvency positions.
- The Board of Directors is also responsible for approving policies on related issues of a more operational nature including:
  - The criteria for selection of the external investment manager(s).
  - The selection and use of partners and brokers.
  - The nature of custodial arrangements.
  - The methodology and frequency of the performance and investment risk measurement.
- The Board of Directors authorizes the Investment Committee and the senior management to formulate the investment policy, review it and implement the overall investment activities.
- The Board of Directors must also ensure that adequate reporting and internal control systems of the Company are in place, and legal and regulatory requirements. This should be done by ensuring that:
  - The Board receives quarterly information, including feedback from the Company's risk management function, on asset exposures, and the associated risks.
  - The systems provide accurate and timely information on asset risk exposure and are capable of generating ad-hoc requests.
  - Remuneration policies are structure to avoid potential incentives for unauthorized risk taking.
- The Board of Directors must ensure that senior management is in a position to monitor the performance of the external investment manager(s) against Board approved policies and procedures. The Board of Directors should review on an annual base the adequacy of its overall investment policy in the light of the Company's activities, and its overall risk tolerance, long-term risk return requirements, and solvency position.

### BOD Meetings

The BOD met four times during the year ended 31st December 2017 with attendance of 79.2% (87.5% with proxies).

BOD #	Date	Attendance	Percentage	Percentage with Proxy
45	16/02/2017	Abdulrahman Al Sughayer, Hicham Raissi, Patrice Couveignes, Antoine Issa, Alwaleed Al Dryaan, Abdullah Al-Hussaini	100%	100%
46	01/05/2017	Abdulrahman Al Sughayer, Hicham Raissi, Patrice Couveignes, Antoine Issa, Abdullah Al-Hussaini	83.3%	100%
47	20/09/2017	Hicham Raissi, Patrice Couveignes, Alwaleed Al Dryaan, Abdullah Al-Hussaini	66.7%	83.3%
48	20/12/2017	Hicham Raissi, Antoine Issa, Alwaleed Al Dryaan, Abdullah Al-Hussaini	66.7%	66.7%

The above BOD meetings covered the following major tasks:

- Reviewed the changes and proposals to the Company Bylaws (Memorandum of Association) based on the new template from SAMA and to the input provided by the Executive Committee. The Board agreed to propose the new Company Bylaws to the General Assembly for approval.
- Regularly analyzed the Company performance and achievement versus plan including analysis of market information and Company Strategic positioning.
- Reviewed and approved the quarterly and annual financial statements based on the Audit Committee recommendations (Q4 2016, Q2 2017 and Q3 2017 approved by circulation).
- Approved the Reinsurance Strategy for the year including the modification of terms.
- Approved the recommendations of the Nomination & Remuneration Committee concerning the Company Structure, the remuneration and bonuses of top executives as well as the remunerations and bonuses for the Company.
- Approved the strategy and the business plan for the following years.
- Discussed Human Resources, Succession Plan, Training Program Status, Impact of New Nitaqat Categories as well as New Taxation imposed to Non Saudis.
- Approved the new and updated Company Manuals and Procedures following the Committee recommendations; during 2017 those updates mainly referred to Corporate Governance while new policies are coming from Cyber Security, Risk and Compliance.
- Approved the recommendations of the Committees regarding external contracts including external auditors, tax consultant, legal consultant and external appointed actuary. It was also noted that the Company continued a technical service agreement with Allianz MENA Holding (Bermuda) effective from November 2016.



- Followed the activities of the Executive Committee, the Audit Committee, the Investment Committee, the Nomination & Remuneration Committee and the Risk Committee.
- Regularly followed the pricing report of the Appointed Actuary.
- Created the Customer Care and Complaints Department via BOD Resolution.
- Approved the Cyber Security Action Plan.
- Facilitated the Extraordinary General Assembly meeting in April 2017 and the Ordinary General Assembly in May 2017.
- Elected the BOD Chairman and Vice Chairman.

The BOD also met once during the year to conduct a training on Anti-Money Laundering / Combating Terrorism Finance:

BOD #	Date	Attendance	Percentage	Percentage with Proxy
47	20/09/2017	Hicham Raissi, Antoine Issa, Alwaleed Al Dryaan, Abdullah Al-Hussaini	66.7%	83.3%

### c) Remuneration and Compensation of Board Members and Top Executives

The Remuneration and Compensation of Board Members and Top Executives (including the CEO, his Deputy, CFO, Head of Human Resource and Head of Market Management) during the 10th fiscal year ending 31st December 2017 were:

SAR	2017				2016			
	Indp Board Members**	Non-Exec Board Members**	Exec Board Members**	Top 5 Exec	Indp Board Members**	Non-Exec Board Mem-bers**	Exec Board Members**	Top 7 Exec
Salaries & Remunerations	240,000	456,493	-	3,978,923	276,500	432,000	-	3,938,670
Allowances / Attendance fees	60,000	82,500	-	551,212	42,000	141,000	-	513,227
Bonuses	-	-	-	1,578,097	-	-	-	1,490,039
Other Expenses	-	-	-	-	-	9,982	-	-
Other Benefits*	-	-	-	333,486	-	-	-	291,693
Total	300,000	538,993	-	6,441,718	318,500	582,982	-	6,233,575

\* Other benefits include Global equity Incentive plan. The key management personnel of the Company are eligible for a Global Equity Incentive (GEI) plan of Allianz Group, a significant minority shareholder of the Company. The GEI plan consists of Restricted Stock Units (RSU). In accordance with the pre-requisites of these cash-settled equity plans, key management personnel (the eligible personnel) of the Company would be granted, a certain number of RSU's at the time of exercise, provided the eligible personnel were still employed within the Allianz Group.

\*\* Including Chairman

Furthermore, one Top Executive received an advance from the Company during September 2017 amounting to SAR 134,628 with a last payback installment due in August 2018..

The BOD Remunerations are detailed as follows:

Name of the Board Members	Member Classification	Attendance Fees	Annual Remunerations	Total Remunerations 2017
Abdulrahman Al Sughayer, Chairman (resigned wef 14/08/2017)	Non Executive	18,000	100,438	118,438
Hicham Raissi, Vice Chairman	Non Executive	30,000	120,000	150,000
Patrice Couvignes (end date wef 22/11/2017)	Non Executive	13,500	107,178	120,678
Antoine Issa	Non Executive	21,000	120,000	141,000
Alwaleed Al Dryaan	Independent	21,000	120,000	141,000
Abdullah Al-Hussaini	Independent	39,000	120,000	159,000
Adel Mallawi (starting 05/12/2017)	Non Executive	-	8,876	8,876
Totals	-	142,500	696,493	838,993

### d) BOD Declaration of Related-Party Transactions

The Board of Directors confirms that during 2017 there was no contract in which the Company was a party and it's Chief Executive Officer, Chief Financial Officer, Board Members or any other person who may have a relationship with any of them benefited from it. Moreover, there are no arrangements or agreements by which any of the members of the Board of Directors or any of the top executives or any of the shareholders of Allianz Saudi Fransi waived their interests or rights to receive dividends.

The Related-Party transactions and balances of shareholders and related affiliates during 2017 are related to the following activities:

Related Party	Relation Nature	Amount "SAR	Period	Description
<b>Bank Saudi Fransi and its related affiliates</b>	Bank Saudi Fransi owns 32.5% in AzSF and is represented in the board of Directors by By Mr. Adel Mallawi (Replacing Mr. Abdulrahman Al Sughayer as of 05/12/2017) and Mr. Mazen AlTamimi (Replacing Mr. Patrice Couveignes as of 10/01/2018)	<b>581,409,845</b>	N.A	Portfolio Asset management based on best quotes provided by the bank.
<b>Bank Saudi Fransi and its related affiliates</b>	Bank Saudi Fransi owns 32.5% in AzSF and is represented in the board of Directors by By Mr. Adel Mallawi (Replacing Mr. Abdulrahman Al Sughayer as of 05/2017/12/) and Mr. Mazen AlTamimi (Replacing Mr. Patrice Couveignes as of 10/2018/01/)	<b>353,897,109</b>	N.A	Banking & Asset Custody balances. The relation is based on best quotes & services provided by the bank.
<b>Bank Saudi Fransi and its related affiliates</b>	Bank Saudi Fransi owns 32.5% in AzSF and is represented in the board of Directors by By Mr. Adel Mallawi (Replacing Mr. Abdulrahman Al Sughayer as of 05/2017/12/) and Mr. Mazen AlTamimi (Replacing Mr. Patrice Couveignes as of 10/2018/01/)	<b>111,686,186</b>	Annual	Insurance contract mainly in Motor & Life based on best quotes provided by the company
<b>Allianz Group &amp; its affiliates</b>	Allianz Europe BV owns 18.5%. Allianz France owns 16.25% & is represented by Mr. Antoine Issa & Allianz MENA Holding Bermuda owns 16.25% & is represented by Mr. Hicham Raissi.	<b>62,420,083</b>	Annual	Reinsurance contracts based on best quotes provided by Allianz entities.
<b>Saudi Nextcare</b>	Allianz Saudi Fransi is a shareholder in Next Care Saudi Arabia	<b>8,817,319</b>	N.A	Claims Management "Medical"

## e) Regulatory Status

The Company enjoys a healthy relationship with the Regulators and appreciates their continuous support and guidance.

## f) BOD Committees

### BOD Executive Committee

The BOD Executive Committee is responsible for providing recommendations to the Board on various issues including the strategy and business plans. Its primary objective is to oversee the day-to-day performance of the Company and to provide support and guidance to the CEO.

Main responsibilities include:

- Representing the Board of Directors in day-to-day management
- Supervising the organization of the Board's meeting
- Executing the Board's decisions in accordance with the CEO and the Company's management
- Proposing/setting up the general company policy, objectives and strategy
- Studying the budget and following up the performances and achievements versus the plan
- Undertaking and supervising the progress of the operation and project's development

The Committee comprises the following members:

BOD Executive Committee	As of 31 Dec 2017
Hicham Raissi	Chairman
Antoine Issa	Member
Patrice Couveignes (Replaced by Mazen AlTamimi as of 22/11/2017)	Member
Abdulrahman Al Sughayer (Replaced by Adel Mallawi as of 22/11/2017)	Member

The BOD Executive Committee met six times during 2017 with 66.7% attendance (70.8% with proxies).

Date	Attendance	Percentage	Percentage with Proxy
16/02/2017	Hicham Raissi, Abdulrahman Al Sughayer, Antoine Issa.	75%	100%
01/05/2017	Hicham Raissi, Patrice Couvegues, Abdulrahman Al Sughayer, Antoine Issa.	100%	100%
19/09/2017	Hicham Raissi, Patrice Couvegues.	50%	75%
06/11/2017	Hicham Raissi, Patrice Couvegues, Antoine Issa.	75%	75%
19/12/2017	Hicham Raissi, Antoine Issa	50%	50%
20/12/2017	Hicham Raissi, Antoine Issa.	50%	50%

The above Executive Committee meetings covered the following major tasks:

- Reviewed the changes and updates on the new Company Bylaws (Memorandum of Association) based on the new SAMA template and the new Companies' Law. This was recommended to the Board for approval.
- Discussed, validated and approved the Strategic Positioning and Initiatives of the Company.
- Regularly review the results of the Company.
- Reviewed the Business Plan.
- Reviewed the Motor Online Project.
- Reviewed SAMA's Supervisory Visit Findings.
- Approved the Cyber Security Action Plan.
- Reviewed the Solvency position and the mitigating actions.
- Reviewed and recommended to the Board the Reinsurance Strategy.

The following summarizes the committee's remuneration for the year ended 31 December 2017:

Executive Committee Members	Annual Fixed Remuneration	Attendance Fees	Total
Patrice Couvegues	-	4,500	4,500
Abdulrahman Al Sughayer	-	3,000	3,000
Antoine Issa	-	7,500	7,500
Hicham Raissi	-	9,000	9,000
Total	-	24,000	24,000

### BOD Audit Committee

The BOD Audit committee is responsible for discharging the Board's duties related to the supervision of the Company's financial reporting and evaluating the adequacy of internal and external audit processes. The Committee also evaluates and monitors Allianz Saudi Fransi's control environment and risk management processes.

Duties and responsibilities of the Audit Committee include the following:

- Develop a detailed plan stating its roles, responsibilities and mandate, provided that the plan is approved for implementation by a Board decision.
- Submit recommendations to the Board to a) approve the appointment or reappointment, dismissal and remuneration of external auditors, b) appoint the manager of the compliance control department or the compliance officer, c) appoint the manager of the internal audit department or the internal auditor, d) appoint the actuary. Above-mentioned recommendations require having obtained SAMA's no-objection in writing.
- Supervise the company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.
- To review the internal audit procedure and prepare a written report on such audit and its recommendations with respect to it.
- Ensure the independence of the a) external auditors from the Company, the Board members and the senior management of the company, b) internal audit department or the internal auditor in performing their tasks and ensure that there are no restrictions on their scope of work or any impediments that might negatively affect their work, c) compliance control department or the compliance officer in performing their tasks and ensure that there are no restrictions on their scope of work or any impediments that might negatively affect their work.
- Ensure the Company's compliance with the actuary suggestions and recommendations.

- Determining the monthly salary and bonus of the compliance control department manager or the compliance officer after obtaining the Board's written approval.
- Determining the monthly salary and bonus of the internal audit department manager or the internal auditor after obtaining the Board's written approval.
- Reviewing the audit plan of the internal and external auditors.
- Reviewing the critical accounting policies and procedures in addition to the modifications that might be introduced thereto.
- Coordinating between internal and external auditors.
- Supervising the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.
- Reviewing the external auditors reports and reports of the internal audit department or the internal auditor and submits the related recommendations to the Board.
- Pursues the implementation of the corrective measures in respect of the comments included in the reports.
- Reviewing the reports of the compliance control department or the compliance officer including any high risk for fraud findings and submits the related recommendations to the Board.
- Reviewing the actuary reports and submits the related recommendations to the Board.
- Reviewing the comments of SAMA and the related supervisory and control entities and submits the related recommendations to the Board.
- Reviewing the internal and external auditors' assessment of the internal control Saudi Arabian Monetary Agency Insurance Supervision Department processes.
- Assessing the competence level, efficiency and objectivity of the external auditors, the internal audit department or the internal auditor, and the compliance control department or the compliance offer.
- Following up on the reports issued by SAMA and the related supervisory and control entities in addition to any international developments such as the guidelines of the International Association of Insurance Supervisors and submits the related recommendations to the Board.
- Reviewing the annual and quarterly financial statements and recommend it to the Board of Directors after discussing it with the external auditors and the company's management.
- Reviewing the external auditor's comments on the financial statements and follow up actions taken about them.
- Following up on the important lawsuits filed by or against the company and submits the related periodic reports to the Board.
- Ensure that all financial transactions are according to the local rules and regulations.
- The Audit Committee members are accountable to SAMA, the Company's shareholders and the Board for implementing the articles of SAMA's "Audit Committee Regulation in Insurance and/or Reinsurance Companies" and executing the committee's action plan issued by a Board's decision.
- The committee members should, while performing their tasks, give priority to the company's interest against any other considerations that might affect their work or decisions.
- To review the following topics with the external auditors:
  - Key amendments made by the Company to its accounting policies.
  - Material conflicts with the management regarding any issue pertaining to the safeguarding of invested assets.
  - Violations of Laws, Regulations and Instructions issued by the supervisory and control entities or non-compliance with the Company's policies and procedures.
  - Comments of other auditors (of external, non-Saudi Arabian, branches) on accounting procedures, reports and professional conduct.
  - Deficiencies in the general structure and performance of internal controls systems.
  - Material errors in financial statements.
  - Management decisions and the basis on which the external auditors relied to validate critical accounting estimates, such a technical provisions and reserves.
  - Accounting principles and standards and disclosure decisions related to extraordinary transactions.
  - Adequacy of technical provision and reserves set by the Actuary.
  - Actuary's Reports relevant to the Financial Statements.
  - Any major problems in dealing with the management that affected the working of the audit.
  - Internal control and the assessment of the Company's assets and solvency.
  - Any other issues that the committee is aware of and falls within its responsibilities.
  - Any amendments introduced to the audit scope and the reasons thereof.

- Reviewing letters to management prepared by the external auditors and the Company's management comments thereon.

The Committee comprises the following members:

<b>BOD Audit Committee</b>	<b>As of 31 Dec 2017</b>
Abdullah Al-Hussaini	Chairman
Mohammad AlShawabkeh	Member
Faysal Badran (starting 21/02/2017)	Member
Alwaleed Al Dryaan (up to 10/01/2018)	Member

The Audit Committee met seven times during 2017 with 87.5% attendance (87.5% with proxies).

<b>Date</b>	<b>Attendance</b>	<b>Percentage</b>	<b>Percentage with Proxy</b>
16/01/2017	Abdullah Al-Hussaini, Alwaleed Al Dryaan , Mohammad AlShawabkeh	100%	100%
15/02/2017	Abdullah Al-Hussaini, Alwaleed Al Dryaan , Mohammad AlShawabkeh	100%	100%
03/04/2017	Abdullah Al-Hussaini, Alwaleed Al Dryaan , Mohammad AlShawabkeh	100%	100%
19/04/2017	Abdullah Al-Hussaini, Mohammad AlShawabkeh	75%	75%
18/06/2017	Abdullah Al-Hussaini, Alwaleed Al Dryaan , Mohammad AlShawabkeh	100%	100%
16/07/2017	Abdullah Al-Hussaini, Mohammad AlShawabkeh , Faysal Badran	75%	75%
15/10/2017	Abdullah Al-Hussaini, Alwaleed Al Dryaan , Faysal Badran, Mohammad AlShawabkeh	100%	100%

There is no financial or family relationship between the BOD members and the Audit Committee. Two Audit Committee members, Abdullah Al-Hussaini and Alwaleed Al Dryaan, are both independent Members of the Board of Directors.

The above Audit Committee meetings covered the following major tasks:

- Met with the external auditors to discuss their Management Report and recommendations.
- Reviewed and recommended the quarterly and annual financial statements and reports, including the Actuary and Risk management reports and the external auditors' reports and submitted the recommendations to the Board of Directors.
- Reviewed the Internal Audit Plan 2017.
- Reviewed the Internal Audit Missions Report including the findings, recommendations and implementation progress.
- Reviewed the annual and quarterly reporting to Allianz Group.
- Reviewed the Compliance Activity Reports including the findings and corrective actions as well as complaints and legal cases.
- Reviewed the activities of the Internal Auditors and Compliance Team and ensured their independency.
- Updated the Internal Audit Manual, Policy and Charter and submitted to the Board of Directors for approval.
- Approved the AML Policy and monitored through Compliance the AML training of the employees.
- Reviewed important correspondences with authorities including their comments and submitted related actions to the Board of Directors.
- Reviewed external contracts including external auditors and consulting actuary and recommended the approval of the contracts to the Board of Directors.

The Internal Audit performed a total of 28 audit missions throughout the year 2017. The 28 missions correspond to the audit categories specified by IA: ( 7 Ad-Hoc, 1 Annual, 12 Regulatory, 7 Regular and 1 Practice). A total of 26 findings were raised under a 'High' risk level. The said findings are either solved or under the process of completion as per the agreed time frame. Internal Audit Department issued the corresponding reports including recommendations and agreed actions. These missions have covered most of the procedures in various company departments including Management, HR, Operations, Finance and Sales as well as subunits. The reports and implementation progress are regularly reviewed by the Audit Committee.

The internal controls have been effectively implemented and the Audit Committee is regularly reviewing the outcome of the internal audit on audited controls. No significant deficiencies noted.

The Governance, Risk and Control Committee (GRC) mainly responsible for following-up on the activities of the Company related to Governance, Risks, Audit, Compliance, Anti Money Laundering, Anti-Fraud, Code of Conduct and Anti-Corruption

met five times during 2017 and the outcome did not show any major weakness but regular improvements needed that are already addressed or under completion.

The GRC is purely an internal committee that is not derived from the BOD. It comprises of Top Management members, Risk Officers and the Internal Audit Team.

The following summarizes the committee's remuneration for the year ended 31 December 2017:

Audit Committee Members	Annual Fixed Remuneration	Attendance Fees	Total
Alwaleed Al Dryaan	-	7,500	7,500
Abdullah Al-Hussaini	-	10,500	10,500
Mohammed AlShawabkeh	40,000	10,500	50,500
Faisal Badran	34,410	3,000	37,410
Total	74,410	31,500	105,910

#### BOD Investment Committee members

The Investment Committee shall prepare, review, and approve the investment policy of the Company and set the investment strategy in accordance with the investment policy approved by the Board of Directors and in line with SAMA's regulations.

The Investment Committee reports to the Board and its main responsibilities are:

- Assess the investment recommendation made by the top management.
- Formulate the investment policy and review the implementation of the investment activities on a quarterly basis. These activities include but are not limited to:
  - Reviewing the performance of each asset class.
  - Monitoring the overall risks of the policy.
  - Submitting a performance review report to the Board of Directors.
- Set the investment strategy in accordance with the investment policy approved by the BOD.
- Ensure the proper implementation of the investment policy/strategy on a quarterly basis.
- Establishing and reviewing Investment guidelines for the Company.
- Establishing and reviewing quality criteria for the Company's investment and strategy.
- Establishing and reviewing guidelines for the Company's portfolio structure.
- Reviewing the Financial markets' analysis prepared by the Investment department and the asset manager.
- Investment income and performance review against the plan.
- Review the compliance of all investment activities with the requirements of the Investment Regulation issued by SAMA and any other applicable laws and regulations.
- Review the monthly report prepared by the Management regarding the activities of the period, the portfolio structure and composition, the risk exposure, the details of any regulatory or internal limits breached during the period as well as the actions taken; the activities planned for the future.

The Committee comprises the following members:

BOD Investment Committee	As of 31 Dec 2017
Antoine Issa (replacing Hugues de Roquette-Buisson wef 12/01/2017)	Chairman
Abdulrahman Al Sughayer (up to 14/08/2017)	Member
Abdullah Al-Hussaini	Member

The investment committee met four times during 2017 with 75.0% attendance (83.3% with proxies).

Date	Attendance	Percentage	Percentage with Proxy
16/02/2017	Antoine Issa, Abdulrahman Al Sughayer, Abdullah Al-Hussaini	100%	100%
01/05/2017	Antoine Issa, Abdulrahman Al Sughayer, Abdullah Al-Hussaini	100%	100%
19/09/2017	Abdullah Al-Hussaini	33%	67%
20/12/2017	Antoine Issa, Abdullah Al-Hussaini	67%	67%

The above Investment Committee meetings covered the following major tasks:

- Reviewed the Company's portfolio structure.
- Reviewed the Company's investment performance.
- Checked the Company's Year to Date transactions.

The following summarizes the committee's remuneration for the year ended 31 December 2017:

Investment Committee Members	Annual Fixed Remuneration	Attendance Fees	Total
Abdulrahman Al Sughayer	-	3,000	3,000
Antoine Issa	-	4,500	4,500
Abdullah Al-Hussaini	-	6,000	6,000
Total	-	13,500	13,500
Total	74,410	31,500	105,910

#### Nomination & Remuneration Committee

The duties and responsibilities of the Nomination & Remuneration Committee are mainly:

- Recommend appointments to the Board appointments of membership to the Board of Directors and of Top Executives in accordance with the approved policies and standards. The Committee shall ensure that no person who has been previously convicted or any offense affecting honor or honesty is nominated for such membership.
- Regularly review the structure and composition of the Board of Directors and recommend changes.
- Assess and monitor the independence of Board and Board committee members and ensure the absence of any conflict of interest, including ensuring the independence of the independent members, at least on an annual basis.
- Determine strengths and weaknesses of the BOD and the Committees and recommend remedies.
- Prepare description of required capabilities and qualifications for membership in the BOD, including the time that a Board member should reserve for the activities of the Board.
- Carve clear policies regarding the indemnities and remuneration of the Board Members, Board committees and senior activities.
- Approve and evaluate the compensation and succession plans, policies and programs of the Company.
- Make recommendations to the Board with regards to selecting and dismissing members of Senior Executives.
- Provide recommendations to the Board of Directors on various issues related to nomination and remuneration.
- Ensure that an annual remuneration review is conducted independently of executive management (by internal audit or external specialized firm).

The Nomination & Remuneration Committee (N&R) comprises the following:

BOD Nomination & Remuneration Committee	As of 31 Dec 2017
Alwaleed Al Dryaan (resigned as Chairman wef 10/12/2017 but remains a Member)	Member
Hicham Raissi	Member
Abdullah Al-Hussaini	Member
Abdulrahman Al Sughayer (up to 14/08/2017)	Member

The N&R committee met three times during 2017 with 83.3% attendance (83.3% with proxies).

Date	Attendance	Percentage	Percentage with Proxy
15/02/2017	Alwaleed Al Dryaan, Abdulrahman Al Sughayer, Abdullah Al-Hussaini, Hicham Raissi	100%	100%
25/04/2017	Alwaleed Al Dryaan, Abdulrahman Al Sughayer, Abdullah Al-Hussaini.	75%	100%
19/09/2017	Alwaleed Al Dryaan, Abdullah Al-Hussaini, Hicham Raissi	75%	75%

The above N&R committee meetings covered the following major tasks:

- Reviewed the new Board members qualifications and profiles

- Reviewed the remuneration of Board Members that remained unchanged as well as the Independent Members and submitted the recommendations to the Board of Directors.
- Reviewed the remuneration of Top Executives for 2017 as well as the remuneration adjustment mechanism and amounts for the Company and discussed same with the BOD for approval.
- Reviewed the Bonuses of Top Executives as well as the bonuses mechanism and amounts for the Company and discussed same with the BOD for approval.
- Reviewed the remuneration and employee benefits
- Reviewed the updates on the Company structure as well as the recruitment of new executives and key positions.
- Consistently monitored the Saudization status based on the new Nitaqat categories.
- Consistently monitored the training program of the Company.
- Reviewed the impact of the new taxation imposed to Non Saudis.

The following summarizes the committee's remuneration for the year ended 31 December 2017

Remuneration Committee Members	Annual Fixed Remuneration	Attendance Fees	Total
Alwaleed Al Dryaan	-	3,000	3,000
Abdullah Al-Hussaini	-	3,000	3,000
Abdulrahman Al Sughayer	-	4,500	4,500
Hicham Raissi	-	4,500	4,500
Total	-	15,000	15,000

#### Risk Committee

Following the approval of the Ordinary General Assembly that was held on 28/04/2016 and as dictated by SAMA's Insurance Corporate Governance Regulation, the Board of Directors created the Board Risk Committee. Its objective is to oversee the Risk Management Function ensuring the identification of risks that may imperil the Company and maintain an acceptable risk profile.

The duties and responsibilities of the Risk Committee are:

- Identifying risks that may imperil the Company and maintaining an acceptable risk profile for the Company.
- Overseeing the risk management system and assessing its effectiveness.
- Defining a comprehensive risk management strategy for the Company, overseeing its implementation, and reviewing and updating it on a regular basis by taking into account developments that are internal and external to the Company.
- Reviewing risk management policies.
- Re-evaluating the Company's tolerance for, and exposure to, risk on a regular basis (e.g. through stress testing exercises).
- Reporting to the Board details of risk exposures and recommending actions to manage them.

The Risk Committee comprises the following:

BOD Risk Committee	As of 31 Dec 2017
Abdulrahman Al Sughayer (up to 14/08/2017)	Chairman
Hicham Raissi	Member
Abdullah Al-Hussaini	Member

The Risk committee met four times during 2017 with 83.3% attendance (83.3% with proxies).

Date	Attendance	Percentage	Percentage with Proxy
15/02/2017	Abdulrahman Al Sughayer, Hicham Raissi, Abdullah Al-Hussaini	100%	100%
01/05/2017	Abdulrahman Al Sughayer, Hicham Raissi, Abdullah Al-Hussaini	100%	100%
19/09/2017	Hicham Raissi, Abdullah Al-Hussaini	67%	67%
20/12/2017	Hicham Raissi, Abdullah Al-Hussaini	67%	67%



The above Risk Committee meeting covered the following topics:

- Monitored the Governance updates.
- Monitored the Risk Profile and Exposure of the Company.
- Regularly reviewed the Implementation of the Risk Management.
- Regularly reviewed the Statutory Solvency status.
- Approved and recommended to the Board the standards and policies in Risk.

The following summarizes the committee’s remuneration for the year ended 31 December 2017:

Risk Committee Members	Annual Fixed Remuneration	Attendance Fees	Total
Abdullah Al-Hussaini	-	6,000	6,000
Hicham Raissi	-	6,000	6,000
Abdulrahman Al Sughayer	-	3,000	3,000
Total	-	15,000	15,000

## h) Risk Management

During 2017, Allianz Saudi Fransi succeeded in aligning risk management activities with corporate strategy and objectives to preserve the shareholders’ value.

The Company has a comprehensive risk management strategy to understand and manage the types of risk arising from their core business operations. The strategy considers the impact of market conditions and available expertise on inherent risks to which the company is exposed. Consideration shall not be limited to the risks associated with one class of business but shall extend to risks from all other classes.

The Risks are mentioned here below:

### Operational/ Process Risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputational loss, and legal and regulatory consequences. The Company manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance.

### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a timely basis and Management ensures that sufficient funds are available to meet any commitments as they arise.

### 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.

### Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk on its bank balances and available for sale investments.

### Currency Exchange Risk

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

### Market Risk

Market 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 limits market risk by maintaining a diversified portfolio and by monitoring the developments in financial markets.

### Fund Price Risk

Fund price risk is the risk that the fair value of future cash flows of a fund will fluctuate because of changes in the net asset value (NAV) being determined by fund managers.

### Insurance Risk

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

### Capital management

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value. The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis.

### Fair Value of Financial Instruments

Financial instruments consist of financial assets and financial liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

## k) Zakat, Legal Payments, and Loans

Allianz Saudi Fransi allocated SAR 7.6 for Zakat and Tax in 2017 against SAR 5.3 allocated in 2016.

The following table shows a list of legal expenses for the year ended December 31st, 2017 (The amounts charged in 2017 & the related paid amounts as at December 31st, 2017).

SAR Million	2017		2016		2015	2014	2013
	Paid	Charged	Paid	Charged		Charged*	
Customs Expenses	-	-	-	-	-	-	-
Zakat & Tax	-	7.6	2.2	5.3	5.2	4.4	4.0
GOSI Expenses	5.4	4.4	4.4	3.1	2.5	2.5	2.3
Visa & Passports	0.3	0.3	0.2	0.2	0.4	0.3	0.4
Inspection & Supervision Fees	4.2	4.9	3.6	5.4	4.0	4.2	4.3
Total	9.9	17.2	10.4	14.0	12.1	11.4	11.0

\*Charged amounts represent the amounts due as at December 31st 2017, plus any amounts paid related to 2016, in other words it is the gross amounts expensed for the year ended December 31st, 2017 (Paid and Due).

## 11. Future Plans

The Company will continue its development and growth in the market in line with its vision and as per the following strategy:

**Direct Sales Force:** In 2018, the Company will focus on growth in terms of number of sales people as well as points of sales. The Company will therefore expand its reach to various customer segments and continue to provide training to the sales force in order to ensure high level of service quality.

**Bancassurance:** In 2018, the focus of the Company will be on further improving the productivity of the Bancassurance agency and corporate business by leveraging the strong relations of our partner Banque Saudi Fransi with its corporate and commercial client base.

**Corporate:** Corporate Business continues to remain a priority of the Company. In 2018, the Company will further increase the number of preferred Brokers and focus on global business lines such as credit insurance.

**Digitalization & Automation:** In 2018 Digital initiatives will be streamlined to enhance customer satisfaction and ensure a better customer experience, which should contribute to increasing the persistency of the portfolio.

**Motor and Health Profitability and development :** In line with its Risk Strategy for 2018, the Company will continue to apply high-level technical standards and guidelines. It will review profitability per Line of Business and adjust the pricing strategy accordingly. Furthermore, the Company will ensure sound and prudent technical reserving practices.

**Talent Management:** During 2018 the company will continue its investments in human resources to attract and develop young talents and prepare future managers. The company builds on defining career paths and training programmes to achieve satisfaction and effectiveness among all employees.

**True Customer Centricity:** In 2017 the company will continue working towards the goal of achieving deeper understanding of customer needs and higher satisfaction by regularly rolling out NPS (Net Promoter Score) Campaigns. A new Call Center was established in December 2016 to handle all customer inquiries and feedback.

## 12. External Independent Auditors and Accounting Standard

In 2017, the Ordinary General Assembly approved the BOD recommendation of renewing for “Aldar Audit Bureau” and KPMG as joint external auditors for the fiscal year ended 31st December 2017. The external auditors mandate has been renewed as per the board approval following biddings submitted by 4 firms, as well as the company’s General Assembly approval.

The financial statements as at 31st December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) and not in accordance to the generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by the Saudi Organization of Certified Public Accountants (SOCPA).

The external independent auditors are of the opinion that the financial statements present fairly, in all material respects, the financial position of the Company as at 31st December 2017 and the result of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

## 13. Shariah Committee

The Company has a Shariah Committee composed of:

- Sheikh Dr. Muhammad A. Elgari
- Sheikh Abdullah Al Manea
- Sheikh Dr. Abdul Sattar AbuGhuddah

The committee reviews and approves Shariah Compliant Protection & Savings products of the Company.

## 14. Company's Requests of Shareholders Records

#	Request Date	Ownership as at	Reason
4	02/08/2017	01/08/2017	Requested for preparation of internal executive report.
3	01/05/2017	01/05/2017	Requested to support the preparation for the General Assembly meeting.
2	12/04/2017	12/01/2017	Requested to support the preparation for the General Assembly meeting.
1	30/01/2017	30/01/2017	Requested for preparation of the annual report.

## 15. Company's Declarations

Allianz Saudi Fransi declares the following:

- During 2017, no loans were taken by the Company;
- No outstanding loans as at 2017;
- No convertible debt instruments, contractual securities, preemptive right or similar rights issued or granted by the company during 2017;
- There were no redemption, purchase or cancellation by the company of any redeemable debt instruments;
- The Company does not own any treasury shares.

## 16. Board of Directors Declaration

The Board of Directors confirms the following:

- Proper accounting books have been maintained.
- The system of internal control is sound in design and has been effectively implemented.
- There are no doubts concerning the Company's ability to continue as a going concern.



# **FINANCIAL STATEMENT**

And the Independent Auditors' Report  
for the year ended 31 December 2017

# Independent Auditors' Report

Independent Auditors' Report to the Shareholders of  
Allianz Saudi Fransi Cooperative Insurance Company

(A Saudi Joint Stock Company)

## Opinion

We have audited the financial statements of Allianz Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statement of income – insurance and shareholders' operations, the statement of comprehensive income – insurance and shareholders' operations, statement of changes in shareholders' equity and statements of cash flows – insurance and shareholders' operations for the year then ended, and notes comprising significant accounting policies and other explanatory information.

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

## Basis for Opinion

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

## Key Audit Matters

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

The key audit matter	How the matter was addressed in our audit
<p><b>Outstanding claims</b></p> <p>The Company as at 31 December 2017, has outstanding claims including claims incurred but not reported (IBNR) amounting to SR 434,541,367 as reported in Note 16 of the financial statements.</p> <p>The valuation of 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 outstanding claims, we have determined it to be a key audit matter.</p> <p>Refer to notes 5 which discloses the estimated liability arising from claims under insurance contracts and note 4 which discloses accounting policies for claims.</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 outstanding claims; and evaluated the results of liability adequacy test.</p>

## **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.

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 the 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.

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.

**KPMG Al Fozan & Partners**  
**Certified Public Accountants**  
P.O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia



**Abdullah Hamad Al Fozan**  
Certified Public Accountant  
License No. 348



11 Rajab 1439H

28 March 2018

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



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





# Statement of Financial Position

As at 31 December 2017

	Note	2017 SAR	2016 SAR
<b>Insurance Operations' Assets</b>			
Cash and cash equivalents	6	107,246,209	77,221,164
Prepayments and other assets	7	18,732,552	11,981,291
Reinsurance balances receivable	8(a)	72,541,695	74,105,195
Premiums receivable	9	362,511,115	412,043,857
Available for sale investments	10(a)	109,424,116	60,141,396
Unit linked investments	11	573,716,396	592,651,654
Deferred policy acquisition costs	12	23,866,281	22,089,024
Reinsurers' share of unearned premiums	19	180,184,370	236,460,497
Reinsurers' share of outstanding claims	16	282,723,283	267,460,349
Property and equipment	13	3,635,196	2,389,375
<b>Total Insurance Operations' Assets</b>		<b>1,734,581,213</b>	<b>1,756,543,802</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	6	26,084,656	16,272,417
Prepayments and other assets	7	8,153,653	2,172,085
Due from insurance operations	20	18,926,058	18,772,461
Available for sale investments	10(b)	199,625,304	180,253,582
Statutory deposit	14	20,000,000	20,000,000
Returns on investment of statutory deposit	14	817,056	679,569
<b>Total Shareholders' Assets</b>		<b>273,606,727</b>	<b>238,150,114</b>
<b>Total Insurance Operations And Shareholders' Assets</b>		<b>2,008,187,940</b>	<b>1,994,693,916</b>

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

Xavier Denys



Chief Executive Officer

Alwaleed Abdulrazak Al Dryaan



Chairman

Mohammed Koubar



Chief Financial Officer

## Statement of Financial Position (Continued)

As at 31 December 2017

	Note	2017 SAR	2016 SAR
<b>Insurance Operations' Liabilities And Surplus</b>			
Accrued expenses and other liabilities	15	64,595,012	41,732,085
Reinsurance balances payable	8(b)	181,657,278	218,754,741
Due to shareholders' operations	20	18,926,058	18,772,461
Outstanding claims	16	434,541,367	386,130,152
Premiums deficiency reserves	30	10,717,152	6,077,722
Additional premium reserve	30	1,317,438	-
Unit linked liabilities	17	573,051,956	593,706,572
Unearned commission income	18	10,813,751	11,951,608
Unearned premiums	19	415,612,645	459,257,288
Employees' end of service benefits	21	15,457,826	12,828,431
<b>Total insurance operations' liabilities</b>		<b>1,726,690,483</b>	<b>1,749,211,060</b>
<b>Insurance Operations' Surplus</b>			
Accumulated surplus		9,582,216	7,736,872
Fair value reserve for available for sale investments	10(a)	(926,182)	(404,130)
Actuarial reserve for employee benefits	21	(765,304)	-
<b>Total insurance operations' liabilities and surplus</b>		<b>1,734,581,213</b>	<b>1,756,543,802</b>
<b>Shareholders' Liabilities and Equity</b>			
<b>Shareholders' Liabilities</b>			
Accrued expenses and other liabilities	15	268,366	50,365
Deferred return on investment of statutory deposit	14	817,056	679,569
Zakat and income tax payable	22(c)	21,416,946	16,065,894
<b>Total Shareholders' Liabilities</b>		<b>22,502,368</b>	<b>16,795,828</b>
<b>Shareholders' Equity</b>			
Share capital	23	200,000,000	200,000,000
Share premium		22,711,315	22,711,315
Statutory reserve	24	6,983,645	-
Retained earnings / accumulated losses		19,902,207	(448,379)
Fair value reserve for available for sale investments	10(b)	1,507,192	(908,650)
<b>Total Shareholders' Equity</b>		<b>251,104,359</b>	<b>221,354,286</b>
<b>Total Shareholders' Liabilities and Equity</b>		<b>273,606,727</b>	<b>238,150,114</b>
<b>Total insurance operations liabilities and surplus and shareholders' liabilities and equity</b>		<b>2,008,187,940</b>	<b>1,994,693,916</b>

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

Xavier Denys



Chief Executive Officer

Alwaleed Abdulrazak Al Dryaan



Chairman

Mohammed Koubar



Chief Financial Officer

## Statement of Income of Insurance Operations

For the year ended 31 December 2017

	Note	2017 SAR	2016 SAR
Gross written premiums	25	925,536,707	836,272,030
Reinsurance premiums ceded	25	(274,685,644)	(277,831,399)
<b>Net written premiums</b>		<b>650,851,063</b>	<b>558,440,631</b>
Changes in unearned premiums	25	43,644,643	(36,671,363)
Changes in reinsurance share of unearned premiums	25	(56,276,127)	(21,779,894)
<b>Net change in unearned premiums</b>	25	<b>(12,631,484)</b>	<b>(58,451,257)</b>
<b>Net premiums earned</b>	25	<b>638,219,579</b>	<b>499,989,374</b>
Commission earned	18	25,718,192	17,539,744
Unrealized gain on unit linked investments		16,571,858	14,597,069
Other income		6,371,272	7,995,488
<b>Total revenues</b>		<b>686,880,901</b>	<b>540,121,675</b>
Gross claims paid	16	(604,011,274)	(462,230,844)
Reinsurance share of claims paid	16	138,429,094	132,015,478
<b>Net claims paid</b>		<b>(465,582,180)</b>	<b>(330,215,366)</b>
Changes in gross outstanding claims		(48,411,215)	61,798,813
Changes in reinsurance share of outstanding claims		15,262,934	(108,047,585)
<b>Changes in Net outstanding claims</b>		<b>(33,148,281)</b>	<b>(46,248,772)</b>
<b>Net claims incurred</b>		<b>(498,730,461)</b>	<b>(376,464,138)</b>
Change in premium deficiency reserves		(4,639,430)	(6,077,722)
Changes in additional premium reserve		(1,317,438)	-
Change in unit linked liabilities	17	20,654,616	(855,080)
Commission expenses	12	(57,871,819)	(48,919,227)
Inspection and supervision fees		(6,091,164)	(5,424,965)
General and administrative expenses	26	(105,381,209)	(75,860,157)
<b>Total claims and expenses</b>		<b>(653,376,905)</b>	<b>(513,601,289)</b>
<b>Net surplus for the year</b>		<b>33,503,996</b>	<b>26,520,386</b>
Net surplus transferred to statement of income of shareholders' operations		(30,153,597)	(23,868,347)
<b>Net insurance operations surplus after shareholders' appropriation for the year</b>		<b>3,350,399</b>	<b>2,652,039</b>

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

Xavier Denys

Chief Executive Officer

Alwaleed Abdulrazak Al Dryaan

Chairman

Mohammed Koubar

Chief Financial Officer

## Statement of Comprehensive Income of Insurance Operations

For the year ended 31 December 2017

	Note	2017 (SAR)	2016 (SAR)
Net insurance operations surplus after shareholders' appropriation for the year		3,350,399	2,652,039
Other comprehensive income that will not be reclassified subsequently to the statement of income – insurance operations when conditions are met			
Re-measurement of defined benefit liability – employee benefits		(765,304)	-
Other comprehensive income to be reclassified subsequently to the interim statement of income – insurance operations when conditions are met in future			
Fair value change in available for sale investments	10(a)	(522,052)	1,952,208
Transferred to realised loss on available for sale investments disposal	10(a)	283,306	-
<b>Total comprehensive income/(loss) for the year</b>		<b>2,346,349</b>	<b>4,604,247</b>

## Statement of income of shareholders' operations

For the year ended 31 December 2017

	Note	2017 (SAR)	2016 (SAR)
Special commission income		5,641,167	3,582,903
Realised gain on available for sale investments		-	111,559
<b>Total revenues</b>		<b>5,641,167</b>	<b>3,694,462</b>
Net surplus transferred from statement of income - insurance operations		30,153,597	23,868,347
General and administrative expenses	26	(876,537)	(3,133,262)
<b>Net income for the year</b>		<b>34,918,227</b>	<b>24,429,547</b>
Basic and diluted earnings per share	29	1.75	1.22

## Statement of Comprehensive Income of Shareholders' Operations

For the year ended 31 December 2017

	Note	2017 (SAR)	2016 (SAR)
Net income for the year		34,918,227	24,429,547
Other comprehensive income to be reclassified subsequently to the statement of income- shareholders' operations when conditions are met			
Fair value change in available for sale investments	10(b)	2,415,842	1,476,105
Transferred to realized gain on disposal of available for sale investments in the statement of income – shareholders' operations		-	(111,559)
<b>Total comprehensive income from shareholder's operations for the year</b>		<b>37,334,069</b>	<b>25,794,093</b>

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

Xavier Denys

Chief Executive Officer

Alwaleed Abdulrazak Al Dryaan

Chairman

Mohammed Koubar

Chief Financial Officer

## Statement of Changes In Shareholders' Equity

For the year ended 31 December 2017

	Share Capital SAR	Share Premium SAR	Statutory Reserve SAR	(Accumulated losses) / Retained earnings SAR	Fair value reserve for available for sale investments SAR	Total SAR
<b>Balance as at 1 January 2017</b>	200,000,000	22,711,315	-	(448,379)	(908,650)	221,354,286
Net income for the year	-	-	-	34,918,227	-	34,918,227
<b>Other Comprehensive income:</b>	-	-	-	-	-	-
- Fair value change in available for sale investments	-	-	-	-	2,415,842	2,415,842
Total comprehensive income for the period	-	-	-	34,918,227	2,415,842	37,334,069
Transfers to statutory reserve	-	-	6,983,645	(6,983,645)	-	-
Zakat charge for the period (Note 22)	-	-	-	(4,294,733)	-	(4,294,733)
Income Tax charge for the year (Note 22)	-	-	-	(3,289,263)	-	(3,289,263)
<b>Balance as at 31 December 2017</b>	<b>200,000,000</b>	<b>22,711,315</b>	-	<b>(19,514,783)</b>	<b>(2,273,196)</b>	<b>200,923,336</b>
<b>Balance as at 1 January 2016</b>	200,000,000	22,711,315	-	(19,514,783)	(2,273,196)	200,923,336
Net income for the year	-	-	-	24,429,547	-	24,429,547
<b>Other Comprehensive income:</b>	-	-	-	-	-	-
- Fair value change in available for sale investments	-	-	-	-	1,476,105	1,476,105
Transferred to statement of income of shareholders' operations	-	-	-	-	(111,559)	(111,559)
Total comprehensive income for the year	-	-	-	24,429,547	1,364,546	25,794,093
Zakat charge for the period (Note 22)	-	-	-	(3,509,169)	-	(3,509,169)
Income Tax charge for the year (Note 22)	-	-	-	(1,853,974)	-	(1,853,974)
<b>Balance as at 31 December 2016</b>	<b>200,000,000</b>	<b>22,711,315</b>	-	<b>(448,379)</b>	<b>(908,650)</b>	<b>221,354,286</b>

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

Xavier Denys

Chief Executive Officer

Alwaleed Abdulrazak Al Dryaan

Chairman

Mohammed Koubar

Chief Financial Officer

# Statement of cash flows of insurance operations

For the year ended 31 December 2017

	Note	2017 SAR	2016 SAR
<b>Operating Activities</b>			
<b>Net insurance operations' surplus after shareholders' appropriation Adjustments for:</b>		<b>3,350,399</b>	<b>2,652,039</b>
Investment premium amortization	10(a)	688,909	1,114,727
Depreciation	13	715,542	747,369
Employees' end of service benefits	21	3,232,920	2,234,651
Provision / (reversal) for doubtful reinsurance receivables	8	1,555,413	(1,000,000)
Provision / (reversal) for doubtful receivables	9	9,439,366	(1,846,722)
Realized loss on sale of available for sale investments	10(a)	283,306	-
Unrealized gains on unit linked investments		(16,571,858)	(14,597,069)
Shareholders' appropriation from insurance operations' surplus		30,153,597	23,868,347
<b>Operating cash inflows surplus before changes in operating assets and liabilities</b>		<b>32,847,594</b>	<b>13,173,342</b>
<b>Changes in operating assets and liabilities:</b>			
Deferred policy acquisition costs		(1,777,257)	(130,733)
Unit linked investments		35,507,116	8,914,042
Reinsurance balances receivable		8,087	(43,636,907)
Premiums receivable		40,093,376	(118,780,087)
Prepayments and others assets		(6,751,261)	608,382
Unearned premiums, net		12,631,484	58,451,257
Unit linked liabilities		(20,654,616)	855,080
Outstanding claims, net		33,148,281	46,248,772
Premium deficiency reserves		4,639,430	6,077,722
Additional premium reserves		1,317,438	-
Unearned commission income		(1,137,857)	(3,278,865)
Reinsurance balances payable		(37,097,463)	81,447,936
Accrued expenses and other liabilities		22,862,927	3,591,696
<b>Cash from operations</b>		<b>115,637,279</b>	<b>53,541,637</b>
Employees' end of service benefits paid	21	(1,368,829)	(1,192,388)
<b>Net cash from operating activities</b>		<b>114,268,450</b>	<b>52,349,249</b>
<b>Investing Activities</b>			
Purchase of property and equipment	13	(1,961,363)	(1,360,648)
Purchase of available for sale investments	10(a)	(61,161,308)	-
Proceeds from sale of available for sale investments	10(a)	10,384,321	-
Surplus distributed to policy holders		(1,505,055)	-
<b>Net cash used in investing activities</b>		<b>(54,243,405)</b>	<b>(1,360,648)</b>
<b>Financing Activities</b>			
Due to shareholders operations		(30,000,000)	(29,011,487)
<b>Net cash used in financing activities</b>		<b>(30,000,000)</b>	<b>(29,011,487)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>30,025,045</b>	<b>21,977,114</b>
Cash and cash equivalents at the beginning of the year		77,221,164	55,244,050
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	6	<b>107,246,209</b>	<b>77,221,164</b>
<b>Non-cash supplemental information:</b>			
<b>Changes in fair value of available for sale investments</b>	10(a)	<b>(522,052)</b>	<b>1,952,208</b>

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

Xavier Denys



Chief Executive Officer

Alwaleed Abdulrazak Al Dryaan



Chairman

Mohammed Koubar



Chief Financial Officer

## Statement of cash flows of shareholders' operations

For the year ended 31 December 2017

	Notes	2017 SAR	2016 SAR
<b>Operating Activities</b>			
Net income for the year		34,918,227	24,429,547
Adjustments for:			
Investments premium amortization	10(b)	824,688	1,247,323
Realized gain on available for sale investments		-	(111,559)
Shareholders' appropriation from insurance operations' surplus		(30,153,597)	(23,868,347)
Operating surplus before changes in operating assets and liabilities		5,589,318	1,696,964
<b>Changes in operating assets and liabilities:</b>			
Prepayments and other assets		(5,981,568)	335,965
Accrued expenses and other liabilities		218,001	(135,333)
<b>Cash (used in) / from operating</b>		<b>(174,249)</b>	<b>1,897,596</b>
Zakat and income tax paid during the year	22(c)	(2,232,944)	(3,568,691)
<b>Net cash (used in) / from operating activities</b>		<b>(2,407,193)</b>	<b>(1,671,095)</b>
<b>Investing Activities</b>			
Purchase of available for sale investment	10(b)	(38,501,262)	(34,011,487)
Proceeds from sale of available for sale investments	10(b)	20,720,694	21,378,058
<b>Net cash used in investing activities</b>		<b>(17,780,568)</b>	<b>(12,633,429)</b>
<b>Financing activity</b>			
Due from insurance operations	20	30,000,000	29,011,487
<b>Net cash from financing activities</b>		<b>30,000,000</b>	<b>29,011,487</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>9,812,239</b>	<b>14,706,963</b>
Cash and cash equivalents at the beginning of the year		16,272,417	1,565,454
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	6	<b>26,084,656</b>	<b>16,272,417</b>
<b>Non-cash supplemental information:</b>			
Changes in fair value of available for sale investments	10(b)	2,415,842	1,476,105

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

Xavier Denys



Chief Executive Officer

Alwaleed Abdulrazak Al Dryaan



Chairman

Mohammed Koubar



Chief Financial Officer



**NOTES TO THE INTERIM  
CONDENSED FINANCIAL  
STATEMENTS**



# Notes To The Interim Condensed Financial Statements

At 31 December 2017

## 1. Organization And Principal Activities

Allianz Saudi Fransi Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010235601 dated 26 Jumada Thani 1428H corresponding to 12 July 2007. The Company operates through its six branches in the Kingdom of Saudi Arabia as at 31 December 2017 (31 December 2016: six branches). The registered office of the Company is located at Al Safwa Commercial Building, P.O Box 3540, Riyadh 11481, Kingdom of Saudi Arabia.

The objectives of the Company are to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi stock exchange on 9 Rajab 1428H, corresponding to 23 July 2007.

The Company has been licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree number 60/M dated 18 Ramadan 1427H (corresponding to 11 October 2006), pursuant to Council of Ministers resolution number 233 dated 16 Ramadan 1427H (corresponding to 9 October 2006).

Following the completion of the public offering on 26 March 2007, an application was submitted to His Excellency the Minister of Commerce and Investment (MOCI) in the Kingdom of Saudi Arabia, requesting the announcement of the incorporation of the Company. On 8 Jumada Thani 1428H corresponding to 24 June 2007, MOCI issued a resolution declaring the incorporation of the Company.

During March 2008, Saudi Arabian Monetary Authority "SAMA" granted the Company an authorisation to commence operations. The Company renewed its operating license on 28 Safar 1438H corresponding to 28 November 2016.

Subsequent to 31 December 2017, SAMA suspended the Company from issuing or renewing any third party motor insurance policies due to non-compliance with some of SAMA's regulatory requirements for motor business. This suspension is not expected to have a significant impact on the Company's operations or on its' financial position, and the company is under discussion to resolve this matter with SAMA.

## Seasonality

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

### Basis of measurement

The financial statements are prepared under the historical cost convention except for investment classified as Fair Value through Income Statement (FVIS) and Available for Sale (AFS) investments which are measured at fair value and end of service benefits at present value.

### Statement of compliance

The financial statements of the Company 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 IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per 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 applicable 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.

## Basis of presentation

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.

In accordance with the Saudi Arabian Insurance Regulations, the Company is required to distribute 10% of net annual surplus from insurance operations to policyholders and the remaining 90% of the surplus to be transferred to the shareholders' operations and losses to be borne by shareholders' operations.

## Functional and presentational currency

The functional and presentational currency of the Company is Saudi Riyals (SR). The financial statement values are presented in Saudi Riyals, unless otherwise indicated.

## 3. New Standards, Amendments to Standards and Interpretation

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:

### 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 from future dates.

#### 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. The impact is not material for the Company.

#### 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 will avail of the exemptions available to insurers and is considering deferring 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 adoption of IFRS 15 will not have 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 once IFRS 17 will be adopted.

## 4. Summary Of Significant Accounting policies

The significant accounting policies followed in preparation of these financial statements are as follows:

### 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 income - insurance operations and statement of income shareholders’ operations as they are consumed or expire with the passage of time.

### Accrued expenses and other liabilities

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

### Employees’ end-of-service benefits

The calculation of the employees’ end of service benefit is performed annually by a qualified actuary using the projected unit credit method in accordance with the requirements of IAS 19 “Employee Benefits”. All past service costs are recognized as an expense immediately in statements of income - insurance operations. Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses are recognized in other comprehensive income.

The company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at that date, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefits payments. Net Interest expense and other expenses related to the defined benefit plans are recognized in the statement of income – insurance operations.

### Short term employee benefits

Short-term employee benefits, include leave pay and airfare, are current liabilities included in accrued expenses, measured at the undiscounted amount that the entity expects to pay as a result of the unused entitlement.

## Retirement benefits

The Company pays retirement contributions for its Saudi Arabian employees to the General Organization for Social Insurance. This represents a defined contribution plan. The payments made are expensed as incurred.

## 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.

## Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and any impairment in value. The cost of property and equipment is depreciated on a straight-line method over the estimated useful lives of the assets as follows:

■ Computer and office equipment	4 years
■ Motor vehicles	4 years
■ Furniture and fittings	7 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income - insurance operations when the asset is derecognised.

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

## 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.

## 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.

## Reinsurance

The Company cedes insurance risk in the normal course of business for a portion of its businesses. 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.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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

## Cash and cash equivalents

Cash and cash equivalents 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.

## Provisions

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

## Liability adequacy test

As at each yearend, an assessment is made of whether provision of unearned premium is adequate. Premium 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 premium 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.

## Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

### Financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

#### Subsequent measurement

For purposes of subsequent measurement financial assets are classified in two categories:

- Receivables
- Available for sale financial assets

The Company has no held to maturity investments or derivatives.

## Premiums receivable

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 derecognition criteria for financial assets have been met.

## Available for sale investments

Available for sale investments ("AFS") 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 financial investments are subsequently measured at fair value.

Unrealised gains or losses arising from changes in fair value of investments are shown either in the statement of comprehensive income - shareholder's operations or as a separate component in the insurance operations' surplus. Realised gains or losses on sale of these investments and commission income are reported in the related statements of insurance operations or shareholder's operations.

## Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (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

## Impairment and un-collectability of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognised in the statements of income - shareholders' operations and insurance operations. Impairment is determined as follows:

- i. For assets carried at fair value, impairment loss is based on the decline in fair value, less any impairment loss previously recognised in the statement of income of insurance or shareholders' operations;
- ii. For assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset
- iii. For assets carried at amortised cost, impairment is based on estimated cash flows that are 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.

## 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).

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

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

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

## Dividend income

Dividend income is recognised when the right to receive payment is established, which is generally when shareholders approve the dividend.

## 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.

## Claims

These include the cost of claims and claims handling expenses paid during the year, 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. 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.

### Salvage and subrogation reimbursement

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

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

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

### Reinsurance share of claims

Reinsurance share of claims are recognised when the related gross insurance claim is recognised to reflect the amount estimated to be recoverable under the terms of the relevant reinsurance contract in respect of the outstanding claims reported.

### Deferred policy acquisition costs (DAC)

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, these costs are amortised on a straight-line basis 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.

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

Deferred policy acquisition costs are derecognised when the related contracts are either settled or disposed of.

### Unit linked investments and liabilities

Unit linked investments are assets backing liabilities arising from insurance contracts, where the liabilities are contractually linked to the fair value of the financial assets within the policy holders unit linked funds and are classified as 'held for trading' assets and are designated at fair value through income statement. Any change in fair value is recognized in statement of income – Insurance operations.

Insurance contract are those contracts that have significant insurance risk and the Company classifies all the unit linked investments as insurance contracts based on the associated death and disability features.

The unit linked liabilities are determined as the value of the units deemed allocated at the valuation date. Additional technical provisions have been established for the value of risk related to the life insurance contracts. These additional provisions are calculated using stochastic techniques.



## 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 to 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.

## 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 six reportable operating segments as follows:

- Motor insurance provides coverage against loss or damage to the motor vehicles caused by accident, fire or theft along with the coverage of third party liability as well;
- Engineering insurance provides coverage for builders' risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance;
- Health care products provide medical cover to policyholders;
- Property insurance provides cover against accidental physical loss or damage to the property due to any cause including fire and allied perils and consequential losses associated with the perils insured;
- Other general insurance segment comprises of marine, credit, fidelity guarantee insurance and liability;
- Protection and saving segment includes a variety of savings products designed to meet the needs of individuals as well as corporate institutions.

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 year, if any transaction were to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between business 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.

## Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income - shareholders' operations and insurance operations. 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.

## Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is an enforceable legal 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 liability simultaneously. Income and expense are not offset in the statements of income - shareholders' operations and insurance operations unless required or permitted by any accounting standard or interpretation, as specifically discussed in the accounting policies of the company.

## Trade date accounting

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

## 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 annual net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution.

## 5. Significant Accounting Estimates and Assumptions

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and contingent liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

### Impairment of available for sale investments

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. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities (if any).

### 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 net of reinsurance share which are expected to be reported subsequent to the statement of financial position date, for which the insured event has occurred prior to that date. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. The mathematical reserve for protection and saving insurance contracts is calculated on the basis of management assumptions that include prudent prospective external actuarial valuation method and current unit fund prices.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property, engineering and large claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis. The company uses the service of an independent actuary in the valuation of IBNR as well as Premium Deficiency Reserves.

## Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing 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.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Company's management determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

## Impairment on premiums 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.

## 6. Cash and Cash Equivalents

	2017 (SAR)		2016 (SAR)	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
Cash on hand	1,106,567	-	1,084,470	-
Cash at banks – Current accounts	76,139,642	26,084,656	38,971,527	16,272,417
Cash at banks – Short-term Deposits	30,000,000	-	37,165,167	-
	107,246,209	26,084,656	77,221,164	16,272,417

Cash at bank is placed with counterparties who have investment grade credit ratings, as rated by international rating agencies. The short-term deposit, which are denominated in Saudi Riyals at interest rate of 1.33% per annum (2016: 1.33% per annum), are made for varying periods of less than three months from the date of original acquisition depending on the immediate cash requirements of the Company.

## 7. Prepayments and Other Assets

	2017 (SAR)		2016 (SAR)	
	Insurance operation	Shareholders' operations	Insurance operation	Shareholders' operations
Receivable for unit linked investments	7,693,449	-	6,968,621	-
Prepaid rent	1,384,180	-	1,130,396	-
Accrued investment income	3,494,422	8,153,653	930,894	2,172,085
Receivable from Manafeth	1,900,000	-	-	-
Advances to employees	1,467,931	-	762,471	-
Other assets	2,792,570	-	2,188,909	-
	18,732,552	8,153,653	11,981,291	2,172,085

## 8. Reinsurance Balances

Reinsurance balances receivable:	2017 SAR	2016 SAR
Reinsurance balances receivable	75,703,175	75,711,262
Provision for doubtful receivable	(3,161,480)	(1,606,067)
Reinsurance balances receivable, net	72,541,695	74,105,195

The movement in the allowance for doubtful reinsurance receivable is as follows:

Balance at the beginning of the year	1,606,067	2,606,067
Provided / (released) during the year	1,555,413	(1,000,000)
Balance at the end of the year	3,161,480	1,606,067

<b>Reinsurance balances payable:</b>	<b>2017</b>	<b>2016</b>
	<b>SAR</b>	<b>SAR</b>
Reinsurance balances due to related parties (note 26)	23,030,672	28,335,880
Reinsurance balances due to other parties	158,626,606	190,418,861
<b>Total reinsurance balances payable</b>	<b>181,657,278</b>	<b>218,754,741</b>

## 9. Premiums Receivable

<b>Premiums receivable:</b>	<b>2017</b>	<b>2016</b>
	<b>SAR</b>	<b>SAR</b>
Premiums receivable	411,284,248	451,377,624
Provision for doubtful receivables	(48,773,133)	(39,333,767)
<b>Premiums receivable, net</b>	<b>362,511,115</b>	<b>412,043,857</b>

The ageing analysis of premiums receivable balances is set out below:

<b>31 December 2017</b>	<b>Past due not impaired</b>		<b>Past due and impaired</b>		<b>Total</b>
	<b>Up to 90 days</b>	<b>Less than 180 days</b>	<b>More than 180 days</b>		
Premiums receivable from insurance contracts	123,538,278	51,503,984	95,434,922		270,477,184
Provision for doubtful receivables	-	(7,725,598)	(41,047,535)		(48,773,133)
<b>Premiums receivable from past due insurance contracts, net</b>	<b>123,538,278</b>	<b>43,778,386</b>	<b>54,387,387</b>		<b>221,704,051</b>
Neither past due nor impaired	-	-	-		60,690,388
Premiums receivables under fronting arrangements*	-	-	-		80,116,676
<b>Premiums receivable, net</b>	<b>123,538,278</b>	<b>43,778,386</b>	<b>54,387,387</b>		<b>362,511,115</b>

<b>31 December 2016</b>	<b>Past due not impaired</b>		<b>Past due and impaired</b>		<b>Total</b>
	<b>Up to 90 days</b>	<b>Less than 180 days</b>	<b>More than 180 days</b>		
Premiums receivable from insurance contracts	161,885,174	44,731,258	57,891,861		264,508,293
Provision for doubtful receivables	-	(6,709,689)	(32,624,078)		(39,333,767)
<b>Premiums receivable from past due insurance contracts, net</b>	<b>161,885,174</b>	<b>38,021,569</b>	<b>25,267,783</b>		<b>225,174,526</b>
Neither past due nor impaired	-	-	-		54,349,153
Premiums receivables under fronting arrangements*	-	-	-		132,520,178
<b>Premiums receivable, net</b>	<b>161,885,174</b>	<b>38,021,569</b>	<b>25,267,783</b>		<b>412,043,857</b>

\*Premiums receivable under fronting arrangements are insurance contracts under which the Company passes all the risks including the clients' credit risk to other insurance/ reinsurance companies. Such arrangements are made between global clients and entities of Allianz Group under which Allianz Saudi Fransi provides the insurance service for the entity located in the Kingdom of Saudi Arabia.

The Company classifies balances as "past due and impaired" on a 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 not the practice of the Company to obtain collateral over premiums receivable, and vast majority of such balances are therefore unsecured. The credit quality of these financial assets that are neither past due nor impaired can be assessed by reference to policyholders with appropriate and strong credit history, with minimal account defaults and where the receivables are fully recovered in the past.

The movement in the allowance for doubtful receivables is as follows:

	2017 SAR	2016 SAR
Balance at the beginning of the year	39,333,767	41,180,489
Provided / (released) during the year	10,352,961	(1,846,722)
Debts written-off against the provision	(913,595)	-
<b>Balance at the end of the year</b>	<b>48,773,133</b>	<b>39,333,767</b>

## 10. Available for Sale Investments

Investments are classified as follows:

a) Insurance operations' available for sale investments:

	Quoted	2017 SAR	2016 SAR
<b>Unquoted</b>	Bond – Floating rate	5,000,000	5,000,000
<b>Quoted</b>	Bonds – Floating rate	5,020,031	5,011,110
	Bonds – Fixed rate	94,667,945	45,339,834
	Mutual Funds	4,736,140	4,790,452
	<b>Total</b>	<b>109,424,116</b>	<b>60,141,396</b>

The cumulative unrealised loss in fair value of available for sale investments amounts to SR 926,182 (31 December 2016: SR 404,130) is presented within the insurance operations' liabilities and surplus in the statement of financial position. The available for sale investments comprise of bonds and mutual funds issued by corporate and financial institutions in the Kingdom of Saudi Arabia and Gulf Cooperation Council (GCC) countries.

Bonds – Fixed rate is rated "AA" and Bonds – Floating rate is rated "A" by Standard & Poor's however Funds are unrated.

The movement in insurance operations' available for sale investments is as follows:

	2017 SAR	2016 SAR
Balance at the beginning of the year	60,141,396	59,303,915
Acquisitions during the year	61,161,308	-
Disposals during the year	(10,384,321)	-
Investment premium amortization	(688,909)	(1,114,727)
Realized loss on sale of available for sale investments	(283,306)	-
Unrealised (loss) / gain on available for sale investments	(522,052)	1,952,208
<b>Balance at the end of the year</b>	<b>109,424,116</b>	<b>60,141,396</b>

b) Shareholders' available for sale investments:

	2017 (SAR)		
	Quoted	Unquoted	Total
Sukuk – Floating rate	-	40,000,000	40,000,000
Sukuk – Fixed rate	16,611,422	25,000,000	41,611,422
Bonds – Fixed rate	97,904,545	-	97,904,545
Bonds – Floating	-	12,000,000	12,000,000
Mutual Funds	4,886,259	-	4,886,259
Equities	-	3,223,078	3,223,078
<b>Total</b>	<b>119,402,226</b>	<b>80,223,078</b>	<b>199,625,304</b>

	2016 (SAR)		
	Quoted	Unquoted	Total
Sukuk – Floating rate	-	20,000,000	20,000,000
Sukuk – Fixed rate	31,911,167	25,000,000	56,911,167
Bonds – Fixed rate	83,610,062	-	83,610,062
Bonds – Floating	-	12,000,000	12,000,000
Mutual Funds	4,509,275	-	4,509,275
Equities	-	3,223,078	3,223,078
<b>Total</b>	<b>120,030,504</b>	<b>60,223,078</b>	<b>180,253,582</b>

The cumulative unrealised gain in fair value of available for sale investments amounts to SR 1,507,192 (31 December 2016: loss SR 908,650) is presented within the shareholders' equity in the statement of financial position.

The available for sale investments comprise of bonds and mutual funds issued by corporate and financial institutions in the Kingdom of Saudi Arabia and Gulf Cooperation Council (GCC) countries.

The movement for shareholders' available for sale investments is as follows:

	2017 SAR	2016 SAR
Balance at the beginning of the year	180,253,582	167,391,371
Acquisitions during the year	38,501,262	34,011,487
Disposals during the year	(20,720,694)	(21,378,058)
Investment Premium Amortization	(824,688)	(1,247,323)
Unrealised gain on available for sale investments	2,415,842	1,476,105
<b>Balance at the end of the year</b>	<b>199,625,304</b>	<b>180,253,582</b>

#### c) Credit standing of investments

Following is the credit standing of available for sale investments:

Credit quality	Credit Rating Agency	Financial Instrument	2017	2016
AA	S&P/ Moody's	Bonds / Sukuks	12,021,188	23,247,365
A+	S&P	Bonds / Sukuks	108,344,778	33,422,886
A-	S&P	Sukuk	93,837,977	89,123,771
Unrated	N/A	Equities/Sukuk/ Mutual Funds	94,845,477	94,600,956

#### d) Determination of fair value and fair values hierarchy

As at 31 December, the financial instruments under insurance and shareholder's operations are measured at fair value using Level 1 hierarchy for bonds and funds which are quoted in stock exchange.

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

#### i) Insurance Operations

	2017 (SAR)			Total
	Level 1	Level 2	Level 3	
Bonds and Sukuk	99,687,976	-	5,000,000	104,687,976
Mutual Funds	4,736,140	-	-	4,736,140
<b>Total</b>	<b>104,424,116</b>	<b>-</b>	<b>5,000,000</b>	<b>109,424,116</b>

	2016 (SAR)			
	Level 1	Level 2	Level 3	Total
Bonds and Sukuk	50,350,944	-	5,000,000	55,350,944
Mutual Funds	4,790,452	-	-	4,790,452
<b>Total</b>	<b>55,141,396</b>	<b>-</b>	<b>5,000,000</b>	<b>60,141,396</b>

## ii) Shareholders' operations

	2017 (SAR)			
	Level 1	Level 2	Level 3	Total
Bonds and sukuk	114,515,967	-	77,000,000	191,515,967
Mutual Funds	4,886,259	-	-	4,886,259
<b>Total</b>	<b>119,402,226</b>	<b>-</b>	<b>77,000,000</b>	<b>196,402,226</b>

	2016 (SAR)			
	Level 1	Level 2	Level 3	Total
Bonds and sukuk	115,521,229	-	57,000,000	172,521,229
Mutual Funds	4,509,275	-	-	4,509,275
<b>Total</b>	<b>120,030,504</b>	<b>-</b>	<b>57,000,000</b>	<b>177,030,504</b>

In addition to the above investments, the Company holds unlisted available for sale securities as at 31 December 2017 amounting to SR 3,223,078 (December 2016: SR 3,223,078) which are carried at cost as their fair value is neither evidenced by a quoted price in an active market for an identical asset nor can be determined based on a valuation technique that uses only data from observable markets. The management believes that the fair value of these securities are not materially different from their carrying values.

### Valuation technique for unquoted debt securities

The Discounted Cash flow Model (DCF) has been used to determine the fair value of debt securities of both insurance operations and shareholders' operations. This model considers the present value of net cash flows to be generated from the debt securities, discounted at the market yield of similar quoted instruments and adjusted for the effect of non-marketability of the debt securities. The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurement in level 3 of the fair value hierarchy:

	Opening	Purchase	Sale	Closing
2017	62,000,000	20,000,000	--	82,000,000
2016	50,000,000	12,000,000	--	62,000,000

### Sensitivity Analysis

The sensitivity to a 1% increase in the risk adjusted discount rate with all other variables constant on the fair value of the level 3 available for sale investments is SR 3,656,603 and sensitivity to 1% decrease in the risk adjusted discount rate with all other variables constant on the fair value of the level 3 available for sale investments is SR 3,887,482.

## 11. Unit Linked Investments

The fair values for unit linked investments as at 31 December are:

	2017 SAR	2016 SAR
Local funds	562,992,783	573,078,698
Foreign funds	10,723,613	19,572,956
	<b>573,716,396</b>	<b>592,651,654</b>



Portfolios of the funds are as follows:

	2017 SAR	2016 SAR
Al Ghad/Al Anjal Low Risk Fund	244,320,531	258,350,657
Al Badr Fund Saudi Riyal	216,423,999	219,986,738
Al Saffa Equity Fund	48,838,255	43,331,027
Al Ghad/Al Anjal Murabaha Fund	36,790,965	42,677,902
Al Badr Fund US Dollar	10,290,040	10,684,380
Money Market Fund Saudi Riyal	4,533,558	5,096,944
Al Danah GCC Equity Fund	4,419,078	4,359,010
Al Fursan Equity Fund US Dollar	3,510,465	3,592,484
Saudi Istithmar Fund	2,540,409	2,444,264
Al Naqaa Asia Growth Fund US Dollar	2,049,096	2,128,248
	573,716,396	592,651,654

Unit Linked Assets are related to investments in unit linked funds. The Company has established unit linked liabilities which excluding some timing differences and reserves, match exactly with the policyholder's unit linked assets.

The fair value of unit linked investments are measured based on the net assets value provided by fund manager. As the values of these investments are available from the market, the Company uses Level 1 hierarchy for determining and disclosing the fair value of above unit linked investments.

## 12. Deferred Policy Acquisition Costs

	2017 SAR	2016 SAR
Balance at the beginning of the year	22,089,024	21,958,291
Incurring during the year	59,649,076	49,049,960
Amortized during the year	(57,871,819)	(48,919,227)
Balance at the end of the year	23,866,281	22,089,024

## 13. Property and Equipment

Cost:	2017 (SAR)				
	Computer and office equipment SAR	Motor vehicles SAR	Furniture and fittings SAR	Leasehold improvements SAR	Total SAR
At the beginning of the year	10,301,734	969,347	6,697,553	-	17,968,634
Additions during the year	1,550,155	-	157,664	253,544	1,961,363
Balance at the end of the year	11,851,889	969,347	6,855,217	253,544	19,929,997
<b>Accumulated Depreciation:</b>					
At the beginning of the year	8,916,450	968,159	5,694,650	-	15,579,259
Charge for the year	428,831	1,187	274,500	11,024	715,542
Balance at the end of the year	9,345,281	969,346	5,969,150	11,024	16,294,801
Net book value at 31 December 2016	2,506,608	1	886,067	242,520	3,635,196

Cost:	2017 (SAR)				
	Computer and office equipment SAR	Motor vehicles SAR	Furniture and fittings SAR	Leasehold improvements SAR	Total SAR
At the beginning of the year	9,286,617	969,347	6,352,022	-	16,607,986
Additions during the year	1,015,117	-	345,531	-	1,360,648
<b>Balance at the end of the year</b>	<b>10,301,734</b>	<b>969,347</b>	<b>6,697,553</b>	<b>-</b>	<b>17,968,634</b>
<b>Accumulated Depreciation:</b>					
At the beginning of the year	8,464,330	895,825	5,471,735	-	14,831,890
Charge for the year	452,120	72,334	222,915	-	747,369
<b>Balance at the end of the year</b>	<b>8,916,450</b>	<b>968,159</b>	<b>5,694,650</b>	<b>-</b>	<b>15,579,259</b>
<b>Net book value at 31 December 2016</b>	<b>1,385,284</b>	<b>1,188</b>	<b>1,002,903</b>	<b>-</b>	<b>2,389,375</b>

## 14. Statutory Deposit

In compliance with the Insurance Implementing Regulations of SAMA, the Company deposited 10% of its paid up capital, amounting to SR 20 Million in a bank designated by SAMA. The accrued commission on the deposit as at 31 December 2017 is SR 817,056 (31 December 2016: SR 679,569) and has been disclosed in assets as "Return on investment of statutory deposit" and the corresponding commission is shown in liabilities as "Deferred return on investment of statutory deposit". This deposit cannot be withdrawn without SAMA's consent. The statutory deposit is maintained with Banque Saudi Fransi, a shareholder of the Company and rated "BBB+" by Fitch Ratings Services.

## 15. Accrued Expenses And Other Liabilities

	2017 SAR		2016 SAR	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
Accrued bonus	6,921,409	-	5,870,573	-
Inspection and supervision fees	2,876,543	-	2,153,820	-
Accrued TPA fees	10,558,429	-	-	-
Claims payable	39,321,155	-	30,541,473	-
Others	4,917,476	268,366	3,166,219	50,365
	<b>64,595,012</b>	<b>268,366</b>	<b>41,732,085</b>	<b>50,365</b>

## 16. Outstanding Claims

	2017 (SAR)		
	Gross	Reinsurance share	Net
General insurance	421,667,635	(274,496,010)	147,171,625
Protection and saving insurance	12,873,732	(8,227,273)	4,646,459
<b>Total outstanding claims</b>	<b>434,541,367</b>	<b>(282,723,283)</b>	<b>151,818,084</b>

	2016 (SAR)		
	Gross	Reinsurance share	Net
General insurance	375,880,242	(261,535,321)	114,344,921
Protection and saving insurance	10,249,910	(5,925,028)	4,324,882
<b>Total outstanding claims</b>	<b>386,130,152</b>	<b>(267,460,349)</b>	<b>118,669,803</b>

Movement of outstanding claims is as follows:

	2017 SAR			2016 SAR		
	Gross	Reinsurance Share	Net	Gross	Reinsurance Share	Net
<b>As at 1 January</b>						
Reported claims	239,418,512	(191,714,583)	47,703,929	292,010,152	(250,600,850)	41,409,302
IBNR	146,711,640	(75,745,766)	70,965,874	155,918,813	(124,907,084)	31,011,729
<b>Total outstanding claims</b>	<b>386,130,152</b>	<b>(267,460,349)</b>	<b>118,669,803</b>	<b>447,928,965</b>	<b>(375,507,934)</b>	<b>72,421,031</b>
Provided during the year	652,422,489	(153,692,028)	498,730,461	400,432,031	37,537,594	437,969,625
Paid during the year	(604,011,274)	138,429,094	(465,582,180)	(462,230,844)	132,015,478	(330,215,366)
<b>As at 31 December</b>	<b>434,541,367</b>	<b>(282,723,283)</b>	<b>151,818,084</b>	<b>386,130,152</b>	<b>(205,954,862)</b>	<b>180,175,290</b>
Reported Claims	237,365,286	(196,869,565)	40,495,721	239,418,512	(191,714,583)	47,703,929
IBNR	197,176,081	(85,853,718)	111,322,363	146,711,640	(75,745,766)	70,965,874
<b>Total outstanding claims</b>	<b>434,541,367</b>	<b>(282,723,283)</b>	<b>151,818,084</b>	<b>386,130,152</b>	<b>(267,460,349)</b>	<b>118,669,803</b>

## 17. Unit Linked Liabilities

	2017 (SAR)	2016 (SAR)
Balance at the beginning of the year	593,706,572	592,851,492
Change in unit linked liabilities during the year	(20,654,616)	855,080
<b>Balance at the end of the year</b>	<b>573,051,956</b>	<b>593,706,572</b>

Liabilities arising from insurance contracts where the risk is borne by policyholders relates to the value of unit linked contracts.

The technical provision relating to insurance contracts represent the excess of expected claims under these products over expected charges. The computation was made on the basis of recognized actuarial methods, with due regard to the actuarial principles.

## 18. Unearned Commission Income

	2017 (SAR)	2016 (SAR)
Balance at the beginning of the year	11,951,608	15,230,473
Commission received during the year	24,580,335	14,260,879
Commission earned during the year	(25,718,192)	(17,539,744)
<b>Balance at the end of the year</b>	<b>10,813,751</b>	<b>11,951,608</b>

## 19. Unearned Premiums

	2017 (SAR)	2016 (SAR)
Balance at the beginning of the year	222,796,791	164,345,534
Net premiums written during the year	650,851,063	558,440,631
Net premiums earned during the year	(638,219,579)	(499,989,374)
	235,428,275	222,796,791
Reinsurer's share of unearned premium	180,184,370	236,460,497
<b>Balance at the end of the year</b>	<b>415,612,645</b>	<b>459,257,288</b>

## 20. Due to Shareholders' Operations

	2017 (SAR)	2016 (SAR)
Balance at the beginning of the year	18,772,461	23,915,601
Net surplus for the year	30,153,597	23,868,347
Funds transferred from insurance operations	(30,000,000)	(29,011,487)
<b>Balance at the end of the year</b>	<b>18,926,058</b>	<b>18,772,461</b>

## 21. Employees, End of Service Benefits

a) The movement in provision for employees' end of service benefits for the years ended 31 December are as follows:

	2017 (SAR)	2016 (SAR)
Defined benefit obligation at the beginning of the year	12,828,431	11,786,168
Provided during the year	3,232,920	2,234,651
Paid during the year	(1,368,829)	(1,192,388)
Actuarial reserve for employee benefits	765,304	-
<b>Defined benefit obligation at the end of the year</b>	<b>15,457,826</b>	<b>12,828,431</b>

b) The amount provided during the year comprised of the following:

	2017 (SAR)	2016 (SAR)
Current service cost	2,751,185	2,234,651
Net interest	481,735	-
	<b>3,232,920</b>	<b>2,234,651</b>

### Actuarial Assumption:

Discount rate used for valuation of current year	4.00%
Discount rate used for valuation of prior year	4.15%
Salary increase rate	6.00%
Duration (years)	8.39

### 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:

	2017 (SAR)	
	Increase	Decrease
Discount rate (1% movement)	14,296,031	16,893,341
Future salary growth (1% movement)	16,930,043	14,239,097

## 22. Provision for Zakat and Income Tax

A summary of the Company's share capital and percentages of ownership are as follows:

	31 December 2017		31 December 2016	
	SAR	%	SAR	%
Saudi and GCC Shareholders	114,760,000	57.38%	114,760,000	57.38%
Non-Saudi and GCC Shareholders	85,240,000	42.62%	85,240,000	42.62%
<b>Total</b>	<b>200,000,000</b>	<b>100%</b>	<b>200,000,000</b>	<b>100%</b>

As at 31 December 2017 and 31 December 2016, the authorized, issued and fully paid-in share capital of the Company consists of 20 million shares of SR 10 each. The Company's zakat and income tax calculations and corresponding accruals and payments of zakat and income tax are based on the above ownership percentages in accordance with the relevant provisions of the Saudi Arabian zakat and income tax regulations.

The provision for zakat and income tax for the year is set out below:

	2017 (SAR)	2016 (SAR)
Provision for zakat	4,294,733	3,509,169
Provision for income tax	3,289,263	1,853,974
	<b>7,583,996</b>	<b>5,363,143</b>

#### (a) Zakat

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

	2017 (SAR)	2016 (SAR)
Opening share capital	200,000,000	200,000,000
Reserves and opening provisions	99,689,499	67,625,285
Closing value of long term assets	(51,751,675)	(51,007,646)
	<b>247,937,824</b>	<b>216,617,639</b>
Zakat-able income for the year	51,451,011	28,864,619
Zakat base	299,388,835	245,482,258
Total Saudi share of zakat base	171,789,314	140,366,755
<b>Zakat due at 2.5% on Saudi shareholding</b>	<b>4,294,733</b>	<b>3,509,169</b>

The differences between the income as per financial statements and the zakatable income are mainly due to provisions which are not allowed in the calculation of zakatable income.

#### (b) Income tax

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

	2017 (SAR)	2016 (SAR)
Net income for the year	34,918,227	24,429,547
Add: Inadmissible expenses	19,058,944	6,634,059
Less : Admissible expenses	(9,906,807)	(6,325,168)
Adjustment of brought forward losses	(5,482,105)	(3,089,958)
Adjusted income	38,588,259	21,648,480
Adjusted income attributed to non Saudi shareholders	16,446,316	9,269,870
<b>Provision for income tax (20%)</b>	<b>3,289,263</b>	<b>1,853,974</b>

#### (c) Movement in zakat and income tax payable is as follows

	2017 (SAR)	2016 (SAR)
Opening balance of zakat and tax payable	16,065,894	14,271,442
Provided during the year	7,583,996	5,363,143
Payment made during the year	(2,232,944)	(3,568,691)
<b>Closing balance of zakat and tax payable</b>	<b>21,416,946</b>	<b>16,065,894</b>

#### (d) Status of assessments

The Company has filed tax and zakat declarations for the years ended 31 December 2008 to 31 December 2016 and the assessments for these years are still outstanding. The Company has filed appeals against the General Authority for Zakat and Tax (GAZT) assessments of additional zakat arising from disallowance of long term investments from zakat base for the years 2010, 2011, 2012 and 2013. The Company has accounted for the additional zakat provision in the financial statements, however has not paid the same. The Company is in the process of filing tax and zakat returns for the year ended 31 December 2017 with the GAZT.

## 23. Share Capital

The authorised and issued share capital of the Company is SR 200 million divided into 20 million shares of SR 10 each (31 December 2016: SR 200 million divided into 20 million shares of SR 10 each). The founding shareholders of the Company have subscribed and paid for 13 million shares with a nominal value of SR 10 each, which represents 65% of the shares of the Company's capital and the remaining 7 million shares with a nominal value of SR 10 each have been subscribed by general public.

On 25th October 2017, Allianz Europe BV (a 100% subsidiary of Allianz SE) entered in a legally binding agreement with Banque Saudi Fransi (BSF) to purchase from BSF, 57% of its shareholding in the Company which represents 18.5% of the total share capital of the Company. This agreement received SAMA's no-objection and will be completed by Allianz Europe BV, upon completion Allianz SE will own 51% shareholding of the Company. The completion of this transaction is subject to additional regulatory approvals which are outstanding as at 31 December 2017.

## 24. 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 annual net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution.

## 25. Premiums Written and Earned

	2017 (SAR)		
	Gross	Reinsurance share	Net
General insurance	788,918,480	(259,250,741)	529,667,739
Protection and saving insurance	136,618,227	(15,434,903)	121,183,324
<b>Written premiums</b>	<b>925,536,707</b>	<b>(274,685,644)</b>	<b>650,851,063</b>
Change in unearned premiums	43,644,643	(56,276,127)	(12,631,484)
<b>Premiums earned</b>	<b>969,181,350</b>	<b>(330,961,771)</b>	<b>638,219,579</b>

	2016 (SAR)		
	Gross	Reinsurance share	Net
General insurance	686,334,653	(262,659,719)	423,674,934
Protection and saving insurance	149,937,377	(15,171,680)	134,765,697
<b>Written premiums</b>	<b>836,272,030</b>	<b>(277,831,399)</b>	<b>558,440,631</b>
Change in unearned premiums	(36,671,363)	(21,779,894)	(58,451,257)
<b>Premiums earned</b>	<b>799,600,667</b>	<b>(299,611,293)</b>	<b>499,989,374</b>

## 26. General and Administrative Expenses

	2016		2015	
	SAR		SAR	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
Employees' costs	60,262,579	-	52,781,095	645,764
Allowance for premium and reinsurance receivable	11,908,374	-	-	-
Consultation fees	9,220,471	-	7,625,692	2,253,300
Advertisement and promotion	4,163,634	-	985,620	-
Repairs and maintenance	3,634,192	-	2,204,677	-
Employees' end of service benefits	3,232,920	-	2,234,651	-
Rent	3,212,072	-	3,227,386	-
Insurance expenses	3,088,225	-	2,408,887	-
Postage and telephone	1,375,244	-	1,575,837	-
Board expenses	908,574	876,537	936,794	234,198
Travel and transportation	849,715	-	849,236	-
Depreciation (note 13)	715,542	-	747,369	-
Others	2,809,667	-	282,913	-
	<b>105,381,209</b>	<b>876,537</b>	<b>75,860,157</b>	<b>3,133,262</b>

## 27. Related Party Transactions and Balances

Following are the details of related party transactions during the year ended 31 December 2017 and 31 December 2016 and the related affiliate's balances as at 31 December 2017 and 31 December 2016:

Related party	Nature of transaction	2017	2016
		SAR	SAR
Entities controlled, jointly controlled or significantly influenced by related parties.	- Insurance premium written	111,686,186	90,301,473
	- Insurance premium ceded	62,420,083	98,361,666
	- Gross claims paid	37,164,753	42,479,386
	- Reinsurance share of claims paid	25,268,439	35,897,776
	- Commission expense	4,444,600	4,031,476
	- Commission income	5,567,446	8,663,209
	Other expenses		
	- Third party administrator (TPA) fees	8,817,319	7,691,263
Key management personnel	Remuneration and related expenses	6,108,232	6,233,575
Board members	Fees and related expenses	1,785,111	1,146,648

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, Deputy Chief Executive Officer and the Chief Financial Officer of the Company. All Unit Linked investments and certain significant available for sale investments are managed by an affiliate, Saudi Fransi Capital.

Cash and cash equivalents include bank accounts, the majority of which are maintained with the shareholder of the Company, Banque Saudi Fransi.

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

		2017	2016
		SAR	SAR
Entities controlled, jointly controlled or significantly influenced by related parties.	- Accrued expenses	6,753,903	5,708,440
	- Premiums receivable, net	25,452,683	57,937,612
	- Reinsurance balance payable	23,030,672	28,335,880
	- Outstanding claims	39,957,886	4,026,131

Related parties include Allianz SNA, Allianz Mena Holding Bermuda, Allianz Risk Transfer A.G. Dubai, Allianz France, Allianz Global Corporate and Speciality AG, Allianz World Wide Care, Allianz Global risks U.S Insurance, Allianz Belgium, Euler Hermes, Allianz SE Zurich, Allianz Insurance Hong Kong, Allianz Global Risks Netherland, Allianz Insurance Singapore, Allianz Insurance New Zealand, Saudi Fransi Insurance Agency, Banque Saudi Fransi, Saudi Fransi Leasing Company, Saudi Next Care, Saudi Fransi Capital.

## 28. Claims Development Table

The following table reflects the net incurred claims including both the net claims notified and net incurred but not reported claims for each accident year (excluding the surrenders for protection and savings insurance products) 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 will transfer much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims. Claims triangulation analysis by accident years for the last five years is set out below:

### a) Claims triangulation analysis – Net basis

2017 Accident Year	2013 and earlier	2014	2015	2016	2017	Total
<b>Estimate of ultimate claims cost:</b>						
At the end of accident year	120,625,501	176,986,593	146,996,450	200,630,919	374,692,166	-
One year later	134,302,221	181,013,130	163,278,601	240,449,122	-	-
Two years later	133,421,984	177,463,452	166,635,230	-	-	-
Three years later	131,515,203	178,825,807	-	-	-	-
Four years later	130,456,835	-	-	-	-	-
Current estimate of cumulative net claims	130,456,835	178,825,807	166,635,230	240,449,122	374,692,166	1,091,059,160
Cumulative payments to date	(128,921,027)	(171,293,358)	(155,174,295)	(223,586,916)	(260,265,480)	(939,241,076)
Net liability recognised in statement of financial position	1,535,808	7,532,449	11,460,935	16,862,206	114,426,686	151,818,084

2016 Accident Year	2012 & Earlier	2013	2014	2015	2016	Total
<b>Estimate of ultimate claims cost:</b>						
At the end of accident year	104,912,265	120,625,501	176,986,593	146,996,450	243,798,701	-
One year later	113,103,673	134,302,221	181,013,130	170,621,899	-	-
Two years later	113,744,848	133,421,984	182,180,151	-	-	-
Three years later	113,977,879	133,054,046	-	-	-	-
Four years later	117,419,311	-	-	-	-	-
Current estimate of cumulative net claims	117,419,311	133,054,046	182,180,151	170,621,899	243,798,701	847,074,108
Cumulative payments to date	(112,442,178)	(128,942,959)	(169,200,388)	(151,712,734)	(166,106,046)	(728,404,305)
Net liability recognised in statement of financial position	4,977,133	4,111,087	12,979,763	18,909,165	77,692,655	118,669,803



## b) Claims triangulation analysis – Gross basis

2017 Accident Year	2013 and earlier	2014	2015	2016	2017	Total
<b>Estimate of ultimate claims cost:</b>						
At the end of accident year	301,622,709	317,526,019	387,505,257	316,095,677	524,842,372	-
One year later	338,700,516	413,602,896	401,202,916	420,666,359	-	-
Two years later	332,078,904	388,793,005	403,744,616	-	-	-
Three years later	316,855,740	399,323,549	-	-	-	-
Four years later	318,418,725	-	-	-	-	-
Current estimate of cumulative claims	318,418,725	399,323,549	403,744,616	420,666,359	524,842,372	2,066,995,621
Cumulative payments to date	(311,503,980)	(329,043,708)	(351,637,228)	(323,101,746)	(317,167,592)	(1,632,454,254)
Net liability recognised in statement of financial position	6,914,745	70,279,841	52,107,388	97,564,613	207,674,780	434,541,367

2016 Accident Year	2011 and earlier	2012	2013	2014	2015	Total
<b>Estimate of ultimate claims cost:</b>						
At the end of accident year	210,669,922	301,622,709	317,526,019	387,505,257	351,105,261	-
One year later	246,785,537	338,700,516	413,602,896	434,547,262	-	-
Two years later	247,242,919	332,078,904	427,654,012	-	-	-
Three years later	243,555,988	334,753,978	-	-	-	-
Four years later	252,403,710	-	-	-	-	-
Current estimate of cumulative claims	252,403,710	334,753,978	427,654,012	434,547,262	351,105,261	1,800,464,223
Cumulative payments to date	(235,053,646)	(307,000,158)	(324,140,371)	(336,083,456)	(212,056,440)	(1,414,334,071)
Net liability recognised in statement of financial position	17,350,064	27,753,820	103,513,641	98,463,806	139,048,821	386,130,152

## 29. Basic And Diluted Earnings Per Share

	31 December 2017	31 December 2016
Net income for the year (SR)	34,918,227	24,429,547
Weighted average number of ordinary shares	20,000,000	20,000,000
Basic and diluted earnings per share (SAR)	1.75	1.22

## 30. Premium Deficiency Reserves

The Company has created a provision in respect of premium deficiency reserves ("PDR") for its medical and motor business. The PDR for medical is based on the recommendations of the actuary. The PDR for motor represents provision created by the Company with respect to additional reserve required to cover expected claims not initially built in the premium. The Company created this provision based on the assumption that the unearned premiums will not be sufficient to provide for the expected claims and other attributable expenses related to the unexpired periods of policies in force at the statement of financial position date.

	31 December 2017	31 December 2016
Motor	5,315,543	5,315,543
Medical	5,401,609	762,179
<b>Total</b>	<b>10,717,152</b>	<b>6,077,722</b>

During the current year the company booked an additional premium reserve amounting to SR 1,317,438 (31 December 2016: Nil) on the basis of unexpired risk reserve for Engineering business.

## 31. Risk Management

### Risk management strategy

The Company's activities expose it to a variety of financial risks. Company has a comprehensive risk management strategy to understand and manage the types of risk arising from the Company's core business operations.

The strategy considers the impact of market conditions and available expertise on inherent risks to which the Company is exposed. Consideration is not limited to the risks associated with one class of business but is extended to risks from all other classes.

The Board of Directors and the senior management periodically reviews and updates the risk management strategy by taking into account developments that are internal and external to the Company.

### Risk management structure

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

### Board of directors

The apex of risk governance is the centralized 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.

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

#### a) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Company manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance.

#### b) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands.

The Company underwrites mainly medical, motor, fire and burglary, marine, engineering and public liability risks. The insurance risks arising from the above insurance contracts are mainly concentrated in the Kingdom of Saudi Arabia.

### Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites medical, motor, fire and burglary, marine, engineering and public liability risks. These classes except for long term engineering policies are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

### Concentration of insurance risk

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

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

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

## Protection and Saving

For Protection and saving, the main risk is the mortality and morbidity (permanent or temporary disability) of the insured. This is managed through an effective and clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also conducts financial, lifestyle and occupational underwriting to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

For group Protection and saving, the mortality risk is compounded due to the concentration of lives, for example employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also looks at the nature of activity carried out by the group, group size, mix of lives by geographical regions, cultural background and manual/non-manual worker split.

The individual family and group Protection and saving portfolio is protected through an efficient reinsurance arrangement in accordance with Allianz Group standards. This protects the Company from adverse mortality/morbidity experience. There is a maximum retention per life under the reinsurance arrangement which protects the Company from single large losses. Multiple claims and concentrations of risk are also covered under the arrangement.

## General Insurance

### Medical

The Company' 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.

### Motor

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

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims. The Company also has appropriate risk management procedures to control the cost of claims. The Company has reinsurance cover for such damage to limit the losses for any individual claim.

### Property

For property insurance contracts the main risk is fire. The Company only underwrites policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has appropriate reinsurance cover for such damage to limit losses for any individual claim. These are covered under proportional and non-proportional treaties.

### Marine

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim.

### Engineering

For engineering insurance, the main risks are loss or damage to the construction/erection works caused by fire, explosion, natural perils like floods, earthquakes, hailstorms, etc. Selection of risks and proper underwriting are the criteria for this line of business. The Company has appropriate reinsurance cover for such risks to limit losses for any individual claim. These are covered under engineering proportional and non-proportional treaties.

### Public liability

For public liability insurance, the main risks are legal liabilities of the insured towards third party deaths, bodily injury or property damage arising out of insured premises, business operations or projects handled by the insured.

This insurance policy is underwritten based on the turnover of the company or the value of the contract, nature / occupation of the premises, nature of contracts handled. The Company has appropriate reinsurance cover to limit the losses for any individual claim.

### 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 5% change in the claims ratio would impact income annually in aggregate by:

Change in claim ratio	Effect on income	Effect on income
	2017 SAR	2015 SAR
+5%	24,936,523	18,823,207
-5%	(24,936,523)	(18,823,207)

### c) 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.

### d) 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.

### e) 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 fall 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 profile

The table below summarises the expected utilisation or settlement of assets and liabilities.

Maturity analysis on expected maturity bases	31 December 2017		
	Amount in SAR		
	Less than one year	More than one year	Total
<b>Insurance operations' assets</b>			
Cash and cash equivalents	107,246,209	-	107,246,209
Prepayments and other assets	18,732,552	-	18,732,552
Reinsurance balances receivable	72,541,695	-	72,541,695
Premiums receivable	362,511,115	-	362,511,115
Available for sale investments	4,736,140	104,687,976	109,424,116
Unit linked investments	573,716,396	-	573,716,396
Deferred policy acquisition costs	23,866,281	-	23,866,281
Reinsurers' share of unearned premiums	180,184,370	-	180,184,370
Reinsurers' share of outstanding claims	282,723,283	-	282,723,283
Property and equipment	-	3,635,196	3,635,196
	1,626,258,041	108,323,172	1,734,581,213
<b>Shareholders' assets</b>			
Cash and cash equivalents	26,084,656	-	26,084,656
Prepayments and other assets	8,153,653	-	8,153,653
Due from insurance operations	18,926,058	-	18,926,058
Available for sale investments	29,548,088	170,077,216	199,625,304
Statutory deposit	-	20,000,000	20,000,000
Return on investment of statutory deposit	-	817,056	817,056
	82,712,455	190,894,272	273,606,727
<b>Insurance operations' liabilities</b>			
Accrued expenses and other liabilities	64,595,012	-	64,595,012
Reinsurance balances payable	181,657,278	-	181,657,278
Due to shareholders' operations	18,926,058	-	18,926,058
Outstanding claims	434,541,367	-	434,541,367
Premium deficiency reserves	10,717,152	-	10,717,152
Additional premium reserve	1,317,438	-	1,317,438
Unit linked liabilities	573,051,956	-	573,051,956
Unearned commission income	10,813,751	-	10,813,751
Unearned premiums	415,612,645	-	415,612,645
Employees' end of service benefits	-	15,457,826	15,457,826
	1,711,232,657	15,457,826	1,726,690,483
<b>Shareholders' liabilities</b>			
Zakat and income tax payable	21,416,946	-	21,416,946
Deferred return on investment of statutory deposit	817,056	-	817,056
Accrued expenses and other liabilities	268,366	-	268,366
	22,502,368	-	22,502,368

Maturity analysis on expected maturity bases	31 December 2016		
	Amount in SAR		
Insurance operations' assets	Less than one year	More than one year	Total
Cash and cash equivalents	77,221,164	-	77,221,164
Prepayments and other assets	11,981,291	-	11,981,291
Reinsurance balances receivable	74,105,195	-	74,105,195
Premiums receivable	412,043,857	-	412,043,857
Available for sale investments	4,790,452	55,350,944	60,141,396
Unit linked investments	592,651,654	-	592,651,654
Deferred policy acquisition costs	22,089,024	-	22,089,024
Reinsurers' share of unearned premiums	236,460,497	-	236,460,497
Reinsurers' share of outstanding claims	267,460,349	-	267,460,349
Property and equipment	-	2,389,375	2,389,375
	1,698,803,483	57,740,319	1,756,543,802
<b>Shareholders' assets</b>			
Cash and cash equivalents	16,272,417	-	16,272,417
Prepayments and other assets	2,172,085	-	2,172,085
Due from insurance operations	18,772,461	-	18,772,461
Available for sale investments	7,732,353	172,521,229	180,253,582
Statutory deposit	-	20,000,000	20,000,000
Return on investment of statutory deposit	-	679,569	679,569
	44,949,316	193,200,798	238,150,114
<b>Insurance operations' liabilities</b>			
Accrued expenses and other liabilities	41,732,085	-	41,732,085
Reinsurance balances payable	218,754,741	-	218,754,741
Due to shareholders' operations	18,772,461	-	18,772,461
Outstanding claims	386,130,152	-	386,130,152
Premium deficiency reserves	6,077,722	-	6,077,722
Unit linked liabilities	593,706,572	-	593,706,572
Unearned commission income	11,951,608	-	11,951,608
Unearned premiums	459,257,288	-	459,257,288
Employees' end of service benefits	-	12,828,431	12,828,431
	1,736,382,629	12,828,431	1,749,211,060
<b>Shareholders' liabilities</b>			
Zakat and income tax payable	16,065,894	-	16,065,894
Deferred return on investment of statutory deposit	679,569	-	679,569
Accrued expenses and other liabilities	50,365	-	50,365
	16,795,828	-	16,795,828

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on residual maturities. 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.

31 December 2017					
Amount in SAR					
	On Demand	Up to1 year	2-5 years	More than 5 years	Total
<b>Insurance operations' assets</b>					
Cash and cash equivalents	-	107,246,209	-	-	107,246,209
Reinsurance balances receivable	-	72,541,695	-	-	72,541,695
Premiums receivable	-	362,511,115	-	-	362,511,115
Available for sale investments	4,736,140	-	5,000,000	99,687,976	109,424,116
Unit linked investments	573,716,396	-	-	-	573,716,396
Reinsurers' share of outstanding claims	-	282,723,283	-	-	282,723,283
	578,452,536	825,022,302	5,000,000	99,687,976	1,508,162,814
<b>Shareholders' assets</b>					
Cash and cash equivalents	-	26,084,656	-	-	26,084,656
Due from insurance operations	-	18,926,058	-	-	18,926,058
Available for sale investments	29,548,088	-	74,428,360	95,648,855	199,625,303
Returns on investment of statutory deposit	-	-	-	817,056	817,056
Statutory deposit	-	-	-	20,000,000	20,000,000
	29,548,088	45,010,714	74,428,360	116,465,911	265,453,073
<b>Insurance operations' liabilities</b>					
Accrued expenses and other payables	-	64,595,012	-	-	64,595,012
Reinsurance balances payable	-	181,657,278	-	-	181,657,278
Due to shareholders operations	-	18,926,058	-	-	18,926,058
Outstanding claims	-	434,541,367	-	-	434,541,367
Unit linked liabilities	573,051,956	-	-	-	573,051,956
Employees' end of service benefits	15,457,826	-	-	-	15,457,826
	588,509,782	699,719,715	-	-	1,288,229,497
<b>Shareholders' liabilities</b>					
Accrued expenses and other liabilities	-	268,366	-	-	268,366
Deferred return on investment of statutory deposit	817,056	-	-	-	817,056
Zakat and income tax payable	-	21,416,946	-	-	21,416,946
	817,056	21,685,312	-	-	22,502,368

31 December 2016

Amount in SAR

	On Demand	Up to 1 year	2-5 years	More than 5 years	Total
<b>Insurance operations' assets</b>					
Cash and cash equivalents	-	77,221,164	-	-	77,221,164
Reinsurance balances receivable	-	74,105,195	-	-	74,105,195
Premiums receivable	-	412,043,857	-	-	412,043,857
Available for sale investments	4,790,452	-	5,000,000	50,350,944	60,141,396
Unit linked investments	592,651,654	-	-	-	592,651,654
Reinsurers' share of outstanding claims	-	267,460,349	-	-	267,460,349
	597,442,106	830,830,565	5,000,000	50,350,944	1,483,623,615
<b>Shareholders' assets</b>					
Cash and cash equivalents	-	16,272,416	-	-	16,272,416
Due from insurance operations	-	18,772,461	-	-	18,772,461
Available for sale investments	7,732,353	-	74,428,360	98,092,869	180,253,582
Returns on investment of statutory deposit	-	-	-	679,569	679,569
Statutory deposit	-	-	-	20,000,000	20,000,000
	7,732,353	35,044,877	74,428,360	118,772,438	235,978,028
<b>Insurance operations' liabilities</b>					
Accrued expenses and other payables	-	41,732,085	-	-	41,732,085
Reinsurance balances payable	-	218,754,741	-	-	218,754,741
Due to shareholders operations	-	18,772,461	-	-	18,772,461
Outstanding claims	-	386,130,152	-	-	386,130,152
Unit linked liabilities	593,706,572	-	-	-	593,706,572
Employees' end of service benefits	12,828,431	-	-	-	12,828,431
	606,535,003	665,389,439	-	-	1,271,924,442
<b>Shareholders' liabilities</b>					
Accrued expenses and other liabilities	-	50,365	-	-	50,365
Deferred return on investment of statutory deposit	679,569	-	-	-	679,569
Zakat and income tax payable	-	16,065,894	-	-	16,065,894
	679,569	16,116,259	-	-	16,795,828

#### 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 instruments held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position.

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

- To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurance counterparties. Accordingly, as a pre-requisite, the parties with whom reinsurance is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- 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 on-going basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit the credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.



- Premiums receivable are mainly receivable from individuals and corporate customers (unrated). The Company seeks to limit the credit risk with respect individuals and corporate customers by setting credit limits and monitoring outstanding receivables.
- Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company's investments mainly comprise of debt securities and Sukuk. The Company does not have an internal grading mechanism for debt securities. The Company limits its credit risk on debt securities by setting out a minimum acceptable security rating level for such investments.

Premiums receivable comprise a large number of receivables from individual and corporate clients. The five largest premium receivable accounts constitute 16% of premium receivable as at 31 December 2017 (31 December 2016: 29%). The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	Note	2017 SAR		
		Insurance Operations	Shareholders' Operations	Total
Cash and cash equivalents	6	107,246,209	26,084,656	133,330,865
Reinsurance balances receivable	8(a)	72,541,695	-	72,541,695
Premiums receivable	9	362,511,115	-	362,511,115
Available for sale investments	10(a)	109,424,116	199,625,304	309,049,420
Reinsurance share of outstanding claims	16	282,723,283	-	282,723,283
Statutory deposit	14	-	20,000,000	20,000,000
Returns on investment of statutory deposit	14	-	817,056	817,056
		<b>934,446,418</b>	<b>246,527,016</b>	<b>1,180,973,434</b>

	Note	2016 SAR		
		Insurance Operations	Shareholders' Operations	Total
Cash and cash equivalents	6	77,221,164	16,272,417	93,493,581
Reinsurance balances receivable	8(a)	74,105,195	-	74,105,195
Premiums receivable	9	412,043,857	-	412,043,857
Available for sale investments	10(a)	60,141,396	180,253,582	240,394,978
Reinsurance share of outstanding claims	16	267,460,349	-	267,460,349
Statutory deposit	14	-	20,000,000	20,000,000
Returns on investment of statutory deposit	14	-	679,569	679,569
		<b>890,971,961</b>	<b>217,205,568</b>	<b>1,108,177,529</b>

#### g) Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to special commission rate risk on its bank balances and available for sale- debt securities.

The sensitivity of the income is the effect of the assumed changes in the interest rates, with all other variable held constant, on the profit for one year, based on the floating rate financial assets held at 31 December 2017. A hypothetical 100 basis points change in the weighted average special commission rate of the floating rate at 31 December 2017 would impact special commission income by approximately SR 707,120 (2016: SR 485,000) annually in aggregate.

#### h) 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. In addition, as the Company's foreign currency

transactions are primarily in US dollars which is pegged with the Saudi Riyal, foreign exchange gains and losses are not significant and have not been disclosed separately.

#### i) Fund price risk

Fund price risk is the risk that the fair value of future cash flows of a fund will fluctuate because of changes in the net asset value (NAV) being determined by fund managers.

The Company is not exposed to fund price risk since any change in the NAV of the funds will affect the change in unit linked liabilities and the change in the fair value of the funds by the same amount; hence, there is no impact on the performance of the Company.

#### j) 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. A significant portion of the reinsurance is effected under treaty, facultative and excess-of-loss reinsurance contracts.

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

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

#### k) Market risk

Market 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's market risk exposure relates to its quoted available for sale investments whose values will fluctuate as a result of changes in market prices. The Company limits market risk by maintaining a diversified portfolio and by monitoring the developments in financial markets. The Company also 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 insurance operations will be impacted.

A 1% change in the market price of the quoted available for sale investments, with all other variables held constant, would impact shareholders' equity and insurance operations' accumulated surplus as set out below:

	Change in market price	Effect on statement of changes in shareholders' equity	Effect on insurance operations accumulated surplus
2017	%+1	1,194,022	1,044,241
	%-1	(1,194,022)	(1,044,241)
2016	%+1	1,200,305	551,414
	%-1	(1,200,305)	(551,414)

#### l) Capital management

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

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

The operations of the Company are subject to local regulatory requirements within the jurisdiction where it is incorporated. 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.

The Company maintains its capital 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. According to the said Article, 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.

#### m) Fair value 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 Company's financial assets consist of cash and cash equivalents, receivables, investments and accrued income and its financial liabilities consist of payables, accrued expenses and gross outstanding claims. The fair values of financial assets and financial liabilities are not materially different from their carrying values at the statement of financial position date.

## 32. Contingencies And Commitments

### a) Legal proceedings and regulations

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position.

### b) Operating lease commitments

Rental expenses under operating leases pertained to leases of office spaces in various locations amounted to SR 3,791,990 for the year ended 31 December 2017 (2016: SR 3,505,996) are recognized in the statement of insurance operations.

## 33. Segment Information

Consistent with the Company's internal reporting process, operating segments have been approved by Management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker.

Segment assets do not include insurance operations' cash and cash equivalents, prepaid expenses, due from shareholders' operations and property and equipment. Accordingly they are included in unallocated assets. Segment liabilities do not include reinsurers' balances payable, employees' end of service benefits, accrued expenses and other liabilities. Accordingly they are included in unallocated liabilities.

The unallocated assets and unallocated liabilities are reported to chief operating decision maker on the cumulative basis and not reported under the related segments.

### Operating segments

Following are the operating segments identified for segment reporting purposes;

Motor	:	Motor corporate and motor individual
Engineering	:	Construction
Medical	:	Medical
Property	:	Fire, Burglary and Money
Other general	:	Liability and Marine
Protection & Saving	:	Group Retirement & Individual Protection & Saving

For the year ended 31 December 2017	Motor	Engineering	Medical	Property	Other General	Protection & Saving	Shareholders' Operations	Total
Saudi Riyals								
Gross written premiums	428,146,754	50,418,661	104,339,487	130,423,957	75,589,621	136,618,227	-	925,536,707
Reinsurance premiums ceded	(4,715,034)	(40,296,184)	(57,424,011)	(104,070,983)	(52,744,529)	(15,434,903)	-	(274,685,644)
Net written premiums	423,431,720	10,122,477	46,915,476	26,352,974	22,845,092	121,183,324	-	650,851,063
Net premiums earned	401,174,080	14,635,209	53,859,930	23,195,569	24,115,504	121,239,287	-	638,219,579
Unrealized gain on unit linked investments	-	-	-	-	-	16,571,858	-	16,571,858
Net claims incurred	(309,360,240)	(2,685,223)	(45,809,205)	(2,781,507)	(150,972)	(137,943,314)	-	498,730,461
Change in premium deficiency reserve	-	-	(4,639,430)	-	-	-	-	(4,639,430)
Change in additional premium reserve	-	(1,317,438)	-	-	-	-	-	(1,317,438)
Change in unit linked liabilities	-	-	-	-	-	20,654,616	-	20,654,616
Commission expenses, net	(29,350,825)	703,982	(4,331,965)	5,189,542	(32,230)	(4,332,131)	-	(32,153,627)
Inspection and supervision fees	(2,140,734)	(252,093)	(521,697)	(652,120)	(2,524,520)	-	-	(6,091,164)
Net underwriting results	60,322,281	11,084,437	(1,442,367)	24,951,484	21,407,782	16,190,316	-	132,513,933
Other income	-	-	-	-	-	-	-	6,371,272
General and administrative expenses	-	-	-	-	-	-	-	(105,381,209)
Net surplus for the period	-	-	-	-	-	-	-	33,503,996
Net insurance operations' surplus after shareholders' appropriation for the period	-	-	-	-	-	-	-	(3,350,399)
Shareholders' total revenue	-	-	-	-	-	-	5,641,167	5,641,167
General and administrative expenses	-	-	-	-	-	-	(876,537)	(876,537)
General and administrative expenses	-	-	-	-	-	-	-	(3,133,262)
Net income for the year								34,918,227

As at 31 December 2017	Motor	Engineering	Medical	Property	Other General	Protection & Saving	Shareholders' Operations	Total
Saudi Riyals								
<b>Insurance Operations' Assets</b>								
Premiums receivable, gross	134,560,050	34,442,350	72,214,624	39,565,519	130,436,452	65,253	-	411,284,248
Provision for doubtful debts	-	-	-	-	-	-	-	(48,773,133)
Unit linked investments	-	-	-	-	-	573,716,396	-	573,716,396
Deferred policy acquisition costs	13,641,088	2,946,128	2,482,196	4,491,210	1,398,241	(1,092,582)	-	23,866,281
Reinsurers' share of unearned premiums	274,316	66,580,146	36,185,210	45,532,072	25,058,951	6,553,675	-	180,184,370
Reinsurers' share of outstanding claims	3,944,780	118,716,769	20,927,177	70,096,241	60,811,043	8,227,273	-	282,723,283
Unallocated assets	-	-	-	-	-	-	-	311,579,768
Shareholders' assets	-	-	-	-	-	-	273,606,727	273,606,727
<b>Total assets</b>								<b>2,008,187,940</b>
<b>Insurance Operations' Liabilities</b>								
Outstanding claims	116,449,060	123,348,411	37,965,985	76,493,489	67,410,690	12,873,732	-	434,541,367
Unit linked liabilities	-	-	-	-	-	573,051,956	-	573,051,956
Unearned commission income	17,831	4,856,394	-	4,560,308	1,089,144	290,074	-	10,813,751
Unearned premiums	174,404,606	72,422,449	67,349,742	58,465,661	31,981,793	10,988,394	-	415,612,645
Unallocated liabilities and surplus	-	-	-	-	-	-	-	300,561,494
<b>Total Shareholders' liabilities and equity</b>	-	-	-	-	-	-	273,606,727	<b>273,606,727</b>
<b>Total insurance operations liabilities, surplus and shareholders' liabilities and equity</b>								

For the year ended 31 December 2016	Motor	Engineering	Medical	Property	Other General	Protection & Saving	Shareholders' Operations	Total
Saudi Riyals								
Gross written premiums	298,980,060	73,982,750	123,833,665	125,188,188	64,349,990	149,937,377	-	836,272,030
Reinsurance premiums ceded	(4,272,356)	(60,877,894)	(56,664,499)	(102,212,348)	(38,632,622)	(15,171,680)	-	(277,831,399)
Net written premiums	294,707,704	13,104,856	67,169,166	22,975,840	25,717,368	134,765,697	-	558,440,631
Net premiums earned	248,710,953	14,755,083	52,619,976	24,675,355	23,771,269	135,456,738	-	499,989,374
Unrealized gain on unit linked investments	-	-	-	-	-	14,597,069	-	14,597,069
Net claims incurred	(208,159,316)	(1,006,799)	(35,667,256)	(796,282)	(2,252,936)	(128,581,549)	-	(376,464,138)
Change in premium deficiency reserves	(5,315,543)	-	(762,179)	-	-	-	-	(6,077,722)
Change in unit linked liabilities	-	-	-	-	-	(855,080)	-	(855,080)
Commission expenses, net	(17,518,963)	(5,982,016)	(5,595,850)	2,973,626	(831,701)	(4,424,579)	-	(31,379,483)
Inspection and supervision fees	(1,494,900)	(369,914)	(619,168)	(625,941)	(1,565,355)	(749,687)	-	(5,424,965)
Net underwriting results	16,222,231	7,396,354	9,975,523	26,226,758	19,121,277	15,442,912	-	94,385,055
Other income	-	-	-	-	-	-	-	7,995,488
General and administrative expenses	-	-	-	-	-	-	-	(75,860,157)
Net surplus for the period	-	-	-	-	-	-	-	26,520,386
Net insurance operations' surplus after shareholders' appropriation for the period	-	-	-	-	-	-	-	(2,652,039)
Shareholders' total revenue	-	-	-	-	-	-	3,694,462	3,694,462
General and administrative expenses	-	-	-	-	-	-	(3,133,262)	(3,133,262)
<b>Net income for the year</b>								<b>24,429,547</b>

As at 31 December 2016	Motor	Engineering	Medical	Property	Other General	Protection & Saving	Shareholders' Operations	Total
Saudi Riyals								
<b>Insurance Operations' Assets</b>								
Premiums receivable, gross	110,232,068	92,593,267	71,187,083	33,128,003	133,147,577	11,089,626	-	451,377,624
Provision for doubtful debts	-	-	-	-	-	-	-	(39,333,767)
Unit linked investments	-	-	-	-	-	592,651,654	-	592,651,654
Deferred policy acquisition costs	11,636,494	3,487,406	1,948,609	3,740,909	1,822,035	(546,429)	-	22,089,024
Reinsurers' share of unearned premiums	293,920	132,206,909	29,100,130	37,235,341	30,898,109	6,726,088	-	236,460,497
Reinsurers' share of outstanding claims	3,785,367	114,046,361	20,185,536	54,463,180	69,054,877	5,925,028	-	267,460,349
Unallocated assets	-	-	-	-	-	-	-	225,838,421
Shareholders' assets	-	-	-	-	-	-	238,150,114	238,150,114
<b>Total assets</b>								<b>1,994,693,916</b>
<b>Insurance Operations' Liabilities</b>								
Outstanding claims	78,417,405	118,455,997	40,371,072	60,418,188	78,217,580	10,249,910	-	386,130,152
Unit linked liabilities	-	-	-	-	-	593,706,572	-	593,706,572
Unearned commission income	45,558	6,121,791	-	4,143,671	1,334,715	305,873	-	11,951,608
Unearned premiums	152,166,570	142,561,943	67,209,116	47,011,526	39,091,363	11,216,770	-	459,257,288
Unallocated liabilities and surplus	-	-	-	-	-	-	-	305,498,182
Total Shareholders' liabilities and equity	-	-	-	-	-	-	238,150,114	238,150,114
Total insurance operations liabilities, surplus and shareholders' liabilities and equity								<b>1,994,693,916</b>

### 33. Geographical segments

The Company, during the years 2017 and 2016 operated only in the Kingdom of Saudi Arabia.

### 34. Comparative Figures

Certain items of prior year amount have been reclassified to conform to the presentation in the current year.

### 35. Approval of the Financial Statements

These financial statements have been approved by the Board of Directors on 12 Rajab 1439 H, corresponding to 28 March 2018 G.

