
SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

Financial Statements and Independent Auditors' Report

For The Year Ended 31 December 2017

INDEX	PAGES
INDEPENDENT AUDITORS' REPORT	
STATEMENT OF FINANCIAL POSITION	1
STATEMENT OF COMPREHENSIVE INCOME - REINSURANCE OPERATIONS AND ACCUMULATED SURPLUS	2
STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS	3
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS	4
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	5
STATEMENT OF CASH FLOWS - REINSURANCE OPERATIONS	6
STATEMENT OF CASH FLOWS - SHAREHOLDERS OPERATIONS	7
NOTES TO THE FINANCIAL STATEMENTS	8 – 49



KPMG Al Fozan & Partners
Certified Public Accountants



Al-Bassam & Co.
Allied Accountants
(Member firm of PKF International)

Independent auditors' report

To the Shareholders of Saudi Re for Cooperative Reinsurance Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Saudi Re for Cooperative Reinsurance Company, which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income – reinsurance operations and accumulated surplus, statement of income – shareholders' operations, statement of comprehensive income – shareholders' operations, statement of changes in shareholders' equity and statements of cash flows – reinsurance 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 Matter

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.



KPMG Al Fozan & Partners
Certified Public Accountants



Al-Bassam & Co.
Allied Accountants
Audit - Consultancy - Zayat & Taw
(Member firm of PKF International)

**Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of Saudi Re for Cooperative Reinsurance Company
(A Saudi Joint Stock Company) (Continued)**

Key Audit Matter (continued)

The key audit matter	How the matter was addressed in our audit
<p><u>Gross outstanding claims</u></p> <p>The Company as at 31 December 2017, has outstanding claims including claims incurred but not reported (IBNR) amounting to SR 861.05 million as reported in Note 9 of the financial statements.</p> <p>The valuation of gross outstanding claims is the key judgmental area for management given the level of subjectivity inherent in estimating the impact of claim events that have occurred for which the ultimate outcome remains uncertain.</p> <p>The Company uses a range of actuarial methodologies to estimate these claims. This requires significant judgments relating to factors and assumptions such as inflation, claims development pattern and regulatory requirements.</p> <p>Due to significance of amount involved and the exercise of significant judgment by management in the process for determination of gross outstanding claims, we have determined it to be a key audit matter.</p> <p><i>Refer to note 5 which disclosed the estimated liability arising from claims under reinsurance contracts and note 4 which discloses accounting policies for claims.</i></p>	<p>We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes for claims processing and payment, including controls over the completeness and accuracy of the claim estimates recorded.</p> <p>We performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves.</p> <p>Using actuarial specialists, we performed re-projections on claims incurred but not reported relating to selected operating segments, where we compared our re-projected claims incurred but not reported to those booked by management, and sought to understand any significant differences. For the remaining operating segments, we assessed the reasonableness of methodologies and assumptions used by the management against recognized actuarial practices and industry standards to identify and evaluate any anomalies.</p> <p>We evaluated the completeness and accuracy of data used by management in their calculation of gross outstanding claims; and evaluated the results of liability adequacy test.</p>



KPMG Al Fozan & Partners
Certified Public Accountants



Al-Bassam & Co.
Allied Accountants
(Member firm of PKF International)

**Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of Saudi Re for Cooperative Reinsurance Company
(A Saudi Joint Stock Company) (Continued)**

Other Information

The management of the Company is responsible for the other information. Other information comprises the information included in the annual report but does not include 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are 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.



KPMG Al Fozan & Partners
Certified Public Accountants



Al-Bassam & Co.
Allied Accountants
(Branch of firm of PKF International)

**Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of Saudi Re for Cooperative Reinsurance Company
(A Saudi Joint Stock Company) (Continued)**

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 Saudi Re for Cooperative Reinsurance 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

Khalil Ibrahim Al Sedais
Certified Public Accountant
License No. 371



PKF Al-Bassam & Co.
Allied Accountants

P. O. Box 69658
Riyadh 11557
Kingdom of Saudi Arabia

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



11 Rajab 1439H
(28 March 2018)

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 SR	2016 SR
<u>REINSURANCE OPERATIONS' ASSETS</u>			
Cash and cash equivalents	6	53,494,191	42,891,784
Time deposits	14	58,003,125	67,551,600
Accrued special commission income from time deposits		868,728	1,070,010
Premium receivables, net	7	358,871,064	181,957,594
Investments held at fair value through income statement	8	106,316,032	93,447,337
Accrued insurance premiums	15	372,087,694	262,339,842
Retroceded share of unearned premiums	11	117,679,188	3,758,101
Deferred excess of loss premiums		14,299,778	17,516,594
Retroceded share of outstanding claims	9	165,839,483	110,649,986
Deferred acquisition costs	12	100,345,144	81,705,133
Prepaid expenses, deposits and other assets	10	103,964,040	49,276,087
Due from shareholders' operations		144,461,682	152,144,139
Property and equipment, net	13	2,286,389	3,402,655
Total reinsurance operations' assets		1,598,516,538	1,067,710,862
<u>SHAREHOLDERS' ASSETS</u>			
Cash and cash equivalents	6	31,737,579	27,950,269
Time deposits	14	--	112,456,507
Accrued special commission income from time deposits		3,250	2,191,242
Accrued special commission income from bonds and sukuk		3,830,983	4,143,727
Investments held at fair value through income statement	8	758,751,497	724,579,017
Prepaid expenses and other assets	10	228,471	45,178
Investment in an associate	17	91,954,382	--
Statutory deposit	28	100,000,000	100,000,000
Return on investment of statutory deposit	28	13,127,882	10,242,145
Property and equipment, net	13	31,249,580	32,110,109
Total shareholders' assets		1,030,883,624	1,013,718,194
Total assets		2,629,400,162	2,081,429,056
<u>REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS</u>			
Accounts payable		16,648,193	18,217,139
Retrocession balances payable		229,763,824	51,919,382
Accrued retroceded premiums		7,891,275	75,603
Gross unearned premiums	11	461,488,892	306,479,380
Gross outstanding claims	9	861,052,967	680,013,941
Unearned commission income	16	7,542,299	848,245
Accrued expenses and other liabilities	19	5,742,651	3,906,248
Employees' end of service benefits	18	5,729,277	3,958,044
Total reinsurance operations' liabilities		1,595,859,378	1,065,417,982
Reinsurance operations' surplus			
Accumulated surplus		2,657,160	2,292,880
Total reinsurance operations' liabilities and surplus		1,598,516,538	1,067,710,862
<u>SHAREHOLDERS' LIABILITIES AND EQUITY</u>			
<u>Shareholders' liabilities</u>			
Provision for Zakat and income tax	21 (c)	37,431,370	39,728,370
Due to reinsurance operations		144,461,682	152,144,139
Accrued expenses and other liabilities	19	7,069,892	6,302,569
Deferred return on investment of statutory deposit	28	13,127,882	10,242,145
Total shareholders' liabilities		202,090,826	208,417,223
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	22	1,000,000,000	1,000,000,000
Statutory reserve	23	6,070,924	6,070,924
Other reserves	17	(1,961,580)	--
Accumulated deficit		(175,316,546)	(200,769,953)
Total shareholders' equity		828,792,798	805,300,971
Total shareholders' liabilities and equity		1,030,883,624	1,013,718,194
Total reinsurance operations' liabilities, surplus and shareholders' liabilities and equity		2,629,400,162	2,081,429,056

Managing Director / Chief Executive Officer

Chairman of the Board

Chief Financial Officer

The accompanying notes 1 to 36 form an integral part of these financial statements.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)


STATEMENT OF COMPREHENSIVE INCOME - REINSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For the year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
Gross written premiums		942,006,884	985,510,354
Retroceded premiums		(274,514,242)	(5,582,043)
Excess of loss expenses		(30,571,165)	(41,744,005)
Net written premiums	11	636,921,477	938,184,306
Change in net unearned premiums	11	(41,088,425)	192,913,534
Net earned premiums	11	595,833,052	1,131,097,840
Net claims paid	30	(293,264,688)	(952,890,160)
Change in net outstanding claims	9	(125,849,529)	44,258,942
Net claims incurred		(419,114,217)	(908,631,218)
Gross acquisition costs and profit commissions	12	(146,126,103)	(164,692,446)
Commissions earned on retroceded business	16	11,258,223	2,982,263
Supervision and inspection fees		(4,710,034)	(4,927,552)
Net acquisition costs		(139,577,914)	(166,637,735)
Surplus from reinsurance operations		37,140,921	55,828,887
Special commission income from time deposits		1,783,136	2,105,663
Realized gains on investments held at fair value through income statement	8(iii)	188,053	98,858
Unrealized gains on investments held at fair value through income statement	8(iii)	3,930,642	2,352,103
Other income		1,074,939	921,733
Investment management expenses		(504,593)	(344,216)
General and administrative expenses	24	(38,873,345)	(38,058,515)
Foreign exchange translation losses		(1,096,952)	(11,874,657)
Net surplus from reinsurance operations		3,642,801	11,029,856
Shareholders' appropriation from reinsurance operations' surplus	2	(3,278,521)	(9,926,870)
Reinsurance operations' surplus after shareholders' appropriation		364,280	1,102,986
Accumulated surplus at the beginning of the year		2,292,880	1,189,894
Accumulated surplus at the end of the year		2,657,160	2,292,880
Other comprehensive income		--	--
Total comprehensive income for the year from reinsurance operations		364,280	1,102,986


Managing Director / Chief Executive
Officer


Chairman of the Board


Chief Financial Officer

The accompanying notes 1 to 36 form an integral part of these financial statements.


SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME – SHAREHOLDERS’ OPERATIONS
For the year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
Shareholders’ appropriation from reinsurance operations’ surplus		3,278,521	9,926,870
Special commission income from time deposits		790,446	3,740,243
Special commission income from bonds and sukuk		2,688,320	2,980,537
Share of profit of an associate	17	165,962	--
Realized gains on investments held at fair value through income statement	8(iii)	1,151,270	433,532
Unrealized gains on investments held at fair value through income statement	8(iii)	46,017,732	12,819,617
Dividend income		4,636,677	2,693,101
Total income		58,728,928	32,593,900
Investment management expenses		(8,947,126)	(2,802,742)
General and administrative expenses	24	(7,853,573)	(9,851,144)
Board of directors’ remunerations, meetings fees and expenses	25	(3,002,231)	(1,576,144)
Foreign exchange translation (losses) / gains		(38,113)	99,954
Net income for the year		38,887,885	18,463,824
Basic and diluted earnings per share for the year	27	0.389	0.185


Managing Director / Chief Executive Officer


Chairman of the Board


Chief Financial Officer

The accompanying notes 1 to 36 form an integral part of these financial statements.


SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

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

	2017	2016
	SR	SR
Net income for the year	38,887,885	18,463,824
<i>Other comprehensive loss</i>		
Items that may be classified to income statement subsequently		
Share of foreign currency translation reserve of an associate	(1,961,580)	--
Total comprehensive income for the year	36,926,305	18,463,824



Managing Director / Chief Executive Officer

Chairman of the Board

Chief Financial Officer

The accompanying notes 1 to 36 form an integral part of these financial statements.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2017

	GCC Shareholders and General Public						Non – GCC Shareholders				Total			
	Share capital SR	Statutory reserve SR	Accumulated deficit SR	Other reserves	Share capital		Statutory reserve SR	Accumulated deficit SR	Other reserves	Share capital		Statutory reserve SR	Accumulated deficit SR	Other reserves
					SR	SR				SR	SR			
Balance as at 1 January 2017	970,890,400	5,894,202	(200,723,350)	--	29,109,600	176,722	176,722	(46,603)	--	1,000,000,000	6,070,924	6,070,924	(200,769,953)	--
Transfer during the year	7,156,640	43,447	2,031,633	--	(7,156,640)	(43,447)	(43,447)	(2,031,633)	--	--	--	--	--	--
Net profit for the year	--	--	38,034,296	--	--	--	--	853,589	--	--	--	--	38,887,885	--
Other comprehensive loss	--	--	--	(1,918,523)	--	--	--	--	(43,057)	--	--	--	--	(1,961,580)
Total comprehensive income for the year	--	--	38,034,296	(1,918,523)	--	--	--	853,589	(43,057)	--	--	--	38,887,885	(1,961,580)
Zakat charge for the year (note 21)	--	--	(13,360,674)	--	--	--	--	--	--	--	--	--	(13,360,674)	--
Tax charge for the year (note 21)	--	--	--	--	--	--	--	(73,804)	--	--	--	--	(73,804)	--
Balance as at 31 December 2017	978,047,040	5,937,649	(174,018,095)	(1,918,523)	21,952,960	133,275	133,275	(1,298,451)	(43,057)	1,000,000,000	6,070,924	6,070,924	(175,316,546)	(1,961,580)
Balance as at 1 January 2016	976,078,306	5,925,697	(204,507,637)	--	23,921,694	145,227	145,227	573,437	--	1,000,000,000	6,070,924	6,070,924	(203,934,200)	--
Transfer during the year	(5,187,906)	(31,495)	1,086,968	--	5,187,906	31,495	31,495	(1,086,968)	--	--	--	--	--	--
Net profit for the year	--	--	17,926,342	--	--	--	--	537,482	--	--	--	--	18,463,824	--
Other comprehensive income	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total comprehensive income for the year	--	--	17,926,342	--	--	--	--	537,482	--	--	--	--	18,463,824	--
Zakat charge for the year (note 21)	--	--	(15,229,023)	--	--	--	--	--	--	--	--	--	(15,229,023)	--
Tax charge for the year (note 21)	--	--	--	--	--	--	--	(70,554)	--	--	--	--	(70,554)	--
Balance as at 31 December 2016	970,890,400	5,894,202	(200,723,350)	--	29,109,600	176,722	176,722	(46,603)	--	1,000,000,000	6,070,924	6,070,924	(200,769,953)	--

Managing Director / Chief Executive Officer

Chairman of the Board

Chief Financial Officer

The accompanying notes 1 to 36 form an integral part of these financial statements.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS – REINSURANCE OPERATIONS

For the year ended 31 December 2017

	Notes	2017 SR	2016 SR
OPERATING ACTIVITIES			
Reinsurance operations' surplus after shareholders' appropriation		364,280	1,102,986
<i>Adjustments to reconcile reinsurance operations' surplus after shareholders' appropriation to net cash from operating activities:</i>			
Employees' end of service benefits	18	2,155,915	1,174,484
Depreciation	13	1,884,003	2,349,025
Allocated depreciation from shareholders' operations		860,529	888,748
Realized gains on investments held at fair value through income statement	8 (iii)	(188,053)	(98,858)
Unrealized gains on investments held at fair value through income statement	8 (iii)	(3,930,642)	(2,352,103)
Retroceded share of unearned premiums		(113,921,087)	3,605,358
Gross unearned premiums		155,009,512	(196,518,892)
Provision for doubtful receivable	7	333,440	2,330,630
Shareholders' appropriation from reinsurance operations' surplus		3,278,521	9,926,870
Operating income / (loss) before changes in operating assets and liabilities		45,846,418	(177,591,752)
Changes in operating assets and liabilities:			
Premiums receivable, gross		(177,246,910)	10,853,683
Accrued insurance premiums		(109,747,852)	178,483,786
Retroceded share of outstanding claims		(55,189,497)	(50,153,146)
Deferred acquisition costs		(18,640,011)	12,443,314
Deferred excess of loss premiums		3,216,816	(126,930)
Prepaid expenses, deposits and other assets		(54,687,953)	41,945,169
Accounts payable		(1,568,946)	8,115,417
Retrocession balances payable		177,844,442	36,992,201
Accrued retroceded premiums		7,815,672	(278,864)
Gross outstanding claims		181,039,026	5,894,204
Unearned commission income		6,694,054	(958,360)
Accrued expenses and other liabilities		1,836,403	(278,964)
Cash from operating activities		7,211,662	65,339,758
Employees' end of service benefits paid		(384,682)	(381,153)
Net cash from operating activities		6,826,980	64,958,605
INVESTING ACTIVITIES			
Time deposits		9,548,475	(32,333,268)
Accrued special commission income on time deposits		201,282	(997,811)
Purchase of property and equipment	13	(767,737)	(295,835)
Additions in investments held at fair value through income statement	8 (iii)	(51,000,000)	(39,232,824)
Proceeds from disposal of investments held at fair value through income statement	8 (iii)	42,250,000	21,943,821
Net cash from / (used in) investing activities		232,020	(50,915,917)
FINANCING ACTIVITY			
Due from shareholders' operations		3,543,407	(32,176,596)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		10,602,407	(18,133,908)
Cash and cash equivalents at the beginning of the year		42,891,784	61,025,692
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	53,494,191	42,891,784

Managing Director / Chief Executive Officer

Chairman of the Board

Chief Financial Officer

The accompanying notes 1 to 36 form an integral part of these financial statements.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS – SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
OPERATING ACTIVITIES			
Net profit for the year		38,887,885	18,463,824
<i>Adjustments to reconcile net profit to net cash used in operating activities:</i>			
Realized gains on investments held at fair value through income statement	<i>8 (iii)</i>	(1,151,270)	(433,532)
Unrealized gains on investments held at fair value through income statement	<i>8 (iii)</i>	(46,017,732)	(12,819,617)
Share of profit of associate	<i>17</i>	(165,962)	--
Return on investment of statutory deposit		(2,885,737)	(2,649,751)
Shareholders' appropriation from reinsurance operations' surplus		(3,278,521)	(9,926,870)
Operating deficit before changes in operating assets and liabilities		(14,611,337)	(7,365,946)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		(183,293)	360,812
Accrued expenses and other liabilities		767,323	4,128,894
Deferred return on investment of statutory deposit		2,885,737	2,649,751
Zakat and tax paid		(15,731,478)	(14,989,931)
Net cash used in operating activities		(26,873,048)	(15,216,420)
INVESTING ACTIVITIES			
Accrued special commission income from time deposits		2,187,992	(1,650,831)
Accrued special commission income from bonds and sukuk		312,744	(1,923,242)
Additions in investments held at fair value through income statement	<i>8 (iii)</i>	(154,342,957)	(149,522,772)
Proceeds from disposal of investments held at fair value through income statement	<i>8 (iii)</i>	167,339,479	125,777,170
Investment in associate	<i>17</i>	(93,750,000)	--
Time deposits		112,456,507	6,392,493
Net cash from / (used in) investing activities		34,203,765	(20,927,182)
FINANCING ACTIVITY			
Due to reinsurance operations		(3,543,407)	32,176,596
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		3,787,310	(3,967,006)
Cash and cash equivalents at the beginning of the year		27,950,269	31,917,275
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<i>6</i>	31,737,579	27,950,269

Managing Director / Chief Executive Officer

Chairman of the Board

Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Reinsurance Company (the “Company”) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010250125 dated 12 Jumad Al-Awal 1429H (corresponding to 17 May 2008) with a branch in the Federal Territory of Labuan, Malaysia with license number IS2014146. The address of the Company’s registered office is at P.O. Box 300259, Riyadh 11372, Al Wadi, Northern Ring Road West, Exit 7, Building 4130, Riyadh, Kingdom of Saudi Arabia.

During the year, the Company’s invested in 49.9% of the ordinary shares of Probitas Holdings (Bermuda) Limited (“PHBL”). PHBL has invested in insurance and reinsurance businesses including Lloyds market in London, United Kingdom. The Company has accounted for this investment as an associate (equity accounted investee).

The objective of the Company is to transact cooperative reinsurance and related activities inside and outside the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the measurement of investments held at fair value through income statement.

Statement of compliance

The financial statements of the Company have been prepared

- a) in accordance with International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority (“SAMA”) for the accounting of zakat and income tax’, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board (“IASB”) except for the application of International Accounting Standard (IAS) 12 - “Income Taxes” and IFRIC 21 - “Levies” so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax (“SAMA Circular”), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings. This change in framework, however, does not result in any change in the company’s accounting policy for zakat and tax.
- b) in compliance with the applicable requirements Regulations for Companies in the Kingdom of Saudi Arabia and the Company’s By-laws.

Basis of presentation

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for reinsurance operations and shareholders’ operations. The physical custody of all assets related to the reinsurance operations and shareholders’ operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of other revenue and expenses from joint operations is determined by the management and Board of Directors.

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

In accordance with the Company’s by-laws and Article 70 (2g) of the Insurance Implementing Regulations of SAMA, a minimum of 20% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Company. This reserve is not available for distribution. Due to accumulated losses at reporting date, no such transfer was made.

Functional and presentational currency

The functional and presentational currency of the Company is Saudi Riyal.

3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of the following new standards and other amendments to existing standards mentioned below:

New and amended standards issued and adopted

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS (Continued)

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 reinsurers and is 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 adopted in the preparation of these financial statements are set out below:

Retrocession

The Company uses retrocession agreements to reduce its exposure to catastrophic losses on risks assumed to increase its aggregate underwriting capacity. The ceding of risk to retrocessionaires does not relieve the Company from its direct obligations to its ceding companies. An impairment review of amounts recoverable under retrocession agreements is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the retrocessionaire can be measured reliably. The impairment loss is recorded in the statement of comprehensive income-reinsurance operations and accumulated surplus.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retrocession liabilities represent balances due to retrocessionaires. Amounts payable are estimated in a manner consistent with the associated retrocession contract. Retroceded assets and liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Investment in associate

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost. Subsequent to initial recognition, the financial statements include the Company's share of the profit or loss and Other comprehensive income of associates, until the date on which significant influence ceases.

Cash and cash equivalents

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

Dividend income

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

Deferred acquisition costs (DAC)

Direct costs incurred during the financial period arising from the writing or renewing of reinsurance contracts are deferred to the extent that these costs are recoverable out of future premiums. Subsequent to initial recognition, deferred costs are amortized using the same basis as for unearned premiums. Amortization is recorded in the statement of comprehensive income- reinsurance operations and accumulated surplus. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value, an impairment loss is recognized in the statement of comprehensive income- reinsurance operations and accumulated surplus. DAC 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 off.

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 statement of comprehensive income- reinsurance operations and accumulated surplus and statement of comprehensive income- shareholders' operations as they are consumed or expire with the passage of time.

Property and equipment

Property and equipment is stated at cost net of accumulated depreciation and any impairment in value. When significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in statement of comprehensive income- reinsurance operations and accumulated surplus and statement of comprehensive income- shareholders' operations as incurred. Freehold land and capital work in progress are not depreciated.

The cost of all other property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets as follows:

Building	33 Years
Computers and equipment	3-5 Years
Furniture and fixtures	5 Years
Motor vehicles	4 Years
Leasehold improvements	10 Years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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 amount, the assets are written down to their recoverable amount.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income- reinsurance operations and accumulated surplus and statement of comprehensive income- shareholders' operations or taken into income in the year the asset is derecognised.

Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. 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 can be measured reliably. If such evidence exists, any impairment loss is recognized in the statement of Comprehensive income-reinsurance operations and accumulated surplus or the statement of comprehensive income-shareholders' operations. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of reinsurance operations and accumulated surplus or the statement of shareholders' operations;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective special commission rate.

Gross written premiums

Gross written premiums comprise of total premiums in relation to contracts incepting during the financial year irrespective of whether they relate in whole or in part to a later accounting period. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Company at the statement of financial position date. Pipeline premiums are reported as accrued insurance premiums in the statement of financial position.

Where contract terms require the reinstatement of coverage after a ceding company's loss, the mandatory reinstatement premiums are calculated in accordance with the contract terms.

Premiums earned and commission income

Premiums and commission income are earned over the periods to which they relate to cover the reinsurance risk. Unearned premiums and commission income represent the portion of premiums written and commission income relating to the unexpired period of coverage and are deferred based on the following methods:

- Actual number of days for facultative reinsurance and non-proportional reinsurance treaties and portfolio transferred from insurance companies.
- For proportional reinsurance treaties under consideration of the underlying exposure in relation to the line of business as follows:

<u>Line of business</u>	<u>Years</u>
Engineering	4
Others	2
Special contracts	Based on underlying terms and nature

The change in the provision for unearned premiums and commission income is taken to the statement of comprehensive income- reinsurance operations and accumulated surplus in order to recognize revenue over the period to cover the reinsurance risks.

Claims

Claims, comprise of amounts of claims estimates notified by ceding companies under reinsurance contracts and related loss adjustment expenses, net of recoveries and are charged to statement of comprehensive income- reinsurance operations and accumulated surplus.

These include the cost of claims and claims handling expenses paid during the period, together with the movements in provisions for outstanding claims, claims incurred but not reported (IBNR) and claims handling provisions. The ultimate liability may be in excess of or less than the amount provided.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 ratios which are reviewed at regular intervals by the Company's independent 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 gross basis and the related share of retroceded is shown separately.

Liability adequacy test

At each statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the reinsurance contracts liabilities net of related deferred acquisition costs. In performing these tests, Management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of comprehensive income- reinsurance operations and accumulated surplus initially by writing off related deferred acquisition costs and subsequently, by establishing a provision for losses arising from liability adequacy tests.

Premiums receivable

Premiums receivable are recognized when due and are measured on initial recognition at the fair value of the considerations received or receivable. Subsequently, it is measured at amortized cost. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of reinsurance operations and accumulated surplus. Premiums receivable are derecognized when the derecognition criteria for financial assets have been met.

Accounts payable and accruals

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

Special commission income

Special commission income is recognized on an effective yield basis taking account of the principal outstanding and the applicable special commission rate.

Investments held at fair value through income statement

Investments held at fair value through income statement are investments designated at fair value through income statement at inception. For investments designated as fair value through income statement, the following criteria must be met:

- This designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, such assets and liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are measured at fair value.

Fair value adjustments and realised gains and losses are recognized in the statement of reinsurance operations and accumulated surplus and the statement of shareholders' operations.

General and administrative expenses

All expenses incurred during the fiscal year not directly relating to underwriting are classified as general and administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the respective statements of comprehensive income-reinsurance operations and accumulated surplus or shareholders' operations.

Zakat and income tax

In accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"), the Company is subject to zakat attributable to the GCC shareholders and general public and to income tax attributable to the non GCC shareholders. Provision for zakat and income tax is charged to the statement of changes in shareholders' equity. 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 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.

Zakat and income tax are charged in full to the accumulated deficits. Income tax charged to the accumulated deficits, in excess to the proportion of the Saudi shareholders' zakat per share, is recovered from the foreign shareholders and credited to retained earnings.

The Company withholds taxes on certain transactions with non-resident parties 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.

Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized 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 is not offset in the statements of comprehensive income-reinsurance operations and accumulated surplus and shareholders' operations unless required or permitted by any accounting standard or interpretation.

Trade date accounting

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

Segmental reporting

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

- Engineering is a comprehensive insurance cover that is available to the insured in respect of contingencies which may happen on a construction or erection site. It provides an all risks cover for the works as well as a liability cover towards third parties for material damage or injury sustained as a result of the work being undertaken. The cover is also available for machinery.
- Fire insurance pays for specific losses when a property is damaged due to fire, flood, earthquake and other external perils. It may also provide indemnity for loss of profit in case of an industrial or commercial activity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Marine insurance covers the loss or damage to cargo, terminals and or damage of ships or other means of transport of cargo by which property is transferred between the points of origin and final destination
- Motor insurance pays for loss or damage to own motor vehicles involved in accidents. It also pays for losses caused by its use to third party properties and bodily injuries
- Protection includes Term and credit life insurance. Term life insurance is used to provide financial aid for dependents in case of death and in certain cases of illness or disability. It can be an individual or a group policy with set duration limit on the coverage with the option to renew the policy or not. Credit life insurance is used to pay off a borrower's debt if that borrower dies, with set duration limit on coverage with the option to renew the policy or not.
- General accident covers a variety of events/properties such as money, liabilities and personal accident whether for individual or group.
- Speciality includes company's participation in Lloyd's market which specialises in writing worldwide property, marine, energy, speciality and non-U.S. liability insurance.
- Others include following business segments:

Whole accounts covers ceding company's retention (mainly in property, engineering, marine hull, marine cargo and sometimes include general accident and/or motor) on Excess of loss basis

Aviation (covers Aviation Hull, Aviation Liabilities and Spare Parts)

Energy (covers Property Damage, Liabilities and Business Interruption)

Agriculture (covers standing crops)

Political Risk (covers Political Violence and Sabotage and Terrorism)

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

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.

Deferred Excess of Loss Premiums

The company uses non-proportional excess of loss retrocession agreements on loss occurring basis to reduce its exposure arising from per risk and catastrophic losses on risks assumed and to manage underwriting capacity. The costs related to these agreements are amortized over the period of underwriting contracts and charged to statement of comprehensive income- reinsurance operations and accumulated surplus.

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 revenues, expenses, assets and 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 a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

The ultimate liability arising from claims made under reinsurance contracts

The estimation of the ultimate liability arising from claims made under reinsurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that are needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the statement of financial position date, for which the insured event has occurred prior to the end of financial reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis. The Risk and Underwriting Committee, in conjunction with the Company's external actuaries, compares the changes in the technical reserves, to determine whether the change is reasonable.

Deferred acquisition costs

Commission and other costs directly and indirectly related to the acquisition and renewal of reinsurance contracts are recorded as deferred acquisition costs (DAC) and are amortized in the statement of reinsurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortization of these costs could be accelerated and this may also require additional impairment.

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

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

The Investment Committee, in conjunction with the Company's external fund managers, evaluates the performance of each investment to determine whether the same is reasonable in comparison to the market.

The Company's management, evaluates the changes in the fair value of each of the other assets and liabilities, to determine whether the applied methodology is reasonable.

Accrued insurance premium

Estimates have to be made for expected future premium from policies already written but not reported at the reporting date. Due to the nature of reinsurance business, it takes a significant period of time before all premiums are reported for

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

a given underwriting period. Therefore considerable judgement, experience and knowledge of the business is required by management in the estimation of accrued premiums due from contract holders. Actual results may differ resulting in positive or negative change in estimated accrued premium income.

The accrued premium estimates are reviewed regularly by the management by using various methods, but primarily by using historical reporting trends as a base for assessing future premium amounts. Historical premiums developments are mainly analysed by underwriting year, by type and line of business.

Going concern

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

6. CASH AND CASH EQUIVALENTS

	2017		2016	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
	SR	SR	SR	SR
Cash on hand	40,000	--	20,000	--
Cash at bank- current account	24,204,191	9,237,579	15,721,020	27,950,269
Cash at bank- short time deposit	29,250,000	22,500,000	27,150,764	--
	<u>53,494,191</u>	<u>31,737,579</u>	<u>42,891,784</u>	<u>27,950,269</u>

Time deposits are placed with banks which have investment grade credit ratings and have maturity period of less than three months from the date of original placement. Average effective interest rate for these deposits is 1.35% (2016: 0.95%)

Cash at banks are placed with counterparties which have investment grade credit ratings.

7. PREMIUMS RECEIVABLES, NET

	2017	2016
	SR	SR
Premiums receivable, gross	364,157,470	186,910,560
Less: Provision for doubtful debts	(5,286,406)	(4,952,966)
Premium receivables, net	<u>358,871,064</u>	<u>181,957,594</u>

The movement in provision for doubtful debts is as follows:

	2017	2016
	SR	SR
Opening balance	4,952,966	2,622,336
Charge for the year	333,440	2,330,630
Closing balance	<u>5,286,406</u>	<u>4,952,966</u>

As at 31 December, the ageing of gross premiums receivables is as follows:

	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
	SR	Less than 90 days	91 to 180 days	More than 180 days	SR	SR
2017	278,703,689	24,191,945	28,903,679	27,071,751	5,286,406	364,157,470
2016	114,165,810	36,198,090	13,092,430	18,501,264	4,952,966	186,910,560

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

7. PREMIUMS RECEIVABLES, NET (CONTINUED)

Premium receivables include premium deposits of SR 27,523,186 (2016: SR 58,032,495) and claims deposits of SR 13,092,214 (2016: SR 16,148,346). These deposits are retained by the cedents as per the terms of reinsurance treaties and are of rolling nature. These deposits are released within 12 months after the inception of the reinsurance treaty.

8. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT

- i. Investments held at fair value through income statement consist of the following:

	Reinsurance operations		Shareholders' operations	
	2017	2016	2017	2016
	SR	SR	SR	SR
Money market funds	52,999,225	39,245,084	102,510,933	85,410,773
Investment funds	--	--	50,000,000	50,000,000
Equities	--	--	160,594,703	142,975,208
Fixed-rate bonds/sukuk	47,956,869	52,685,763	377,834,683	378,817,260
Floating-rate bonds/sukuk	5,359,938	1,516,490	67,811,178	67,375,776
	<u>106,316,032</u>	<u>93,447,337</u>	<u>758,751,497</u>	<u>724,579,017</u>

- ii. The analysis of the composition of investments for shareholders' operations is as follows:

	2017		
	Quoted	Unquoted	Total
	SR	SR	SR
Money market funds	102,510,933	--	102,510,933
Investment funds	--	50,000,000	50,000,000
Equities	160,594,703	--	160,594,703
Fixed-rate bonds/sukuk	327,770,169	50,064,514	377,834,683
Floating-rate bonds/sukuk	27,811,178	40,000,000	67,811,178
	<u>618,686,983</u>	<u>140,064,514</u>	<u>758,751,497</u>

	2016		
	Quoted	Unquoted	Total
	SR	SR	SR
Money market funds	85,410,773	--	85,410,773
Investment funds	--	50,000,000	50,000,000
Equities	142,975,208	--	142,975,208
Fixed-rate bonds/sukuk	321,252,746	57,564,514	378,817,260
Floating-rate bonds/sukuk	27,375,776	40,000,000	67,375,776
	<u>577,014,503</u>	<u>147,564,514</u>	<u>724,579,017</u>

As at 31 December 2017 and 31 December 2016, all investments under reinsurance operations which are measured at fair value are, are quoted. The investments in bonds and sukuk amounting to SR 53.3 million (31 December 2016: SR 54.2 million) are classified as Level 1 investments while the investment in money market funds amounting to SR 52.9 million (31 December 2016 SR 39.2 million) is classified as level 2 investments.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

8. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT (CONTINUED)

	2017			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Money market funds	--	102,510,933	--	102,510,933
Investment funds	--	--	50,000,000	50,000,000
Equities	160,594,703	--	--	160,594,703
Fixed-rate bonds/sukuk	327,770,169	--	50,064,514	377,834,683
Floating-rate bonds/sukuk	27,811,178	--	40,000,000	67,811,178
	<u>516,176,050</u>	<u>102,510,933</u>	<u>140,064,514</u>	<u>758,751,497</u>
	2016			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Money market funds	--	85,410,773	--	85,410,773
Investment funds	--	--	50,000,000	50,000,000
Equities	142,975,208	--	--	142,975,208
Fixed-rate bonds/sukuk	321,252,746	--	57,564,514	378,817,260
Floating-rate bonds/sukuk	27,375,776	--	40,000,000	67,375,776
	<u>491,603,730</u>	<u>85,410,773</u>	<u>147,564,514</u>	<u>724,579,017</u>

Fair values of investment funds is based on the NAV calculated on the basis of the fair value of the underlying real estate as disclosed in the fund's latest available financial statements. The Discounted Cash flow (DCF) model has been used to value the debt securities, this model considers the present value of net cash flows to be generated from the debt security, discounted at the market yield of similar quoted instruments. The estimate is 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	147,564,514	--	(7,500,000)	140,064,514
2016	122,500,000	62,564,514	(37,500,000)	147,564,514

Sensitivity Analysis

For the fair value of level 3 investments, reasonable possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	2017	2016
Investments held at fair value through income statement	140,064,514	147,564,514
Impact on unrealized gain for the year ended:		
<i>If increased by 1%</i>	<u>1,400,645</u>	<u>1,475,645</u>
<i>If decreased by 1%</i>	<u>(1,400,645)</u>	<u>(1,475,645)</u>

There were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements during the year ended 31 December 2017 and year ended 31 December 2016.

As at 31 December 2017, the investments under reinsurance operations include SR 53.3 million (31 December 2016: SR 54.2 million) which are held through discretionary managed portfolios.

As at 31 December 2017, the investments under shareholders' operations include SR 496 million (31 December 2016: SR 454.1 million) which are held through discretionary managed portfolios.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

8 INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT (CONTINUED)

Investments under reinsurance and shareholders' operations include cash component of SR 4.9 million and SR 25 million respectively as at 31 December 2017 (31 December 2016: SR 1.5 million and SR 17.2 million respectively) available with external fund managers within the agreed investment guidelines.

iii. The movement of investments held at fair value through income statement is as follows:

	2017		2016	
	SR		SR	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
Opening balance	93,447,337	724,579,017	73,707,373	687,580,266
Additions	51,000,000	154,342,957	39,232,824	149,522,772
Disposals	(42,250,000)	(167,339,479)	(21,943,821)	(125,777,170)
Unrealized gains	3,930,642	46,017,732	2,352,103	12,819,617
Realized gains	188,053	1,151,270	98,858	433,532
Closing balance	<u>106,316,032</u>	<u>758,751,497</u>	<u>93,447,337</u>	<u>724,579,017</u>

iv. The geographical split of investments held at fair value through income statement is as follows:

	Domestic		International		Total	
	2017	2016	2017	2016	2017	2016
	SR	SR	SR	SR	SR	SR
Reinsurance operations						
Money market funds	52,999,225	39,245,084	--	--	52,999,225	39,245,084
Fixed rate bonds/sukuk	--	--	47,956,869	52,685,763	47,956,869	52,685,763
Floating-rate bonds/sukuk	--	--	5,359,938	1,516,490	5,359,938	1,516,490
Total	<u>52,999,225</u>	<u>39,245,084</u>	<u>53,316,807</u>	<u>54,202,253</u>	<u>106,316,032</u>	<u>93,447,337</u>
	Domestic		International		Total	
	2017	2016	2017	2016	2017	2016
	SR	SR	SR	SR	SR	SR
Shareholders' operations						
Money market funds	102,510,933	85,410,773	--	--	102,510,933	85,410,773
Investment funds	50,000,000	50,000,000	--	--	50,000,000	50,000,000
Equities	56,119,572	50,756,270	104,475,131	92,218,938	160,594,703	142,975,208
Fixed-rate bonds/sukuk	40,000,000	40,000,000	337,834,683	338,817,260	377,834,683	378,817,260
Floating-rate bonds/sukuk	40,000,000	40,000,000	27,811,178	27,375,776	67,811,178	67,375,776
Total	<u>288,630,505</u>	<u>266,167,043</u>	<u>470,120,992</u>	<u>458,411,974</u>	<u>758,751,497</u>	<u>724,579,017</u>

v. The analysis of investments by counter-party is as follows:

	Reinsurance operations		Shareholders' operations	
	2017	2016	2017	2016
	SR	SR	SR	SR
Fixed income counterparties				
Saudi Government	6,515,314	8,455,551	81,678,226	82,048,223
Non Saudi Government	33,541,603	34,364,229	232,177,615	280,267,121
Corporate and financial institutions	13,259,890	11,382,473	131,790,020	83,877,692
	<u>53,316,807</u>	<u>54,202,253</u>	<u>445,645,861</u>	<u>446,193,036</u>
Others				
Money Market Funds	52,999,225	39,245,084	102,510,933	85,410,773
Investment Funds	--	--	50,000,000	50,000,000
Equities	--	--	160,594,703	142,975,208
	<u>52,999,225</u>	<u>39,245,084</u>	<u>313,105,636</u>	<u>278,385,981</u>
Total	<u>106,316,032</u>	<u>93,447,337</u>	<u>758,751,497</u>	<u>724,579,017</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

9. OUTSTANDING CLAIMS

	2017		
	Gross SR	Retroceded share SR	Net SR
Opening balance	<u>680,013,941</u>	<u>(110,649,986)</u>	<u>569,363,955</u>
Outstanding claims provided during the year	12,214,311	34,882,991	47,097,302
Claims incurred but not reported provided during the year	<u>168,824,715</u>	<u>(90,072,488)</u>	<u>78,752,227</u>
Change in outstanding claims	<u>181,039,026</u>	<u>(55,189,497)</u>	<u>125,849,529</u>
Closing balance	<u>861,052,967</u>	<u>(165,839,483)</u>	<u>695,213,484</u>
2016			
	Gross SR	Retroceded share SR	Net SR
Opening balance	<u>674,119,737</u>	<u>(60,496,840)</u>	<u>613,622,897</u>
Outstanding claims provided during the year	35,047,589	(47,656,047)	(12,608,458)
Claims incurred but not reported provided during the year	<u>(29,153,385)</u>	<u>(2,497,099)</u>	<u>(31,650,484)</u>
Change in outstanding claims	<u>5,894,204</u>	<u>(50,153,146)</u>	<u>(44,258,942)</u>
Closing balance	<u>680,013,941</u>	<u>(110,649,986)</u>	<u>569,363,955</u>

10. PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS

	2017		2016	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Refundable deposit	111,350	--	103,233	--
Recoverable Deposits	54,938,250	--	--	--
Guarantee deposit (Note 33b)	47,250,000	--	47,250,000	--
Advances to employees	795,206	--	543,418	--
Advance payments	285,980	--	281,387	--
Prepaid insurance	397,361	228,471	303,769	45,178
Others	185,893	--	794,280	--
	<u>103,964,040</u>	<u>228,471</u>	<u>49,276,087</u>	<u>45,178</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

11. UNEARNED PREMIUMS

	2017		
	Gross SR	Retroceded share SR	Net SR
Opening balance	<u>306,479,380</u>	<u>(3,758,101)</u>	<u>302,721,279</u>
Premiums written during the year	942,006,884	(305,085,407)	636,921,477
Premium earned	<u>(786,997,372)</u>	<u>191,164,320</u>	<u>(595,833,052)</u>
Change in unearned premiums	<u>155,009,512</u>	<u>(113,921,087)</u>	<u>41,088,425</u>
Closing balance	<u>461,488,892</u>	<u>(117,679,188)</u>	<u>343,809,704</u>

	2016		
	Gross SR	Retroceded share SR	Net SR
Opening balance	<u>502,998,272</u>	<u>(7,363,459)</u>	<u>495,634,813</u>
Premiums written during the year	985,510,354	(47,326,048)	938,184,306
Premiums earned	<u>(1,182,029,246)</u>	<u>50,931,406</u>	<u>(1,131,097,840)</u>
Change in unearned premiums	<u>(196,518,892)</u>	<u>3,605,358</u>	<u>(192,913,534)</u>
Closing balance	<u>306,479,380</u>	<u>(3,758,101)</u>	<u>302,721,279</u>

12. DEFERRED ACQUISITION COSTS

	2017 SR	2016 SR
Opening balance	<u>81,705,133</u>	94,148,447
Incurred during the year	<u>164,766,114</u>	152,249,132
Charged for the year	<u>(146,126,103)</u>	<u>(164,692,446)</u>
Closing balance	<u>100,345,144</u>	<u>81,705,133</u>

13. PROPERTY AND EQUIPMENT, NET

a) Reinsurance operations:

	Computers and Equipment SR	Furniture and Fixtures SR	Motor Vehicles SR	Leasehold Improvements SR	Work in Progress* SR	Total SR
Cost:						
As at 1 January 2017	<u>11,792,827</u>	<u>362,469</u>	<u>723,661</u>	<u>368,834</u>	<u>178,744</u>	<u>13,426,535</u>
Additions during the year	<u>724,418</u>	<u>4,200</u>	<u>--</u>	<u>--</u>	<u>39,119</u>	<u>767,737</u>
As at 31 December 2017	<u>12,517,245</u>	<u>366,669</u>	<u>723,661</u>	<u>368,834</u>	<u>217,863</u>	<u>14,194,272</u>
Accumulated depreciation:						
As at 1 January 2017	<u>9,326,559</u>	<u>233,042</u>	<u>391,331</u>	<u>72,948</u>	<u>--</u>	<u>10,023,880</u>
Charged for the year	<u>1,630,205</u>	<u>47,047</u>	<u>170,058</u>	<u>36,693</u>	<u>--</u>	<u>1,884,003</u>
As at 31 December 2017	<u>10,956,764</u>	<u>280,089</u>	<u>561,389</u>	<u>109,641</u>	<u>--</u>	<u>11,907,883</u>
Net book value						
As at 31 December 2017	<u>1,560,481</u>	<u>86,580</u>	<u>162,272</u>	<u>259,193</u>	<u>217,863</u>	<u>2,286,389</u>
As at 31 December 2016	<u>2,466,268</u>	<u>129,427</u>	<u>332,330</u>	<u>295,886</u>	<u>178,744</u>	<u>3,402,655</u>

* Work in progress represents certain advances for the IT infrastructure.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

13. PROPERTY AND EQUIPMENT, NET (CONTINUED)

a) Reinsurance operations (continued)

Following is the depreciation charge for reinsurance operations:

	2017 SR	2016 SR
Depreciation charge for the year	1,884,003	2,349,025
Allocated from shareholders' operations	860,529	888,748
	<u>2,744,532</u>	<u>3,237,773</u>

b) Shareholders' operations:

	Land SR	Building SR	Furniture and Fixtures SR	Total SR
Cost:				
As at 1 January 2017	18,329,960	11,454,040	4,706,907	34,490,907
Additions during the year	--	--	--	--
As at 31 December 2017	<u>18,329,960</u>	<u>11,454,040</u>	<u>4,706,907</u>	<u>34,490,907</u>
Accumulated depreciation:				
As at 1 January 2017	--	1,015,151	1,365,647	2,380,798
Charged for the year	--	346,159	514,370	860,529
As at 31 December 2017	<u>--</u>	<u>1,361,310</u>	<u>1,880,017</u>	<u>3,241,327</u>
Net book value:				
As at 31 December 2017	<u>18,329,960</u>	<u>10,092,730</u>	<u>2,826,890</u>	<u>31,249,580</u>
As at 31 December 2016	18,329,960	10,438,889	3,341,260	32,110,109

14. TIME DEPOSITS

	2017	2016
	Reinsurance operations SR	Shareholders' operations SR
Deposits with banks	<u>58,003,125</u>	<u>--</u>
	67,551,600	112,456,507

Time deposits are placed with banks which have credit ratings in line with Company's investment policy and have maturity period of more than three months from the date of original placement. Such deposits earn special commission at an average effective commission rate of 1.90% per annum (31 December 2016: 2.93% per annum).

15. ACCRUED INSURANCE PREMIUMS

The gross written premiums (GWP) of proportional treaty and facultative reinsurance contracts include estimates of premiums due to the company but not yet reported by the cedant. This portion of GWP is considered as pipeline premium and accounted in the Statement of Financial Position as 'Accrued insurance premiums' net of related acquisition costs. These pipeline/accrued premiums are estimated at the inception of the reinsurance contract based on cedents/brokers forecasts and management's evaluation of these forecasts. Management reviews and evaluates all premium estimates, comparing actual premiums to expected ultimate premiums on a quarterly basis and any adjustments to these estimates are recorded in the financial statements as and when updated information comes to light.

16. UNEARNED COMMISSION INCOME

	2017 SR	2016 SR
Opening balance	848,245	1,806,605
Commission received on retroceded business during the year	17,952,277	2,023,903
Commission earned on retroceded business during the year	<u>(11,258,223)</u>	<u>(2,982,263)</u>
Closing balance	<u>7,542,299</u>	<u>848,245</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

17. INVESTMENT IN AN ASSOCIATE

	31 December 2017 SR	31 December 2016 SR
Addition during the year	93,750,000	--
Share of profit of an associate	165,962	--
Share in foreign currency translation adjustments	(1,961,580)	--
31 December	91,954,382	--

The Company, on 6 October 2017, acquired 49.9% of the ordinary shares of Probitas Holdings (Bermuda) Limited ("PHBL"). The Company has accounted for this investment as an associate (equity accounted investee). PHBL operates in insurance and reinsurance businesses including Lloyds market in London, United Kingdom.

As at 31 December 2017, the total assets and total liabilities of PHBL amount to SR 607.9 million and SR 453.9 million respectively. The loss for the year ended 31 December 2017 amounts to SR 0.77 million.

18. EMPLOYEES' END OF SERVICE BENEFITS

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

	2017 SR	2016 SR
Balance at beginning of the year	3,958,044	3,164,713
Charge for the year	2,155,915	1,174,484
Interest cost	--	--
Amount recognized in income statement	2,155,915	1,174,484
Benefits paid during the year	(384,682)	(381,153)
Balance at the end of the year	5,729,277	3,958,044

Net defined benefit as at year-end is as follows:

	2017 SR	2016 SR
Present value of defined benefit obligation	5,729,277	3,958,044

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	2016
	Increase	Decrease
Future salary growth (5% movement)	275,555	(275,555)
	194,418	(194,418)

Risks associated with defined benefit plans

Salary increase risk:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

19. ACCRUED EXPENSES AND OTHER LIABILITIES

	2017		2016	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Consultancy fees	--	1,390,097	--	4,371,910
Employees' bonus	2,700,000	1,500,000	2,074,019	--
Withholding tax payable	1,387,475	42,312	683,920	--
Professional fees payable	1,120,771	2,355,643	853,008	1,531,172
Remunerations	--	1,020,000	--	--
Meetings fees and expenses	--	761,840	--	399,487
Others	534,405	--	295,301	--
	5,742,651	7,069,892	3,906,248	6,302,569

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 31 December 2017****20. CLAIMS DEVELOPMENT TABLE**

The following table shows the estimates of cumulative incurred claims, including both claims notified and incurred but not reported for each successive underwriting year at each reporting date, together with cumulative payments to date. The development of reinsurance 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 reinsurance 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 underwriting years. In order to maintain adequate reserves, the Company will transfer much of this release to the future underwriting years' reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Gross reinsurance contract outstanding claims provision for 2017:

Underwriting year	2011 and prior SR	2012 SR	2013 SR	2014 SR	2015 SR	2016 SR	2017 SR	Total SR
At end of underwriting year		70,116,212	150,612,696	188,090,435	244,579,339	168,487,853	326,179,465	--
One year later		241,196,744	345,577,987	364,560,253	1,078,283,840	328,300,916	--	--
Two years later		271,763,740	290,915,664	353,047,867	1,098,821,220	--	--	--
Three years later		261,725,411	290,830,815	372,309,950	--	--	--	--
Four years later		261,366,939	295,796,344	--	--	--	--	--
Five years later		262,016,588	--	--	--	--	--	--
Current estimate of cumulative claims incurred		262,016,588	295,796,344	372,309,950	1,098,821,220	328,300,916	326,179,465	2,683,424,483
Cumulative payments to date		(233,742,651)	(245,971,959)	(300,785,325)	(929,395,405)	(109,453,301)	(25,784,669)	(1,845,133,310)
Liability recognized for 2011 and prior	<u>22,761,794</u>							<u>22,761,794</u>
Total gross outstanding claims provision per the statement of financial position	<u>22,761,794</u>	28,273,937	49,824,385	71,524,625	169,425,815	218,847,615	300,394,796	861,052,967

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 31 December 2017****20 CLAIMS DEVELOPMENT TABLE (CONTINUED)**

Gross reinsurance contract outstanding claims provision for 2016:

Underwriting year	2010 and prior SR	2011 SR	2012 SR	2013 SR	2014 SR	2015 SR	2016 SR	Total SR
At end of underwriting year		63,230,532	69,164,521	150,462,724	187,143,372	244,219,320	166,623,103	--
One year later		85,920,289	240,626,386	345,533,036	363,013,230	1,077,604,859	--	--
Two years later		128,607,311	271,155,615	290,774,616	352,024,496	--	--	--
Three years later		136,476,277	261,439,051	290,304,834	--	--	--	--
Four years later		138,517,833	261,215,205	--	--	--	--	--
Five years later		127,676,417	--	--	--	--	--	--
Current estimate of cumulative claims incurred		127,676,417	261,215,205	290,304,834	352,024,496	1,077,604,859	166,623,103	2,275,448,914
Cumulative payments to date		(112,311,592)	(224,398,803)	(227,894,518)	(262,245,047)	(783,481,842)	5,270,767	(1,605,061,035)
Liability recognized for 2010 and prior	9,626,062							9,626,062
Total gross outstanding claims provision per the statement of financial position	9,626,062	15,364,825	36,816,402	62,410,316	89,779,449	294,123,017	171,893,870	680,013,941

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 31 December 2017****20 CLAIMS DEVELOPMENT TABLE (CONTINUED)**

Net reinsurance contract outstanding claims provision for 2017:

Underwriting year	2011 and prior SR	2012 SR	2013 SR	2014 SR	2015 SR	2016 SR	2017 SR	Total SR
At end of underwriting year		70,116,212	150,832,686	159,996,525	232,977,805	165,722,592	218,976,447	--
One year later		196,783,260	333,431,559	321,140,999	994,792,461	325,244,631	--	--
Two years later		231,778,897	283,129,421	324,313,173	1,008,411,285	--	--	--
Three years later		226,023,210	277,802,280	342,110,021	--	--	--	--
Four years later		222,427,436	283,425,994	--	--	--	--	--
Five years later		223,532,392	--	--	--	--	--	--
Current estimate of cumulative claims incurred		223,532,392	283,425,994	342,110,021	1,008,411,285	325,244,631	218,976,447	2,401,700,770
Cumulative payments to date		(195,392,048)	(243,307,039)	(281,483,700)	(866,407,109)	(109,340,766)	(24,616,215)	(1,720,546,877)
Liability recognized for 2011 and prior	14,059,591							14,059,591
Total net outstanding claims provision per the statement of financial position	14,059,591	28,140,344	40,118,955	60,626,321	142,004,176	215,903,865	194,360,233	695,213,484

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 31 December 2017****20 CLAIMS DEVELOPMENT TABLE (CONTINUED)**

Net reinsurance contract outstanding claims provision for 2016:

Underwriting year	2010 and prior SR	2011 SR	2012 SR	2013 SR	2014 SR	2015 SR	2016 SR	Total SR
At end of underwriting year		42,015,295	69,164,521	150,682,714	159,049,462	232,617,786	165,447,892	--
One year later		29,726,072	196,212,903	333,386,920	319,593,960	994,792,461	--	--
Two years later		79,016,403	231,170,766	282,989,674	324,313,173	--	--	--
Three years later		90,768,394	225,736,815	277,802,280	--	--	--	--
Four years later		95,157,209	222,427,436	--	--	--	--	--
Five years later		88,613,263	--	--	--	--	--	--
Current estimate of cumulative claims incurred		88,613,263	222,427,436	277,802,280	324,313,173	994,792,461	165,447,892	2,073,396,505
Net cumulative payments to date		(76,749,150)	(186,564,467)	(225,310,469)	(244,019,492)	(779,536,317)	5,270,769	(1,506,909,126)
Liability recognized for 2010 and prior	2,876,576							2,876,576
Total net outstanding claims provision per the statement of financial position	2,876,576	11,864,113	35,862,969	52,491,811	80,293,681	215,256,144	170,718,661	569,363,955

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

21. ZAKAT AND INCOME TAX

a) Zakat

Zakat charge for the year of SR 13,360,674 (2016: SR 15,229,023) is based on the following :

	2017 SR	2016 SR
Share Capital	1,000,000,000	1,000,000,000
Statutory reserve – beginning of the year	6,070,924	6,070,924
Accumulated deficit – beginning of the year	(200,769,953)	(203,934,200)
Adjusted net Income for the year	40,623,626	12,290,605
Provisions	33,491,183	30,215,839
	879,415,780	844,643,168
Deductions:		
Statutory deposit	(100,000,000)	(100,000,000)
Others non-current assets	(240,135,273)	(117,217,897)
Zakat base	539,280,507	627,425,271
Zakat base for Saudi shareholders 99.10% (2016: 97.09%)	534,426,982	609,160,921
Zakat provision for the year (Zakat base * 2.5%)	13,360,674	15,229,023

b) Income tax

Income tax for the year of SR 73,804 (2016: SR 70,554) is based on the following:

	2017 SR	2016 SR
Net income for the year	38,887,887	19,566,810
Adjusted profit	40,992,560	12,290,605
Portion of net taxable income for non-Saudi shareholders 0.90% (2016: 2.91%)	368,933	357,780
Non-GCC share in losses carried forward up to 25% of their share from the portion of taxable income	92,233	89,445
KSA operations' income tax base	276,700	268,335
Labuan Branch Income tax Base	11,714,644	6,664,129

c) The movement of the provision for zakat and income tax is as follows:

	2017 SR	2016 SR
Opening balance	39,728,370	39,418,724
Income tax provision for the year	73,804	70,554
Zakat provision for the year	13,360,674	15,229,023
Paid during the year	(15,731,478)	(14,989,931)
Closing balance	37,431,370	39,728,370

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

21. ZAKAT AND INCOME TAX (CONTINUED)

d) Status of assessments

The Company has filed its Tax / Zakat returns for the years ended 31 December 2008 to 2016 with the General Authority of Zakat and Income Tax (GAZT). The company has received the final assessments for the years ended 31 December 2008 to 2013. The assessments for the years ended 31 December 2014 to 2016 are still outstanding.

Zakat and income tax provisions are calculated based on the Company's best understanding of the zakat and tax regulations. Additional zakat and income tax provisions are accounted for to cover any differences that may arise on the final Zakat and income tax assessments when received from GAZT and the Company's current provision for Zakat and income tax.

e) Status of appeals

The Company has filed appeals against the GAZT's assessment of additional zakat, tax and delay fines for the years 2008 to 2013. The Preliminary Appeal Committee (PAC) has issued its Ruling on the appeals filed. The Ruling upheld the Company's appeal on certain items of the appeal and rejected the appeal on the other items. The Company has filed an appeal against the PAC Ruling with the Higher Appeal Committee (HAC). The HAC has not yet fixed a hearing session for the discussion of the said appeal.

22. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 1 billion divided into 100 million shares of SR 10 each for the years 2017 and 2016.

23. STATUTORY RESERVE

In accordance with the Company's by-laws and Article 70 (2g) of the Insurance Implementing Regulations of SAMA, a minimum of 20% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Company. This reserve is not available for distribution. Due to accumulated losses, no such transfer has been made for the year ended 31 December 2017 and 31 December 2016.

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2017		2016	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
	SR	SR	SR	SR
Salaries and related benefits	25,870,571	2,899,288	23,729,442	2,617,311
Provision for doubtful receivables	333,440	--	2,330,630	--
Training	648,515	5,531	395,032	500
Travelling expenses	1,604,064	326,310	1,013,193	231,731
Depreciation (Note 13)	2,744,532	--	3,237,770	--
Rent and premises expenses	802,658	--	873,102	--
Advertising	721,879	43,730	346,967	30,660
Professional fees	1,792,356	2,870,246	1,651,015	1,432,171
Withholding tax	157,813	180,827	327,284	20,714
Consulting fees	356,670	-	159,656	4,050,000
Licensing Fees	98,067	500,670	90,552	400,000
Others	3,742,780	1,026,971	3,903,872	1,068,057
	38,873,345	7,853,573	38,058,515	9,851,144

25. BOARD OF DIRECTORS' REMUNERATION, MEETING FEE AND EXPENSES

	2017	2016
	SR	SR
Board of directors' remuneration	1,943,396	1,020,000
Meetings fees and expenses	1,058,835	556,144
	3,002,231	1,576,144

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

26. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders and key management personnel of the Company. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken at mutually agreed terms, which are approved by the management.

Details of transactions and balances with related parties during the year other than those which have been disclosed elsewhere in these financial statements are disclosed below:

Related party	Nature of transactions	Amount of transactions for the year ended		Balance as at	
		31 December 2017 SR	31 December 2016 SR	31 December 2017 SR	31 December 2016 SR
Board of Directors	- Consulting fees	788,123	330,233	442,200	--
	- Remunerations, meetings fees and expenses	3,002,231	1,576,144	1,563,507	250,500
Key management Personnel	- Short-term benefits	8,812,170	8,534,209	1,294,000	1,096,000
	- End of service benefits	1,029,722	427,429	3,977,260	1,434,572
Companies represented by the Board members	- Gross written premiums	3,837,467	2,936,227	1,960,973	2,018,548
	- Claims incurred	2,193,770	4,221,407	2,476,077	2,285,317
	- Commissions	1,064,584	2,453,122	--	--
	- Refundable deposit	37,500,375	--	37,500,375	--
	- HSBC custodian fees	154,000	130,000	30,996	21,821

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

Balances with related parties are included in premium receivables, accrued expenses and other liabilities shown in the statement of financial position.

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2017 and 31 December 2016 have been calculated by dividing net income for the year by the average ordinary issued and outstanding shares at the end of the year.

28. STATUTORY DEPOSIT

The Company has deposited an amount of SR 100 million (31 December 2016: SR 100 million) with a local bank, which has been rated "A" by Standard & Poor's Rating agency representing the statutory deposit of 10% of its paid-up capital as required by the Implementing Regulations of the "Law On Supervision of Cooperative Insurance Companies" issued by SAMA. This statutory deposit cannot be withdrawn without the consent of SAMA. The statutory deposit generates special commission income which is accrued on regular basis and is shown as a separate line item as part of the shareholders' liabilities in the Statement of Financial Position as "Deferred return on investment of statutory deposit". The accrued commission on the deposit as at 31 December 2017 is SAR 13,127,882 (31 December 2016: 10,242,145) and has also been disclosed in assets as "Return on investment of statutory deposit".

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

29. NET SURPLUS / (DEFICIT) FROM REINSURANCE OPERATIONS

Net surplus / (deficit) from reinsurance operations has been charged to the statement of shareholders' operations. The total (deficit) / surplus charged from the date of incorporation of the Company to 31 December 2017 is as follows:

	SR
For the period from 1 May 2008 to 31 December 2008 - deficit	(11,925,491)
For the year ended 31 December 2009 – deficit	(20,545,633)
For the year ended 31 December 2010 – deficit	(21,935,456)
For the year ended 31 December 2011 – deficit	(37,083,139)
For the year ended 31 December 2012 - surplus	8,388,698
For the year ended 31 December 2013 – deficit	(139,604,488)
For the year ended 31 December 2014 – deficit	(9,397,008)
For the year ended 31 December 2015 – surplus	2,320,358
For the year ended 31 December 2016 – surplus	9,926,870
For the year ended 31 December 2017 – surplus	3,278,521
Net deficits	(216,576,768)

30. NET CLAIMS PAID

	2017 SR	2016 SR
Gross claims paid	356,661,152	963,922,862
Retroceded share of claims paid	(63,396,464)	(11,032,702)
Net claims paid	293,264,688	952,890,160

Net claims paid include all amounts paid and amounts received from insurance companies.

31. SEGMENTAL INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess its performance. Consistent with the Company's internal reporting process, business and geographical segments have been approved by the Management Committee in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include realized and unrealized gains on investments held at fair value through income statement, other income, investment management expenses and all general and administrative expenses except depreciation.

Segment assets do not include cash and cash equivalents of reinsurance operations, time deposits, investments held at fair value through income statement, prepaid expenses and other assets, due from shareholders' operations and property and equipment.

Segment liabilities do not include surplus distribution payable, accrued expenses and other liabilities and employees' end of service benefits.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

31. SEGMENTAL INFORMATION (CONTINUED)

31.1 Business segments

The Company revises periodically its estimated gross written premiums and related retroceded premium upon receipt of actual information from cedants. In some business segments, this results in negative gross written premiums, positive retroceded premiums and negative net written premiums for the year when the revision took place.

	Engineering SR	Fire SR	Marine SR	Motor SR	General Accident SR	Protection SR	Speciality SR	Others* SR	Total SR
For the year ended									
31 December 2017									
Reinsurance operations' results									
Gross written premiums	77,539,960	201,207,584	47,262,462	113,588,504	75,981,197	56,149,110	68,104,596	302,173,471	942,006,884
Retroceded premiums	(6,255,049)	(24,626,961)	(14,283,982)	--	(14,800,424)	(135,883)	--	(214,411,943)	(274,514,242)
Excess of loss expenses	(7,159,222)	(13,811,566)	(719,708)	(106,083)	(1,113,025)	(1,720,619)	--	(5,940,942)	(30,571,165)
Net written premiums	64,125,689	162,769,057	32,258,772	113,482,421	60,067,748	54,292,608	68,104,596	81,820,586	636,921,477
Change in net unearned premiums	3,387,563	(9,605,422)	1,431,561	(9,946,305)	(5,510,806)	(588,597)	(12,986,955)	(7,269,464)	(41,088,425)
Net earned premiums	67,513,252	153,163,635	33,690,333	103,536,116	54,556,942	53,704,011	55,117,641	74,551,122	595,833,052
Net claims paid	(31,113,147)	(105,085,685)	(16,185,423)	(51,909,503)	(17,512,543)	(44,400,260)	--	(27,058,127)	(293,264,688)
Change in net outstanding claims	(17,465,845)	(9,802,415)	(8,488,471)	(25,745,971)	(10,009,219)	(10,307,421)	(42,528,379)	(1,501,808)	(125,849,529)
Net claims incurred	(48,578,992)	(114,888,100)	(24,673,894)	(77,655,474)	(27,521,762)	(54,707,681)	(42,528,379)	(28,559,935)	(419,114,217)
Gross acquisition costs and profit commissions	(22,921,944)	(48,865,247)	(12,231,929)	(10,693,036)	(15,817,416)	(5,620,534)	(22,437,665)	(7,538,332)	(146,126,103)
Commissions earned on retroceded business	1,243,284	4,021,973	1,453,278	--	1,658,513	9,244	--	2,871,931	11,258,223
Supervision and inspection fees	(387,700)	(1,006,038)	(236,312)	(567,943)	(379,905)	(280,749)	(340,523)	(1,510,864)	(4,710,034)
Net acquisition costs	(22,066,360)	(45,849,312)	(11,014,963)	(11,260,979)	(14,538,808)	(5,892,039)	(22,778,188)	(6,177,265)	(139,577,914)
(Deficit) / surplus from reinsurance operations	(3,132,100)	(7,573,777)	(1,998,524)	14,619,663	12,496,372	(6,895,709)	(10,188,926)	39,813,922	37,140,921

* Others include one large energy facultative contract with the gross premium of SAR 187.8 million written inside Kingdom of Saudi Arabia

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017
31. SEGMENTAL INFORMATION (CONTINUED)
31.1 Business segments (continued)

	Engineering SR	Fire SR	Marine SR	Motor SR	General Accident SR	Protection SR	Speciality SR	Others SR	Total SR
For the year ended 31 December 2016									
Reinsurance operations' results									
Gross written premiums	81,356,986	142,787,631	32,853,630	530,948,695	42,053,610	48,467,274	44,594,512	62,448,016	985,510,354
Retroceded premiums	(4,077,436)	(240,986)	(446,534)	--	(355,261)	(10,382)	--	(451,444)	(5,582,043)
Excess of loss expenses	(6,988,481)	(27,897,489)	(1,266,923)	(144,284)	(1,761,713)	(2,225,130)	--	(1,459,985)	(41,744,005)
Net written premiums	70,291,069	114,649,156	31,140,173	530,804,411	39,936,636	46,231,762	44,594,512	60,536,587	938,184,306
Change in net unearned premiums	1,170,244	1,802,430	2,481,552	214,665,691	(5,424,070)	(2,946,255)	(17,058,188)	(1,777,870)	192,913,534
Net earned premiums	71,461,313	116,451,586	33,621,725	745,470,102	34,512,566	43,285,507	27,536,324	58,758,717	1,131,097,840
Net claims paid	(35,247,783)	(116,710,202)	(14,706,799)	(687,464,532)	(14,530,308)	(53,625,838)	--	(30,604,698)	(952,890,160)
Change in net outstanding claims	16,214,600	20,965,511	3,849,265	31,924,634	(5,130,804)	(6,283,167)	(16,314,440)	(966,657)	44,258,942
Net claims incurred	(19,033,183)	(95,744,691)	(10,857,534)	(655,539,898)	(19,661,112)	(59,909,005)	(16,314,440)	(31,571,355)	(908,631,218)
Gross acquisition costs and profit commissions	(23,067,687)	(34,677,103)	(10,925,141)	(67,316,937)	(10,166,640)	(3,074,342)	(9,959,543)	(5,505,053)	(164,692,446)
Commissions earned on retroceded business	1,352,829	603,521	498,388	--	369,987	--	--	157,538	2,982,263
Supervision and inspection fees	(406,784)	(713,938)	(164,268)	(2,654,743)	(210,268)	(242,336)	(222,973)	(312,242)	(4,927,552)
Net acquisition costs	(22,121,642)	(34,787,520)	(10,591,021)	(69,971,680)	(10,006,921)	(3,316,678)	(10,182,516)	(5,659,757)	(166,637,735)
Surplus/ (deficit) from reinsurance operations	30,306,488	(14,080,625)	12,173,170	19,958,524	4,844,533	(19,940,176)	1,039,368	21,527,605	55,828,887
Segment assets and Liabilities									
As at 31 December 2017									
Segment assets	104,992,256	204,843,153	60,716,838	70,915,618	67,074,498	46,852,945	132,392,603	441,334,439	1,129,122,350
Segment liabilities	212,181,926	358,733,161	79,936,719	134,248,877	96,421,253	91,554,571	142,504,980	468,805,963	1,584,387,450
As at 31 December 2016									
Segment assets	97,515,523	206,539,934	44,825,423	117,899,804	30,386,493	41,682,958	72,758,483	46,318,632	657,927,250
Segment liabilities	192,370,204	368,517,655	58,172,724	128,029,379	59,915,278	78,946,082	71,948,354	99,654,015	1,057,553,691

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

31. SEGMENTAL INFORMATION (CONTINUED)

31.2 Geographical segments

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Other territories SR	Total SR
For the year ended 31 December 2017						
Reinsurance operations' results						
Gross written premiums	509,969,724	110,254,203	31,614,736	221,261,849	68,906,372	942,006,884
Retroceded premiums	(262,339,169)	(85,337)	(31,670)	(12,058,066)	--	(274,514,242)
Excess of loss expenses	(13,990,416)	(6,671,177)	(1,716,281)	(8,158,867)	(34,424)	(30,571,165)
Net written premiums	233,640,139	103,497,689	29,866,785	201,044,916	68,871,948	636,921,477
Change in net unearned premiums	4,310,390	(7,568,325)	(1,628,710)	(22,909,856)	(13,291,924)	(41,088,425)
Net earned premiums	237,950,529	95,929,364	28,238,075	178,135,060	55,580,024	595,833,052
Net claims paid	(134,993,633)	(60,593,969)	(21,857,691)	(75,819,395)	--	(293,264,688)
Change in net outstanding claims	(18,934,256)	(25,371,818)	(5,162,273)	(33,720,044)	(42,661,138)	(125,849,529)
Net claims incurred	(153,927,889)	(85,965,787)	(27,019,964)	(109,539,439)	(42,661,138)	(419,114,217)
Gross acquisition costs and profit commissions	(50,375,019)	(25,559,729)	(6,046,706)	(41,583,406)	(22,561,243)	(146,126,103)
Commissions earned on retroceded business	10,049,214	63,858	12,345	1,132,806	--	11,258,223
Supervision and inspection fees	(2,549,853)	(551,271)	(158,074)	(1,106,304)	(344,532)	(4,710,034)
Net acquisition costs	(42,875,658)	(26,047,142)	(6,192,435)	(41,556,904)	(22,905,775)	(139,577,914)
Surplus/ (deficit) from reinsurance operations	41,146,982	(16,083,565)	(4,974,324)	27,038,717	(9,986,889)	37,140,921

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Other territories SR	Total SR
--	----------------------------------	--	--------------	------------	----------------------------	-------------

For the year ended 31 December 2016

Reinsurance operations' results						
Gross written premiums	702,452,897	87,071,260	17,931,558	133,460,127	44,594,512	985,510,354
Retroceded premiums	(4,430,035)	(920,990)	(226,945)	(4,073)	--	(5,582,043)
Excess of loss expenses	(17,095,674)	(16,944,897)	(2,569,415)	(5,134,019)	--	(41,744,005)
Net written premiums	680,927,188	69,205,372	15,135,198	128,322,036	44,594,512	938,184,306
Change in net unearned premiums	217,201,159	1,537,374	7,756,877	(16,523,688)	(17,058,188)	192,913,534
Net earned premiums	898,128,347	70,742,746	22,892,075	111,798,348	27,536,324	1,131,097,840
Net claims paid	(803,908,888)	(66,052,412)	(17,880,463)	(65,048,397)	--	(952,890,160)
Change in net outstanding claims	50,917,078	2,552,786	9,372,373	(2,268,852)	(16,314,443)	44,258,942
Net claims incurred	(752,991,811)	(63,499,625)	(8,508,090)	(67,317,249)	(16,314,444)	(908,631,218)
Gross acquisition costs and profit commissions	(105,273,362)	(19,878,017)	(6,786,710)	(22,794,814)	(9,959,543)	(164,692,446)
Commissions earned on retroceded business	2,741,540	159,370	54,528	26,825	--	2,982,263
Supervision and inspection fees	(3,512,263)	(435,356)	(89,658)	(667,302)	(222,973)	(4,927,552)
Net acquisition costs	(106,044,084)	(20,154,003)	(6,821,840)	(23,435,292)	(10,182,516)	(166,637,735)
Surplus/ (deficit) from reinsurance operations	39,092,452	(12,910,882)	7,562,145	21,045,807	1,039,365	55,828,887

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

31. SEGMENTAL INFORMATION (CONTINUED)

31.2 Geographical segments

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Other territories SR	Total SR
As at 31 December 2017						
Reinsurance operations						
Segment assets	<u>679,283,101</u>	<u>90,397,437</u>	<u>26,046,340</u>	<u>213,400,347</u>	<u>119,995,125</u>	<u>1,129,122,350</u>
Segment liabilities	<u>864,206,690</u>	<u>209,662,325</u>	<u>49,489,156</u>	<u>333,592,921</u>	<u>127,436,358</u>	<u>1,584,387,450</u>
As at 31 December 2016						
Segment assets	<u>303,889,027</u>	<u>132,456,294</u>	<u>25,800,492</u>	<u>123,353,877</u>	<u>72,427,560</u>	<u>657,927,250</u>
Segment liabilities	<u>471,717,637</u>	<u>225,540,076</u>	<u>42,737,516</u>	<u>246,044,546</u>	<u>71,513,916</u>	<u>1,057,553,691</u>

32. RISK MANAGEMENT

Risk governance

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

Risk management structure

A cohesive organizational 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 as follows:

32.1 Reinsurance risk

The risk resulting from reinsurance business written 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 reinsurance contracts is that the actual claims and benefit payments exceed the carrying amount of reinsurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid being greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by the diversification of the risks written and the build-up of a large portfolio of reinsurance contracts, (inward business) as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by a careful selection of inward business, by the underwriting guidelines as well as the use of retrocession protection. The Company's underwriting strategy includes, but is not limited to, the following:

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

32. RISK MANAGEMENT (CONTINUED)

32.1 Reinsurance risk (continued)

- Diversification in the type of accepted risks, and within each of these categories to achieve sufficiently large population of risks to reduce the variability of the expected outcome.
- Diversification of the underwriting risks in terms of type and amount of risk, industry and geographical location.

In order to minimize its financial exposure arising from large claims, the Company in the normal course of business, enters into retrocession agreements with other parties. Such retrocession agreements provide for higher underwriting capacity, and allow management to contain exposure with the risk appetite of the Company. The retrocession is effected under proportional treaties such as quota share and surplus and non-proportional treaties such as excess of loss for risk and catastrophe to ensure its net retention is aligned with its risk tolerance.

Although the Company has retrocession agreements, it is not relieved of its direct obligations to its ceding companies and thus a credit exposure exists with respect to its retrocessionaires, to the extent that any retrocessionaire is unable to meet its obligations assumed under such retrocession agreements.

Geographical concentration of risk

The Company accepts reinsurance business from insurance companies in the Kingdom of Saudi Arabia, the Middle East, Africa and Asia. The written premiums are distributed geographically as follows:

	For the year ended 31 December 2017	
	Amount	
	SR	Percentage
Kingdom of Saudi Arabia	509,969,724	54%
Asia	221,261,849	23%
Other Middle Eastern Countries	110,254,203	12%
Others	68,906,372	7%
Africa	31,614,736	4%
	942,006,884	100%
	For the year ended 31 December 2016	
	Amount	
	SR	Percentage
Kingdom of Saudi Arabia	702,452,897	71%
Asia	133,460,127	14%
Other Middle Eastern Countries	87,071,260	9%
Others	44,594,512	4%
Africa	17,931,558	2%
	985,510,354	100%

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.

Key assumptions

The key assumptions underlying the liability estimates are the Company's estimated ultimate loss ratio. The ultimate loss ratio was determined using actuarial methods.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

32. RISK MANAGEMENT (CONTINUED)

32.1 Reinsurance risk (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio with all other assumptions held constant showing the impact on net liabilities and net income as follows:

31 December 2017

	Change in assumptions	Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+10%	59,583,305	59,583,305
	-10%	(59,583,305)	(59,583,305)

31 December 2016

	Change in assumptions	Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+10%	113,109,784	113,109,784
	-10%	(113,109,784)	(113,109,784)

32.2 Retrocession risk

In order to minimize its financial exposure arising from large claims, the Company in the normal course of business, enters into retrocession agreements with other parties. Amounts recoverable from retrocessionaire are estimated and recognized in a manner consistent with the amounts associated with the underlying accepted policy benefits and in accordance with the terms of the respective retrocession treaties and are presented in the statement of financial position as reinsurance assets

To minimize its exposure to significant losses from retrocessionaire insolvencies, the Company evaluates the financial condition of its retrocessionaires and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the retrocessionaire.

Retrocessionaires 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 retrocessionaire companies.
- Existing or past business experience with the retrocessionaire.

Furthermore, the financial strength, managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and matched against a list of requirements pre-set by the Company's Board of Directors and Risk and Underwriting Committee before approving them as retrocessionaires.

Retrocession contracts do not relieve the Company from its obligations to ceding companies and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the retrocessionaire fails to meet the obligations under the retrocession agreements. The net credit exposure in this connection is SR 63.92 million (due to retrocessionaires) (2016: SR 58.7 million).

32.3 Regulatory framework risk

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

32.4 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

32. RISK MANAGEMENT (CONTINUED)

32.4 Claims management risk (continued)

The Company's claims teams are focused on delivering quality, reliability and speed of service the ceding companies un reinsurance contracts. 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.

32.5 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, the Company actuarial team uses a range of recognised techniques to project ultimate claims, 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.

32.6 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation related to a financial instrument and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position. 63% of the Company's receivables is due from one ceding and three broker companies as at 31 December 2017 (31 December 2016: 43%). The company does not provide for premium receivable from local ceding companies. However, 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 retrocessionaires insolvencies, the Company evaluates the financial condition of its retrocessionaires counterparties. Accordingly, as a pre-requisite, the parties with whom retrocession is effected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company, with respect to credit risk arising from other financial assets, only deals with commercial banks with strong financial position and credit ratings.
- The Company enters into inward insurance contracts with recognized, creditworthy third parties. In addition, receivables from ceding companies are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to ceding companies through monitoring outstanding receivables.

The table below shows the maximum exposure to credit risk for the assets of the statements of financial position.

	31 December 2017		31 December 2016	
	SR		SR	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
Cash equivalents	53,454,191	31,737,579	42,871,784	27,950,269
Time Deposits	58,003,125		67,551,600	112,456,507
Accrued special commission income from time deposits	868,728	3,250	1,070,010	2,191,242
Premiums receivable, gross	364,157,470		186,910,560	--
Retroceded share of outstanding claims	165,839,483	--	110,649,986	--
Accrued insurance premium	372,087,694	--	262,339,842	
Accrued special commission income from bonds and sukuk	--	3,830,983	--	4,143,727
Statutory deposit	--	100,000,000	--	100,000,000
Other assets	103,566,679	--	48,972,318	--
Return on investments of Statutory deposit	--	13,127,882	--	10,242,125
	1,117,977,370	148,699,694	720,366,100	256,983,870

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

32. RISK MANAGEMENT (CONTINUED)

32.6 Credit risk (continued)

The used rating grades for investments are being adopted by Standard & Poors.

The credit quality for investments held at fair value through income statement is as follows:

Credit quality	Credit Rating Agency	Financial Instruments	Reinsurance operations		Shareholders' operations	
			2017 SR	2016 SR	2017 SR	2016 SR
AAA/Aaa	S&P/ Moody's/Fitch	Bonds / Sukuks	4,586,138	1,550,185	79,392,852	65,000,816
AA/Aa	S&P/ Moody's/Fitch	Bonds / Sukuks	16,542,711	16,472,067	74,960,561	69,799,741
A	S&P/ Moody's/Fitch	Bonds / Sukuks	30,521,870	36,180,001	195,998,019	180,991,581
BBB/Baa	S&P/ Moody's/Fitch	Bonds / Sukuks	--	--	53,466,208	76,935,963
BB/Ba & below	S&P/ Moody's/Fitch	Bonds / Sukuks	--	--	12,130,865	30,049,328
Unrated		Bonds / Sukuks	1,666,088	--	29,697,356	23,837,244
Unrated		Money Market				
		Funds/				
		Investment				
		Funds/Equities	52,999,225	39,245,084	313,105,636	277,964,344
			<u>106,316,032</u>	<u>93,447,337</u>	<u>758,751,497</u>	<u>724,579,017</u>

32.7 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

All time deposits held by the Company at the statement of financial position date had original maturity periods less than five years.

Maturity profiles

The table below summarizes the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations. Maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums have been excluded from the analysis as they are not contractual obligations. Employees' end of service benefits do not have any fixed maturity.

	31 December 2017					
	Reinsurance' operations			Shareholders' operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
LIABILITIES						
Accounts payable	16,648,193	--	16,648,193	--	--	--
Retrocession balances payable	229,763,824	--	229,763,824	--	--	--
Accrued retroceded premiums	7,891,275	--	7,891,275	--	--	--
Gross outstanding claims	861,052,967	--	861,052,967	--	--	--
Accrued expenses and other liabilities	5,742,651	--	5,742,651	7,069,892	--	7,069,892
Deferred return on investment of statutory deposit	--	--	--	--	13,127,882	13,127,882
	<u>1,121,098,910</u>	<u>--</u>	<u>1,121,098,910</u>	<u>7,069,892</u>	<u>13,127,882</u>	<u>20,197,774</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

32 RISK MANAGEMENT (CONTINUED)

32.7 Liquidity risk (continued)

Maturity profiles (continued)

	31 December 2016					
	Reinsurance operations			Shareholders' operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
LIABILITIES						
Accounts payable	18,217,139	--	18,217,139	--	--	--
Retrocession balances payable	51,919,382	--	51,919,382	--	--	--
Accrued retroceded premiums	75,603	--	75,603	--	--	--
Gross outstanding claims	680,013,941	--	680,013,941	--	--	--
Accrued expenses and other liabilities	3,906,248	--	3,906,248	6,302,569	--	6,302,569
Deferred return on investment of statutory deposit	--	--	--	--	10,242,145	10,242,145
	754,132,313	--	754,132,313	6,302,569	10,242,145	16,544,714

Liquidity profile

None of the liabilities shown in the statement of financial position are based on discounted cash flows as they are all payable within twelve months of the statement of financial position date.

Maturity analysis on expected maturity bases

	31 December 2017					
	Reinsurance' operations			Shareholders' operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
ASSETS						
Cash and cash equivalents	53,494,191	--	53,494,191	31,737,579	--	31,737,579
Time Deposits	58,003,125	--	58,003,125	--	--	--
Premium receivables, net	358,871,064	--	358,871,064	--	--	--
Investments held at fair value through income statement	106,316,032	--	106,316,032	758,751,497	--	758,751,497
Investment in an associate	--	--	--	--	91,954,382	91,954,382
Accrued insurance premiums	--	372,087,694	372,087,694	--	--	--
Retroceded share of outstanding claims	165,839,483	--	165,839,483	--	--	--
other assets	1,378,429	102,188,250	103,566,679	--	--	--
Retroceded share of unearned premiums	--	117,679,188	117,679,188	--	--	--
Deferred acquisition costs	--	100,345,144	100,345,144	--	--	--
Deferred excess of loss premiums	14,299,778	--	14,299,778	--	--	--
Accrued special commission income from time deposits	868,728	--	868,728	3,250	--	3,250
Accrued special commission income from bonds and sukuk	--	--	--	3,830,983	--	3,830,983
Statutory deposit	--	--	--	--	100,000,000	100,000,000
Return on investment of statutory deposit	--	--	--	--	13,127,882	13,127,882
	759,070,830	692,300,276	1,451,371,106	794,323,309	205,082,264	999,405,573

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

32 RISK MANAGEMENT (CONTINUED)

32.7 Liquidity risk (continued)

Liquidity profile (continued)

Maturity analysis on expected maturity bases

	31 December 2017					
	Reinsurance' operations			Shareholders' operations		
	Current SR	Non- current SR	Total SR	Current SR	Non-current SR	Total SR
LIABILITIES						
Accounts payable	16,648,193	--	16,648,193	--	--	--
Retrocession balances payable	229,763,824	--	229,763,824	--	--	--
Accrued retroceded premiums	--	7,891,275	7,891,275	--	--	--
Gross unearned premiums	--	461,488,892	461,488,892	--	--	--
Gross outstanding claims	861,052,967	--	861,052,967	--	--	--
Unearned commission income	--	7,542,299	7,542,299	--	--	--
other liabilities	5,742,651	--	5,742,651	7,069,892	--	7,069,892
Deferred return on investment of statutory deposit	--	--	--	--	13,127,882	13,127,882
	1,113,207,635	476,922,466	1,590,130,101	7,069,892	13,127,882	20,197,774
Gap	(354,136,805)	215,377,810	(138,758,995)	787,253,417	191,954,382	979,207,799

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

32 RISK MANAGEMENT (CONTINUED)

32.7 Liquidity risk (continued)

Maturity analysis on expected maturity bases (continued)

	31 December 2016					
	Reinsurance operations			Shareholders' operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
ASSETS						
Cash and cash equivalents	42,891,784	--	42,891,784	27,950,269	--	27,950,269
Time Deposits	67,551,600	--	67,551,600	112,456,507	--	112,456,507
Premium receivables, net	181,957,594	--	181,957,594	--	--	--
Investments held at fair value through income statement	93,447,337	--	93,447,337	724,579,017	--	724,579,017
Accrued insurance premiums	--	262,339,842	262,339,842	--	--	--
Retroceded share of unearned premiums	--	3,758,101	3,758,101	--	--	--
Deferred excess of loss premiums	17,516,594	--	17,516,594	--	--	--
Retroceded share of outstanding claims	110,649,986	--	110,649,986	--	--	--
Deferred acquisition costs	--	81,705,133	81,705,133	--	--	--
other assets	1,722,318	47,250,000	48,972,318	--	--	--
Accrued special commission income from time deposits	1,070,010	--	1,070,010	2,191,242	--	2,191,242
Accrued special commission income from bonds and sukuk	--	--	--	4,143,727	--	4,143,727
Statutory deposit	--	--	--	--	100,000,000	100,000,000
Return on investment of statutory deposit	--	--	--	--	10,242,145	10,242,145
	516,807,223	395,053,076	911,860,299	871,320,762	110,242,145	981,562,907
LIABILITIES						
Accounts payable	18,217,139	--	18,217,139	--	--	--
Retrocession balances payable	51,919,382	--	51,919,382	--	--	--
Accrued retroceded premiums	--	75,603	75,603	--	--	--
Gross unearned premiums	--	306,479,380	306,479,380	--	--	--
Gross outstanding claims	680,013,941	--	680,013,941	--	--	--
Unearned commission income	--	848,245	848,245	--	--	--
Accrued expenses and other liabilities	3,906,248	--	3,906,248	6,302,569	--	6,302,569
Deferred return on investment of statutory deposit	--	--	--	--	10,242,145	10,242,145
	754,056,710	307,403,228	1,061,459,938	6,302,569	10,242,145	16,544,714
Gap	(237,249,487)	87,649,848	(149,599,639)	865,018,193	100,000,000	965,018,193

32.8 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are carried out in local and foreign currencies. Management believes that there is no significant foreign currency exposure since most of the Company's transactions not denominated in Saudi Riyals were undertaken in foreign currencies which are pegged to the Saudi Riyal.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

32. RISK MANAGEMENT (CONTINUED)
32.8 Currency risk (continued)

The table below represents the Company's assets and liabilities denominated in major currencies as follows:

31 December 2017	SR	USD	QAR	AED	EUR	KWD	INR	Others	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
ASSETS									
Reinsurance operations									
Cash and cash equivalent	31,772,333	17,422,103	--	461,093	516,130	--	--	3,322,532	53,494,191
Time Deposits	--	58,003,125	--	--	--	--	--	--	58,003,125
Investment held at fair value through income statement	52,999,225	53,316,807	--	--	--	--	--	--	106,316,032
Premiums receivable, net	17,049,960	237,443,434	7,894,486	14,399,803	122,961	7,218,897	25,617,590	49,123,933	358,871,064
Accrued special commission income	868,728	--	--	--	--	--	--	--	868,728
Accrued Insurance Premiums	131,779,426	22,425,014	6,040,447	8,535,388	3,256,274	3,050,093	31,561,959	165,439,093	372,087,694
Retroceded share of unearned premiums	117,679,188	--	--	--	--	--	--	--	117,679,188
Retroceded share of outstanding Claims	165,839,483	--	--	--	--	--	--	--	165,839,483
Deferred acquisition costs	28,194,024	12,224,036	2,518,155	5,036,287	734,808	1,366,086	3,871,414	46,400,334	100,345,144
Prepaid Retroceded Premium	14,299,778	--	--	--	--	--	--	--	14,299,778
Prepaid expenses, deposits and other assets	1,775,790	102,188,250	--	--	--	--	--	--	103,964,040
Due from shareholders' operations	144,461,682	--	--	--	--	--	--	--	144,461,682
Property and equipment, net	2,286,389	--	--	--	--	--	--	--	2,286,389
Shareholders' operations									
Cash and cash equivalent	8,766,350	22,905,949	--	--	--	--	--	65,280	31,737,579
Time Deposit	--	--	--	--	--	--	--	--	--
Accrued special commission income from time deposits	--	3,250	--	--	--	--	--	--	3,250
Accrued special commission income from bonds and sukuk	3,174,117	656,866	--	--	--	--	--	--	3,830,983
Investment held at fair value through income statement	288,641,502	460,045,477	--	--	--	--	--	10,064,518	758,751,497
Investments in an associate	91,954,382	--	--	--	--	--	--	--	91,954,382
Statutory Deposit	100,000,000	--	--	--	--	--	--	--	100,000,000
Return on investment of statutory deposit	13,127,882	--	--	--	--	--	--	--	13,127,882
Prepaid expenses and other assets	228,471	--	--	--	--	--	--	--	228,471
Property and equipment, net	31,249,580	--	--	--	--	--	--	--	31,249,580
	<u>1,246,148,290</u>	<u>986,634,311</u>	<u>16,453,088</u>	<u>28,432,571</u>	<u>4,630,173</u>	<u>11,635,076</u>	<u>61,050,963</u>	<u>274,415,690</u>	<u>2,629,400,162</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

32. RISK MANAGEMENT (CONTINUED)
32.8 Currency risk (continued)

31 December 2016	SR	USD	QAR	AED	EUR	KWD	INR	Others	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
ASSETS									
Reinsurance operations									
Cash and cash equivalents	14,577,812	27,552,304	--	641	17,539	--	--	743,488	42,891,784
Time Deposits	67,551,600	--	--	--	--	--	--	--	67,551,600
Accrued special commission income from time deposits	1,070,010	--	--	--	--	--	--	--	1,070,010
Premiums receivable, net	62,218,160	34,892,900	8,907,860	817,952	363,916	7,733,128	12,044,195	54,979,483	181,957,594
Investment held at fair value through income statement	39,245,085	54,202,252	--	--	--	--	--	--	93,447,337
Accrued Insurance Premiums	101,115,068	23,631,461	9,959,417	4,294,159	2,204,093	3,408,349	18,427,328	99,299,967	262,339,842
Retroceded share of unearned premiums	3,758,101	--	--	--	--	--	--	--	3,758,101
Deferred excess of loss Premium	17,516,594	--	--	--	--	--	--	--	17,516,594
Retroceded share of outstanding Claims	110,649,986	--	--	--	--	--	--	--	110,649,986
Deferred acquisition costs	27,073,901	7,856,704	3,127,012	2,332,453	661,440	1,352,534	3,158,243	36,142,846	81,705,133
Prepaid expenses, deposits and other assets	992,778	48,257,183	--	--	--	--	--	26,126	49,276,087
Due from shareholders' operations	152,144,139	--	--	--	--	--	--	--	152,144,139
Property and equipment, net	3,402,655	--	--	--	--	--	--	--	3,402,655
Shareholders' operations									
Cash and cash equivalent	26,841,627	805,517	--	--	--	--	--	303,125	27,950,269
Time Deposits	112,456,507	--	--	--	--	--	--	--	112,456,507
Accrued special commission income from time deposits	2,191,242	--	--	--	--	--	--	--	2,191,242
Accrued special commission income from bonds and Sukuks	3,416,471	727,256	--	--	--	--	--	--	4,143,727
Investment held at fair value through income statement	252,544,672	454,469,832	--	--	--	--	--	17,564,513	724,579,017
Prepaid expenses and other assets	45,178	--	--	--	--	--	--	--	45,178
Statutory Deposit	100,000,000	--	--	--	--	--	--	--	100,000,000
Return on investment of Statutory Deposit	10,242,145	--	--	--	--	--	--	--	10,242,145
Property and equipment, net	32,110,109	--	--	--	--	--	--	--	32,110,109
	<u>1,141,163,840</u>	<u>652,395,409</u>	<u>21,994,289</u>	<u>7,445,205</u>	<u>3,246,988</u>	<u>12,494,011</u>	<u>33,629,766</u>	<u>209,059,548</u>	<u>2,081,429,056</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 31 December 2017****32. RISK MANAGEMENT (CONTINUED)****32.8 Currency risk (continued)**

31 December 2017	SR	USD	QAR	AED	EUR	KWD	INR	Others	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
LIABILITIES									
Reinsurance operations									
Accounts payable	5,871,723	(1,013,540)	2,163,885	967,392	318,910	371,951	(141,285)	8,109,157	16,648,193
Reinsurance balances payable	229,763,824	--	--	--	--	--	--	--	229,763,824
Accrued retroceded premiums	7,891,275	--	--	--	--	--	--	--	7,891,275
Gross unearned premiums	126,666,471	134,489,614	9,368,785	16,596,004	2,461,144	5,577,289	26,604,350	139,725,235	416,488,892
Gross outstanding claims	304,340,367	150,496,755	22,397,885	32,013,095	5,485,983	28,663,644	90,076,102	227,579,136	861,052,967
Unearned commission income	7,542,299	--	--	--	--	--	--	--	7,542,299
Accrued expenses and other liabilities	4,689,754	60,679	--	--	--	--	--	992,218	5,742,651
Employees end of service benefits	5,729,277	--	--	--	--	--	--	--	5,729,277
Accumulated surplus	2,657,160	--	--	--	--	--	--	--	2,657,160
Shareholders operations									
Accrued expenses and other liabilities	6,322,480	730,537	--	--	--	--	--	16,875	7,069,892
Provision for zakat and income tax	37,431,370	--	--	--	--	--	--	--	37,431,370
Due to reinsurance operations	144,461,682	--	--	--	--	--	--	--	144,461,682
Deferred return on investment of statutory deposit	13,127,882	--	--	--	--	--	--	--	13,127,882
	<u>896,495,564</u>	<u>284,764,045</u>	<u>33,930,555</u>	<u>49,576,491</u>	<u>8,266,037</u>	<u>34,612,884</u>	<u>116,539,167</u>	<u>376,422,621</u>	<u>1,800,607,364</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 31 December 2017****32. RISK MANAGEMENT (CONTINUED)****32.8 Currency risk (continued)**

31 December 2016

	SR	USD	QAR	AED	EUR	KWD	INR	Others	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
LIABILITIES									
Reinsurance operations									
Accounts payable	6,787,828	2,966,944	42,291	(424,427)	100,262	23,339	52,630	8,668,272	18,217,139
Reinsurance balances payable	51,919,382	--	--	--	--	--	--	--	51,919,382
Accrued retroceded premiums	75,603	--	--	--	--	--	--	--	75,603
Gross unearned premiums	123,181,093	25,912,222	12,196,267	8,690,717	2,098,156	6,222,189	20,853,884	107,324,852	306,479,380
Gross outstanding claims	275,034,431	51,789,673	18,956,384	83,494,781	4,559,918	19,042,375	70,394,596	156,741,783	680,013,941
Unearned commission income	848,245	--	--	--	--	--	--	--	848,245
Accrued expenses and other liabilities	3,133,538	46,602	--	--	--	--	--	726,108	3,906,248
Employees end of service benefits	3,958,044	--	--	--	--	--	--	--	3,958,044
Accumulated surplus	2,292,880	--	--	--	--	--	--	--	2,292,880
Shareholders operations									
Provision for zakat and income tax	39,728,370	--	--	--	--	--	--	--	39,728,370
Due to reinsurance operations	152,144,139	--	--	--	--	--	--	--	152,144,139
Accrued expenses and other liabilities	1,225,252	5,077,317	--	--	--	--	--	--	6,302,569
Deferred return on investment of statutory deposit	10,242,145	--	--	--	--	--	--	--	10,242,145
	<u>670,570,950</u>	<u>85,792,758</u>	<u>31,194,942</u>	<u>91,761,071</u>	<u>6,758,336</u>	<u>25,287,903</u>	<u>91,301,110</u>	<u>273,461,015</u>	<u>1,276,128,085</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

32. RISK MANAGEMENT (CONTINUED)

32.9 Special commission rate risk

The Company is exposed to special commission rate risk on its bonds and sukuk investments. Special Commission rate risk arises on bonds and sukuk which are exposed to the fluctuations in special commission rates.

The Company manages special commission rate risk by investing in various long and short duration financial assets, along with cash and cash equivalents. The investment committee monitors the duration of these assets on a regular basis. Duration of reinsurance operations and Shareholders operations' investments in bonds and sukuk portfolios as at 31 December 2017 is around 6.23 years and 5.66 years respectively (31 December 2016: 6.31 years and 5.33 year respectively). A hypothetical increase/decrease of 10 basis points in yield curve will entail decrease/increase in bond/sukuk portfolio values of reinsurance operations and Shareholders operations' investments by SR 0.33 million and SR 2.52 million as at 31 December 2017 (31 December 2016: SR 0.34 million SR 2.52 million respectively).

32.10 Market price risk

Market price risk is the risk that the fair value of a financial instrument will fluctuate caused by the factors (other than those arising from commission rate risk or currency risk), that affect all financial instruments traded in the market.

Efficient management of market price risk is key to the investment of company assets. Appropriate levels of investment risk is determined by risk/return profile of the assets. The Company has a diversified portfolio of investments, including investment in the listed equities securities. The Company manages the equity market price risk through diversification and by placing limits on individual and total equity instruments. A 5% change in the fair value of these investments, with all other variables held constant, would impact the statement of shareholders' operations by increase / decrease of SR 8,029,735 (2016: SR 7,148,760).

32.11 Capital management risk

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

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

The table below summarizes the minimum regulatory capital of the Company and the total capital held:

	2017	2016
	SR	SR
Total capital held	828,792,798	805,300,971
Minimum regulatory capital	200,000,000	200,000,000

In the opinion of the management, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

32.12. 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. 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 liabilities are not materially different from their carrying values at the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

33. CONTINGENCIES AND COMMITMENTS

a) Legal proceedings and regulations

The Company operates in the reinsurance 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) Bank Guarantees

As at 31 December 2017, the Company has deposited and pledged SR 47,250,000 (31 December 2016: SR 47,250,000) with local bank to obtain the standby letter of credit towards Fund At Lloyds (FAL) for its participation in a Lloyds Syndicates and for 2015, 2016 and 2017 underwriting years. In addition, the Company has deposited SR 54,938,250 (31 December 2016: Nil) with Lloyd's London as FAL for its continued participation in a Lloyds Syndicates for 2018 underwriting year. Upon issuance of stand by letter of credit, the deposit with Lloyds will be withdrawn.

Further, the office premises related refundable deposit amounts to SR 102,774 (31 December 2016: SR 102,774).

34. SUBSEQUENT EVENT

The Board of Directors on their meeting held on 24 May 2017 recommended to the Extraordinary General Assembly meeting to reduce the Company's share capital from SR 1,000,000,000 to SR 810,000,000. On 1 January 2018, the Company got approval from the extra ordinary general meeting to reduce its share capital. The Company is in the process of revising its share capital after completing all the regulatory requirements.

35. COMPARATIVE FIGURES

Certain figures for the prior year have been reclassified to conform to the presentation made in the current year, however the impact of such reclassifications was not material to the overall presentation of the financial statements.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 11 Rajab 1439H corresponding to 28 March 2018.