



YEARS

10 Years Of Progress

**ANNUAL
REPORT
2017**

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CHAIRMAN'S MESSAGE



On behalf of the board of directors of Saudi Re, I am pleased to present to the valued shareholders the annual report including the directors' report along with the external auditors report, audited financial statements and accompanying notes for the financial year ended 31 December 2017.

Nearly ten years ago, Saudi Re was established as the first specialized reinsurance company in Saudi Arabia with a vision to one of the international companies in this field through the provision of integrated services at highest standards, and equipped with all qualifying capabilities for success and progress in the reinsurance world. Over the course of a decade, the company has faced more challenges in the reinsurance market such as softness of the market, fierce competition, low investment returns and legislative changes, as well as successive volatile geopolitical changes, particularly in the Middle East.

Saudi Re has been able to overcome these challenges through its distinct personality and brand, based on strong capitalization and its proximity to emerging and fast-growing markets, in addition to establish robust relationships with the customers, intermediaries and business partners whilst giving priority to improve its

sophisticated technical knowhow, and operational abilities in order to provide solutions at the best levels. This has not only been positively reflected on bolstering Saudi Re competitive position, but had also led to consolidate its leading position in the adjacent markets when the Company was able in less than 10 years to show a strong presence in 40 competitive markets in the Middle East, Asia and Africa, achieving a remarkable growth rates during this 10 years estimated at 38% compound growth rate. This growth is geared to the trust of our customers, partners and our sound financial position.

In 2017, Saudi Re ventured into Lloyd's market through the successful acquisition of 49.9% of Probitas Bermuda Holding ordinary shares. We believe this will further diversify Saudi Re investments and underwriting portfolio and also develop its technical expertise.

Going forward, Saudi Re is poised for its next chapter of growth. We are evolving to expand steadily in new lines of business and new territories. At the local level, the market carries favorable future perspective which accompany the strong launch of the Saudi economy according to the Kingdom vision 2030 as part of



the comprehensive national program, when the insurance industry will witness further improvement and development of performance and services in the Saudi insurance market through modern systems.

Saudi Re remains focused on executing its strategy which is centered on profitable growth and diversified revenue streams and book of business to deliver sustainable profitability and maximize shareholders value.

In 2017, the Board of Directors has proposed to the Extraordinary General Assembly to reduce share capital for the purpose of capital restructuring and write off accumulated losses and support future growth, which was approved on 1/1/2018.

The financial performance was positive in 2017, marking another good year for Saudi Re. The Net profit before Zakat grew by 110% reaching SAR 38.9 million in 2017 compared to SAR 18.5 million in the previous year. Gross Premium Written was maintained at SAR 942 million in 2017 compared to SAR 986 million in the previous year, while the income from investments increased by 110% recording SAR 51.9 million in 2017 compared to SAR 24.1 million in the previous year. Saudi Re financial position remains strong with total assets of the company kept above SAR 2.6 billion by end of 2017, compared to SR 2 billion at the end of the previous year, which is one of the most important strengths of the company that contributed to maintaining the BBB + rating with a stable outlook from Standard & Poor's credit rating.

Saudi Re performed a number of corporate activities in 2017. The Extraordinary General Assembly of the shareholders approved the amendment of the company's Article of Association to align with the new Law as well as the Corporate Governance Policy. In addition, the election process for a new term of the Board of Directors took place. In this context, I would like to thank Mr. Mohmoud Jamil Hassoubah for his contribution during his membership in the Board and at the same time welcome Mr. Mohammed Al-Otaibi who joined the Board bringing aboard a wealth of experience in the financial field.

Also, I would like to thank those who have contributed to the continued success of Saudi Re, including clients and business partners for their trust in the company, as well as all regulatory bodies especially the Saudi Arabian Monetary Authority (SAMA) for their for its pioneering role in organizing, developing and settling the insurance and reinsurance sector in the Kingdom. I would also like to acknowledge the role of the Board of Directors, the management and staff of the company

Finally, while expressing the board's appreciation and gratitude to our valued shareholders for their for continued support and trust vested in the company, we would like to reaffirm that Saudi Re is well equipped and determined to make further progress to reinforce our competitive position, satisfy our clients and deliver the value our shareholders aspire.

Sincerely,

Hesham Al-Shaikh

**BOARD OF
DIRECTORS**



Mr. Hesham Al-Shaikh
Chairman of The Board

Mr. Hesham Al-Shaikh joined Saudi Re as a Non-Executive Board Member in 2011, and he serves as the Chairman of the board, in addition to his role as the Chairman of the Executive Committee and the Chairman of the Investment Committee of the Company. Currently he sits on the Board of Probitas Holding Company (Bermuda), the Saudi Civil Aviation Holding Company, Watan First Financial Institute, and Ashmore Saudi Arabia Investments. He has more than 25 years of experience in the Banking and Investments sectors during which he assumed various leading positions most of it was at the Arab National Bank in Saudi Arabia. Mr. Al-Shaikh has Bachelor's degree in Business Management specialized in Applied Mathematics and Economics from California University in USA.



Mr. Mishari Al-Hussain
Vice Chairman of The Board

Mr. Mishari Al-Hussain joined Saudi Re as an Independent Board Member in 2009, he serves as the Vice Chairman of the Board, and the Chairman of the Nomination and Remuneration Committee and a member of the Investment Committee of the Company. Currently he sits on the Board of the Saudi Investment Bank, as well as in a number of other Companies in the fields of Nutrition, Real-estates development and Training and Education. He has more than 35 years of experience in the Banking and Financial sectors during which he assumed various leading positions concluding with the role of the Managing Director of Al-Jazira Bank in Saudi Arabia. Mr. Al-Hussain has Bachelor's degree in Business Administration from Oregon State University in USA.



Mr. Ahmad Sabbagh
Member of The Board

Mr. Ahmad Sabbagh joined Saudi Re as a Non-Executive Board Member in 2008, he served as the Chairman of the Audit Committee from 2009 to 2015, and currently he serves as a member of the Nomination and Remuneration Committee, and the Risk and Underwriting Committee of the Company. Moreover, he's the General Manager of the Islamic Insurance Company in Jordan and also he considered as one of its founders and a former member of its Board of Directors, also he's a member of the Board of Trustees of the Arab Insurance Institute. He has more than 45 years of experience in the Insurance and Reinsurance industry during which he assumed various leading positions, such as being the President of the International Federation of Takaful and Islamic Insurance Companies for 6 years. Mr. Sabbagh has Bachelor's degree in Business Administration from Beverly Hills University California in USA.



Mr. Ismail Mahbob
Member of The Board

Mr. Ismail Mahbob joined Saudi Re as an Independent Board Member in 2012, he serves as a member in the Audit Committee and the Risk and Underwriting Committee of the Company. Currently he's a Board Member of the Export-Import Bank of Malaysia and the Bank of Tokyo-Mitsubishi UFJ (Berhad). He has more than 35 years of experience in the Insurance and Reinsurance industry during which he assumed various leading positions in the Asian market in Malaysia during which he held the position of the CEO of the National Malaysian Reinsurance Company and the position of the Vice President of Labuan Reinsurance Company. Mr. Mahbob has a High Diploma from the Chartered Institute of Marketing (CIM) in UK, and an Association degree from the Malaysian Institute of Finance.



Mr. Mansour Al-Bosaily
Member of The Board

Mr. Mansour Al-Bosaily joined Saudi Re as a Non-Executive Board Member in 2012, he serves as a member of the Executive Committee and the Nomination and Remuneration Committee of the Company. Currently he's the Chairman of the HSBC Saudi Arabia Company, and a Board Member of Saudi Ground Services Company, Amlak International Company, Jabal Omar Development Company and United Electronics Company (Extra). He has more than 30 years of experience in Banking and Legal Affairs sectors, as he was the Executive Director of the Legal Affairs Department and the Secretary-General of the Saudi British Bank (SABB). Mr. Al-Bosaily has Bachelor's degree in Law & Systems from King Saud University in Saudi Arabia



Mr. Hammam Badr
Member of The Board

Mr. Hammam Badr joined Saudi Re as a Non-Executive Board Member in 2013, he serves as a member of the Nomination and Remuneration Committee and the Risk and Underwriting Committee. Currently he's the Chairman and the Managing Director of Iskan Insurance Company in Egypt. He has more than 40 years of experience in the Insurance and Reinsurance industry in the international market during which he assumed various leading positions in Companies in Cairo, Bahrain, New-York and London, he was the Chairman and the Managing Director of the Egyptian Reinsurance Company, and also he was the Chairman and the Managing Director of Al-Sharq Insurance Company in Egypt. Mr. Badr has Master's degree in Insurance from Cairo University in Egypt.



Mr. Jean-Luc Gourgeon
Member of The Board

Mr. Jean-Luc Gourgeon joined Saudi Re as a Non-Executive Board Member in 2011, he serves as the Chairman of the Risk and Underwriting Committee, and a member of the Executive Committee. Currently he's a Board Member of Probitas Holding Company (Bermuda), and the Deputy CEO of Mamda Re in Morocco, also he's the Founder and CEO of his own Company, Jean-Luc Gourgeon Ltd. He has more than 30 years of experience in Insurance and Reinsurance Industry, as he was the General Manager of Everest Re Europe in UK and the CEO of Paris Re in France. Mr. Gourgeon has Master's degree with honor in Mechanics Science from Ecole Centrale de Lyon, Claude Bernard University in France, INSA Lyon. He also holds a political science degree of Institut d'Etudes Politiques de Paris.



Mr. Mohamad Al-Otaibi
Member of The Board

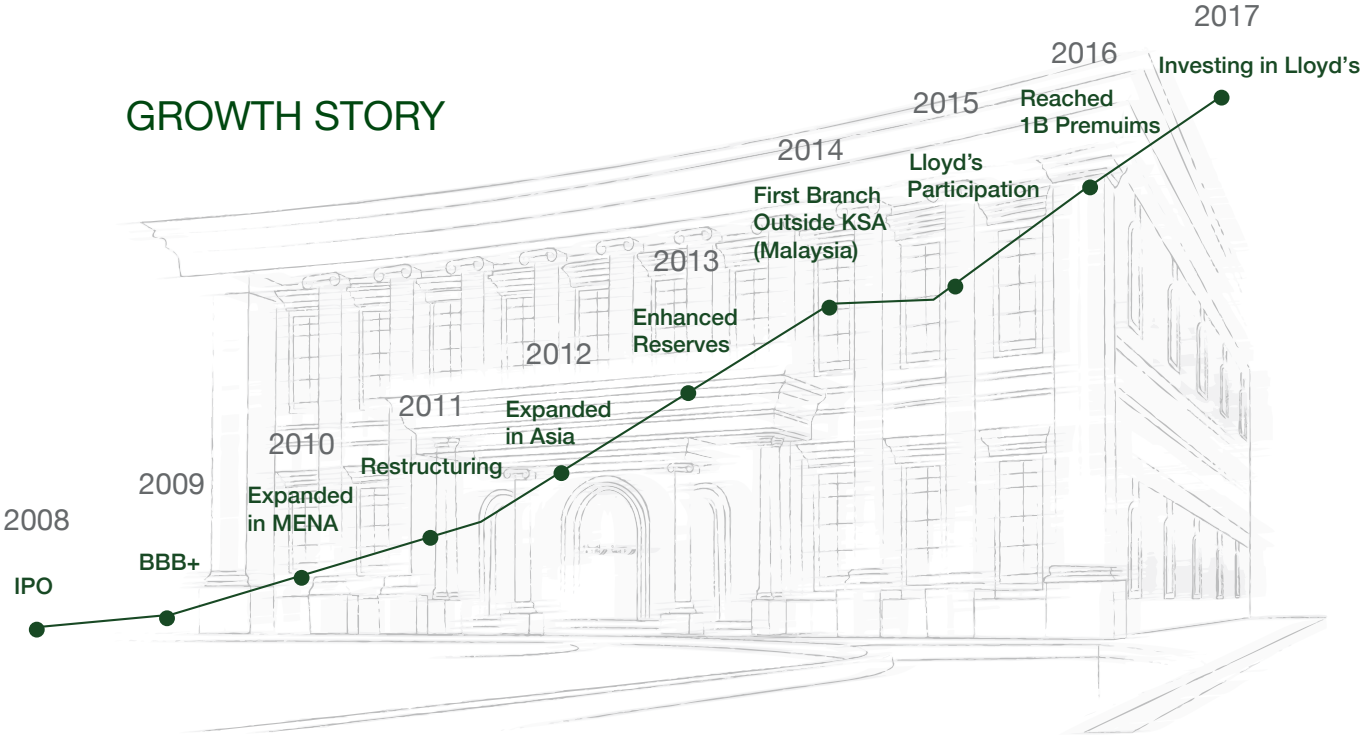
Mr. Mohamad Al-Otaibi joined Saudi Re as an Independent Board Member in May 2017, and he serves as a member of the Investment Committee of the Company. He's the Chairman of the National Gas and Industrialization Company (GAZCO) in Saudi Arabia. Currently he sits on the Board of Riyadh Bank, Al Yamamah Steel Industries Company, and Abdulla Saad Abo Moati For Bookstore Company. He has more than 30 years of experience in Banking and Marine Shipping Industry during which he assumed different leading positions, last of which was the Acting CEO of the National Shipping Company of Saudi Arabia (Bahri). Mr. Al-Otaibi has MBA specialized in Finance from Western Michigan University, also he holds AMP from Harvard University in USA.



Mr. Fahad Al-Hesni
Managing Director/CEO

Mr. Fahad Al-Hesni joined Saudi Re as an Executive Board Member in 2011, and he serves as the Managing Director and the Chief Executive Officer, in addition to his membership of the Executive Committee and the Investment Committee of the Company. Currently he's a Board Member of Probitas Holding Company (Bermuda). Moreover, a member of the International Insurance Society (IIS), the Vice Chairman of the Reinsurance Committee and a member of the Executive Committee of the Gulf Insurance Federation (GIF). He has more than 20 years of experience in the Insurance and Reinsurance industry during which he assumed various leading positions in the fields of Business Development, Underwriting and Claims Management. Mr. Al-Hesni has Master's degree in Insurance & Risk Management from City University of London and an Association degree from the Chartered Insurance Institute (CII) in UK.

GROWTH STORY



DIRECTORS REPORT

**FOR THE FINANCIAL YEAR ENDING DEC
31/12/ 2017
SAUDI REINSURANCE COMPANY (SAUDI RE)**

DIRECTORS REPORT

FIRST: SIGNIFICANT PLANS, RESOLUTIONS, OPERATING ACTIVITIES, PROSPECTS AND RISKS

Nearly ten years ago, Saudi Re embarked on its growth journey with undivided focus on developing its technical and operational capabilities, attracting and qualifying competent human cadres, building a brand image of reliable partner and targeting profitable growth opportunities to achieve the aspirations of its shareholders. The journey featured key milestones which contributed to a successful growth trajectory, starting from obtaining the first reinsurance license in the Kingdom and the successful IPO, to the early expansion in the markets of the Middle East and North Africa, and the subsequent entry into the Asian markets and the setup of a branch in Malaysia. Furthermore, an important milestone signifying Saudi Re internationalization was the entry into Lloyd's market initially through third party capital provision and recently through direct investment. The effort Saudi Re has exerted throughout this growth story have successfully resulted in building a well-diversified portfolio nearing a billion Riyals, placing Saudi Re among the largest reinsurers in the Middle East. Looking ahead, a new growth chapter is unfolding for Saudi Re, for which it has prepared a clear strategy capitalising on its accumulated experience and strong competitive position, and driven by a strong desire for achievement, centering shareholders' interest at the heart of its attention.

DIRECTORS REPORT

First: Significant Plans, Resolutions,
Operating activities, Prospects and Risks:

1. SIGNIFICANT BOARD RESOLUTIONS

- Modification the organizational structure of the company to support the execution of the corporate strategy
- Approval of amendment of the Article of Association in alignment with the new Corporate Law and proposal of it to the General Assembly for voting
- Appointment of the Chairman of Board of Directors, Vice Chairman and restructuring of the Board Committees following the election of the Board for term of three years ending in 2020
- Update of the Corporate Governance Policy, the Board Committees Charters, Remuneration Policy, and proposing them to the General Assembly for voting
- Recommendation to the General Assembly to reduce the company capital for the purpose of restructuring of the capital to writing off the accumulated losses and support the future growth of the company after obtaining the required regulatory approvals and appoint the related advisors
- Approval to purchase 49.9% of the ordinary shares of Probitas Holdings (Bermuda) Limited (PHBL) and signing off memorandum of understanding and subsequently a shareholder agreement which is in line with the company strategy to enter into Lloyd's market to support the expansion plan of the company
- Approval of a number of frameworks, policies, procedures which included Risk Appetite Policy, Investment Management Policy, Compliance Policy, Anti-Money Laundering and Terrorism Combating Policy, Remuneration Policy, Succession Planning Policy, Risk Management Framework and Policy, Business Continuity Framework and Policy, and Cyber Security Strategy, Framework and Policy.
- Approval of the 2018 Budget and Business Plan
- Approval of the structure of the retrocession program for 2017/2018.
- Approval to underwrite and renew the participation in a reinsurance program in Lloyd's market for the year 2018 and proposing to the General Assembly to vote on related party contracts associated with the program
- Approval of the Financial Condition Report submitted by the appointed actuary of 2016 financial year

2. OPERATING ACTIVITIES

2.1 Marketing and Sales

During 2017, Saudi Re aimed at maintaining an economically efficient book of business with optimal level of risk diversification and geographical spread to ensure sustainable earnings. Despite the competitive landscape, Saudi Re wrote SAR 942 million gross premium in 2017 compared to SAR 985 million in the previous year. Business was successfully generated from more than 43 markets in the Middle East, Asia and Africa, marking a well distributed geographical presence. Looking closer at the representation of the main sectors, the Saudi market represented 54% of the portfolio followed by the Asian market which grew to represent 23%, while Middle East reflected 12% and the African market 3%. It is worth noting that Saudi Re is showing progress in new markets such as Lloyd's which represented 8% of the gross premium written in 2017.

Noting the importance of improving the interaction with clients and partners, Saudi Re launched a new client relationship management approach in 2017 with the objective of developing the business relationship with current and potential clients and partners and support growth plans. In addition, Saudi Re was actively engaged in the main regional and international industry events and was a lead sponsor of the fourth edition of the Saudi Insurance Symposium.

2.2 Underwriting & Claims

The underwriting performance was solid in 2017 which registered an improved in net claims ratio of 70% compared to 80% in the previous year, a sign of the effectiveness of the prudent underwriting policy and the scrutinized risk selection approach applied by Saudi Re. The reinsurance operations posted a positive result of SAR 37 million in 2017.

2017 also witnessed the execution of a number of initiatives geared toward further developing the technical performance of Saudi Re. Among these initiative was adopting the reunderwriting approach which ensures a systematic pre-renewal examination of the risks and close assessment of the terms and pricing which led to reduced capacity to underperforming accounts to ensure positive results. Furthermore, the retrocession protection was restructured to lessen the exposure of large risks exceeding the approved risk appetite limits, which started to bear fruits.

DIRECTORS REPORT

First: Significant Plans, Resolutions,
Operating activities, Prospects and Risks:

In addition, during 2017 the underwriting management continued to focus on developing and enhancing the pricing tools for both general as well as life and health lines of business, and launched a new version of property pricing tool. In general, Saudi Re continued its strategy in investing to develop its technical capabilities and managing accumulation and concentration risks and exposure to natural catastrophes to protect its underwriting portfolio and sustain favorable results.

2.3 Manpower and Training

Saudi Re considers the development of its human resources among its strategic priorities and strives to achieve the highest level of professionalism in service delivery to its clients and partners. In 2017, Saudi Re continued to carry on the "Saudi Re Development Program" (SRDP) in association with a recognized training provider with the aim to develop the technical know-how of Saudi Re staff and help them to attain the required professional qualifications, in addition to training programs in various fields and skills locally and abroad.

As part of Saudi Re's role in developing the local reinsurance industry, "Saudi Re" recorded a nationalization ratio of 60.3% by the end of 2017 and received a high green rating in the Nationalization Program "Nitaqat". Additionally, structural amendments were made at the beginning of the year to coincide with the company's strategy, growth requirements and productivity.

2.4 Information Systems

During 2017, Reinsurance and Financial systems have been enhanced to be ready to process the newly introduced Value Added Tax starting from 1st January 2018. In continuation of the efforts of managing and withstanding cyber security threats, Saudi Re has established an independent function for information security. Moreover, Saudi Re has started the implementation of the Cyber Security Framework issued by SAMA in 2017 altogether with an online security awareness program for all the staff. Further more, To enhance the company business continuity capabilities, the secondary data center has been transferred to Al-Khobar from Riyadh. For the purpose of improving services provided to our clients and increasing company's efficiency, Saudi Re performed a number of projects to streamline and automate many processes within Reinsurance system, HR system and the company internal portal, in addition to introducing a customer management system.

2.5 General Developments

Saudi Re maintained its rating of BBB+ with a stable outlook in addition to obtaining gcAA+ Gulf Cooperation Council (GCC) regional scale rating with a stable outlook from Standard & Poor's.

The company obtained the Saudi Arabian Monetary Authority approval to renew the company reinsurance license.

3. BUSINESS PROSPECTS

The business plan for toward 2020 was designed in line with the overall strategic approach adopted by Saudi Re which focuses on improving the competitive position of Saudi Re through the accurate identification and penetration of the high potential segments of the markets and the careful selection of risks to lead to achieving positive technical results while maintaining balance in the book of business.

The reinsurance business is subject to external factors which show prospects for continued stiff competition in the marketplace with indications of possible decline in the demand in markets witnessing economic slowdown or geopolitical issues. In addition, the performance of the financial markets may not experience rapid improvement in the near future which will reflect on the investment results of the company. On the regulatory front, the new regulations are expected to serve as a growth driver in the Saudi insurance market, which is considered the core market for Saudi Re and consequently this may lead to improving the performance levels of Saudi Re. the new regulations include the reinforcement of the mandatory motor third party liability, the effect women driving motor vehicles, the expansion of health insurance to cover Saudis, and the introduction of a the risk based supervision framework by the Saudi Arabian Monetary Agency (SAMA).

Moreover, Saudi Re plans to continue its efforts in building its technical capabilities with emphasis on underwriting, pricing, claims management, risk management, reserving and actuarial services. Saudi Re aims at capitalizing on its capabilities in growing the business profitably while maintaining a prudent underwriting policy.

DIRECTORS REPORT

First: Significant Plans, Resolutions,
Operating activities, Prospects and Risks:

4. CURRENT AND FUTURE RISKS

The Board sets the Company's risk appetite, risk tolerance, strategic planning and business plans, and the business is managed through the Board of Directors, Board sub-Committees and the Management team.

The Board establishes and monitors the Company's internal control system to ensure the adequacy and effectiveness of the Company's risk management.

As per the external auditors note (32) of the financial statements, the company is exposed to risks relating to reinsurance, retrocession, claims management, reserving, credit, liquidity, currency, market, special commission rate, capital management, fair value of the financial instruments and Regulatory framework.

The internal annual review of the risk in 2017 identified the following current and future risks:

4.1 Reinsurance Risk

Reinsurance risks include accumulation, concentration, catastrophe exposure, and increased frequency and severity of claims. It can be mitigated through the diversification of accepted risk, implementation of underwriting guidelines, and the use of retrocession protection.

4.2 Retrocession Risk

It refers to the failure of retrocessionaires to fulfill their obligations including defaulting the claims payments due from them. Retrocession risk is controlled by a robust selection process that considers diversification of reinsurance sources as well as the financial position and credit rating of the reinsurers.

4.3 Claims Management Risk

Claims management risk may arise in mainly in the event of inaccurate or incomplete case reserves and claims settlements. A dedicated claims management department works within set policies and procedures to ensure that claims are managed in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business' broader interests.

4.4 Claim Reserving Risk

Risk occurs where established insurance liabilities are insufficient due to inaccurate projection. To manage reserving risk, the actuarial team uses a range of recognized techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances

4.5 Credit Risk

This risk arises from the default of counterparties such as retrocessionaires, cedents, brokers and debt issuer. This risk is controlled through a set of measures including selection process, financial position, legal status, etc. Also, it is controlled through establishing close relationships, continuous monitoring and follow up.

4.6 Liquidity Risk

It refers to the unavailability of funds required to meet the company financial obligations, and also loss due to the liquidation of investments. To limit the impact of this risk, the company periodically monitors the liquidity requirements and also adopts an investment policy that sets out controls to manage the liquidity risk.

4.7 Currency Risk

The company is exposed to the currency risk due to fluctuation in exchange rates of foreign currencies in relation to investments or underwriting commitments in foreign currencies. To limit the impact of this risk, the company periodically monitors the currency risk to manage the currency risk.

4.8 Market Risk

Market risk refers to the likelihood of losses which could result from the operation of market forces and result in shrinkage in capital. Market risk exposure for Saudi Re arises mainly from the investment portfolio, Interest Rate Risk, Equity risk, economic instability, such as change of oil prices. Risks arising from the above are managed by the Investment Policy Statement that is approved by the Board.

4.9 Legal and Regulatory Compliance Risks

The company is required to be in compliance with legal and regulatory requirements for regulatory bodies such as, Saudi Arabian Monetary Agency, Saudi Capital Market Authority and the Ministry of Commerce and Investment. The company applies a strict compliance policy and has in place a dedicated compliance department reporting to the Audit Committee.

4.10 Cyber Risk

It is the exposure of Saudi Re operations, organizational assets, individuals, other organizations, and the Nation, to unauthorized access, use, disclosure, disruption, modification or destruction of information and/or information systems. Saudi Re uses different policies, security concepts, guidelines, and risk management approaches to protect Saudi Re's information assets against internal and external threats. To manage those risks Saudi Re trained all the employees to identify the methods of those attacks and how to handle them in a professional manner



First Reinsurance company in the Kingdom

Saudi Re was established as the first specialized reinsurance company in the Kingdom, taking advantage of its presence in one of the world's highest growth insurance markets and within an economy currently ranked among the top 20 largest economies. Saudi Re has strived to create a strong national reinsurance industry with the aim of backing the insurance sector, increasing retention of reinsurance premiums, exporting its services to attract reinsurance premiums to the Kingdom, and reinforcing the strong image of the Kingdom in the international markets. Being the only specialized reinsurer in the Kingdom constitutes a competitive advantage for Saudi Re the fact that offered opportunities for growth and development. Saudi Re has capitalized on this advantage in addition to other advantages to in building a strong entity and developing a foundation of local business that has been a stepping stone for expansion into regional and global markets.

DIRECTORS REPORT

SECOND: OPERATING RESULTS AND SIGNIFICANT DIFFERENCES

DIRECTORS REPORT

Second: Operating Results and Significant Differences



1. STATEMENT OF FINANCIAL POSITION FOR THE PAST FIVE YEARS

	In Thousand Saudi Riyals				
	Dec 31 2017	Dec 31 2016	Dec 31 2015	Dec 31 2014	Dec 31 2013
REINSURANCE OPERATIONS ASSETS					
Cash and cash equivalents	53,494	42,892	61,026	1,455	5,269
Time deposits	58,003	67,552	35,218	13,125	-
Accrued special commission income from time deposits	869	1,070	72	-	-
Premiums receivable, net	358,871	181,957	195,142	112,739	70,493
Investments held at fair value through income statement	106,316	93,447	73,707	124,912	95,329
Accrued insurance premiums	372,088	262,340	440,824	220,186	164,869
Retroceded share of unearned premiums	117,679	3,758	7,363	2,080	2,344
Deferred excess of loss premiums	14,300	17,517	17,390	17,312	15,717
Retroceded share of outstanding claims	165,839	110,650	60,497	105,140	104,888
Deferred acquisition costs	100,345	81,705	94,148	63,512	54,446
Prepaid expenses, deposits and other assets	103,964	49,276	91,222	28,113	1,069
Due from shareholders' operations	144,462	152,114	130,783	188,020	173,316
Property and equipment, net	2,286	3,403	5,456	6,269	7,337
Total Reinsurance Operations Assets	1,598,516	1,067,711	1,212,848	882,863	695,077
SHAREHOLDERS' ASSETS					
Cash and cash equivalents	31,738	27,950	31,917	26,568	85,674
Time deposits	-	112,457	118,849	-	37,500
Accrued special commission income from time deposits	3	2,191	540	70	1,040
Accrued special commission income from bonds and Sukuk	3,831	4,144	2,221	3,704	3,295
Investments held at fair value through income statement	758,752	724,579	687,580	732,672	595,180
Investments in an associate	91,954	-	-	-	-
Held to maturity investments	-	-	-	145,470	173,995
Prepaid expenses and other assets	228	45	406	64	115
Statutory deposit	100,000	100,000	100,000	100,000	100,000
Return on investment of statutory deposit	13,128	10,242	7,592	7,037	5,623
Property and equipment, net	31,250	32,110	32,999	33,521	32,992
Total Shareholders' Assets	1,030,884	1,013,718	982,104	1,049,106	1,035,414
Total Assets	2,629,400	2,081,429	2,194,952	1,931,969	1,730,491

DIRECTORS REPORT

Second: Operating Results and Significant Differences



	In Thousand Saudi Riyals				
	Dec 31 2017	Dec 31 2016	Dec 31 2015	Dec 31 2014	Dec 31 2013
REINSURANCE OPERATIONS LIABILITIES					
Accounts Payable	16,648	18,217	10,102	22,618	8,143
Retrocession balances payable	229,764	51,920	14,927	4,173	7,615
Accrued retroceded premiums	7,891	76	354	1,129	4,463
Gross unearned premiums	461,489	306,479	502,998	238,458	215,025
Gross outstanding claims	861,053	680,014	674,120	609,842	424,277
Unearned commission income	7,542	848	1,807	750	811
Premium Deficiency Reserve	-	-	-	-	26,167
Accrued expenses and other liabilities	5,743	3,906	4,185	2,480	5,923
Employees' end of service benefits	5,729	3,958	3,165	2,481	1,721
Total Reinsurance Operations Liabilities	1,595,859	1,065,418	1,211,658	881,931	694,145
Reinsurance Operation Surplus					
Accumulated surplus	2,657	2,239	1,190	932	932
Total Reinsurance Operations Liabilities and surplus	1,598,516	1,067,711	1,212,848	882,863	695,077
Shareholders' Liabilities And Equity					
SHAREHOLDERS' LIABILITIES					
Accounts Payable	-	-	-	-	500
Provision for zakat and income tax	37,431	39,728	39,419	35,442	33,185
Due to reinsurance operations	144,462	152,114	130,783	188,020	173,316
Accrued expenses and other liabilities	7,070	6,303	2,174	1,182	1,018
Deferred return on investment of statutory deposit	13,128	10,242	7,592	7,037	5,623
Total Shareholders' Liabilities	202,091	208,417	179,968	231,681	213,642
SHAREHOLDERS' EQUITY					
Share capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Statutory reserve	6,071	6,071	6,071	6,071	6,071
Other reserves	(1,962)	-	-	-	-
Accumulated deficit	(175,316)	(200,770)	(203,935)	(188,646)	(184,299)
Total Shareholders' Equity	828,793	805,301	802,136	817,425	821,772
Total Shareholders' Liabilities And Equity	1,030,884	1,013,718	982,104	1,049,106	1,035,414
Total Reinsurance Operations Liabilities, and surplus Shareholders' Liabilities and Equity	2,629,400	2,081,429	2,194,952	1,931,969	1,730,491

DIRECTORS REPORT

Second: Operating Results and Significant Differences

2. RESULTS OF OPERATIONS FOR THE PAST FIVE YEARS

	In Thousand Saudi Riyals				
	Dec 31 2017	Dec 31 2016	Dec 31 2015	Dec 31 2014	Dec 31 2013
Gross written premiums	942,007	985,510	804,826	556,290	420,086
Retroceded premiums	(274,514)	(5,582)	(12,177)	(6,101)	(6,449)
Excess of loss expenses	(30,571)	(41,744)	(37,857)	(35,595)	(27,817)
Net written premiums	636,922	938,184	754,792	514,594	385,820
Change in net unearned premium	(41,088)	192,914	(259,257)	(23,697)	(96,057)
Net earned premiums	595,834	1,131,098	495,535	490,897	289,763
Net claims incurred	(419,114)	(908,631)	(339,483)	(401,011)	(300,257)
Premium deficiency reserve	-	-	-	26,167	(26,167)
Gross acquisition costs and profit commissions	(146,126)	(164,692)	(114,533)	(103,811)	(83,330)
Commissions earned on retroceded business	11,258	2,982	2,774	1,948	3,437
Supervision and Inspection fees	(4,710)	(4,928)	(4,024)	(2,781)	(2,100)
Net acquisition costs	(139,578)	(166,638)	(115,783)	(104,644)	(81,993)
Surplus / (deficit) from reinsurance operations	37,142	55,829	40,269	11,409	(118,654)
Special commission income from deposits	1,783	2,106	202	70	-
Realized gains / (losses) on investments held at fair value through income statement	188	99	(73)	226	39
Unrealized gains on investments held at fair value through income statement	3,931	2,358	1,325	2,431	658
Other Income	1,075	922	216	59	102
Investment management expenses	(505)	(344)	(315)	(240)	(191)
General and administrative expenses	(38,874)	(38,059)	(36,545)	(23,061)	(21,036)
Foreign exchange losses	(1,097)	(11,875)	(2,501)	(291)	(522)
Net Surplus / (deficit) from reinsurance operations	3,643	11,030	2,578	(9,397)	(139,604)
Shareholders appropriation from reinsurance operations (surplus)/deficit	(3,279)	(9,927)	(2,320)	9,397	139,604
Reinsurance operations surplus after Shareholders appropriation	364	1,103	258	-	-
Accumulated surplus at beginning of the year	2,293	1,190	932	932	932
Accumulated surplus at the end of the year	2,657	2,293	1,190	932	932
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year from reinsurance operation	364	1,103	258	-	-

DIRECTORS REPORT

Second: Operating Results and Significant Differences



	In Thousand Saudi Riyals				
	Dec 31 2017	Dec 31 2016	Dec 31 2015	Dec 31 2014	Dec 31 2013
Shareholders Operations					
Investment Revenues	55,450	22,667	7,795	40,120	54,781
Other Income	-	-	3	248	-
Investment management expenses	(8,947)	(2,803)	(3,001)	(3,077)	(2,311)
General and administrative expenses	(7,854)	(9,851)	(5,272)	(14,947)	(13,309)
Board of directors' remunerations, meetings fees and expenses	(3,002)	(1,576)	(1,648)	(1,558)	(335)
Foreign exchange translation (losses) / gains	(38)	100	(91)	(550)	1,124
Shareholders appropriation from reinsurance operations Surplus / (deficit)	3,279	9,927	2,320	(9,397)	(139,604)
Net Income / (loss) for the year	38,888	18,464	106	10,839	(99,654)

DIRECTORS REPORT

Second: Operating Results and Significant Differences



3. NOTES ON THE REINSURANCE OPERATION'S VARIANCES WITH PRIOR YEAR

	In Thousand Saudi Riyals			
	Dec 31 2017	Dec 31 2016	Variance + or (-)	Change %
Gross written premiums	942,007	985,510	(43,503)	-4%
Retroceded premiums	(274,514)	(5,582)	(268,932)	4818%
Excess of loss expenses	(30,571)	(41,744)	11,173	-27%
Net written premiums	636,922	938,184	(301,262)	-32%
Change in net unearned premium	(41,088)	192,914	(234,002)	-121%
Net earned premiums	595,834	1,131,098	(535,264)	-47%
Net claims incurred	(419,114)	(908,631)	489,517	-54%
Gross acquisition costs and profit commissions	(146,126)	(164,692)	18,566	-11%
Commissions earned in retroceded business	11,258	2,982	8,276	278%
Supervision and Inspection fees	(4,710)	(4,928)	218	-4%
Net acquisition costs	(139,578)	(166,638)	27,060	-16%
Surplus from reinsurance operations	37,142	55,829	(18,687)	-33%
Special commission income from time deposits	1,783	2,106	(323)	-15%
Realized gains on investments held at fair value through income statement	188	99	89	90%
Unrealized gains on investments held at fair value through income statement	3,931	2,352	1,579	67%
Other Income	1,075	922	153	17%
Investment management expenses	(505)	(344)	(161)	47%
General and administrative expenses	(38,874)	(38,059)	(815)	2%
Foreign exchange losses	(1,097)	(11,875)	10,778	-91%
Net surplus from reinsurance operations results	3,643	11,030	(7,387)	-67%
Shareholders appropriation from reinsurance operations surplus	(3,279)	(9,927)	6,648	-67%
Reinsurance operations surplus after Shareholders appropriation	364	1,103	(739)	-67%
Accumulated surplus at beginning of the year	2,293	1,190	1,103	93%
Accumulated surplus at end of the year	2,657	2,293	364	16%
Other comprehensive income	-	-	-	-
Total comprehensive income for the year from reinsurance operation	364	1,103	(739)	-67%

DIRECTORS REPORT

Second: Operating Results and Significant Differences

4. MAIN LINES OF BUSINESS AND RESULTS

Saudi Re conducts business on facultative and treaty reinsurance basis in Saudi Arabia, MENA countries Asia and Africa with its head office in Riyadh, Saudi Arabia and its branch in Labuan, Malaysia. The company comprises business units based on its services and products as detailed in the following table:

	In Thousand Saudi Riyals 2017								
	Engineering	Fire	Marine	Motor	General Accident	Protection	Specialty	Others	Total
Gross premiums written	77,540	201,208	47,262	113,589	75,981	56,149	68,105	302,174	942,007
Retroceded premiums	(6,255)	(24,627)	(14,284)	-	(14,800)	(136)	-	(214,412)	(274,514)
Excess of loss expenses	(7,159)	(13,812)	(720)	(106)	(1,113)	(1,721)	-	(5,941)	(30,571)
Net premiums written	64,126	162,769	32,259	113,482	60,068	54,293	68,105	81,821	636,922
Change in net unearned premium	3,388	(9,605)	1,432	(9,946)	(5,511)	(589)	(12,987)	(7,269)	(41,088)
Net premiums earned	67,513	153,164	33,690	103,536	54,557	53,704	55,118	74,552	595,833
Net claims incurred	(48,579)	(114,888)	(24,674)	(77,655)	(27,522)	(54,708)	(42,528)	(28,560)	(419,114)
Gross acquisition costs and profit commissions	(22,922)	(48,865)	(12,232)	(10,693)	(15,817)	(5,621)	(22,438)	(7,538)	(146,126)
Commissions on retroceded business	1,243	4,022	1,453	-	1,659	9	-	2,872	11,258
Supervision and Inspection fees	(388)	(1,006)	(236)	(568)	(380)	(281)	(341)	(1,511)	(4,710)
Net Acquisition costs	(22,066)	(45,849)	(11,015)	(11,261)	(14,539)	(5,892)	(22,778)	(6,177)	(139,578)
Net (deficit)/ Surplus from reinsurance operations	(3,132)	(7,574)	(1,999)	14,620	12,496	(6,896)	(10,189)	39,814	37,142

DIRECTORS REPORT

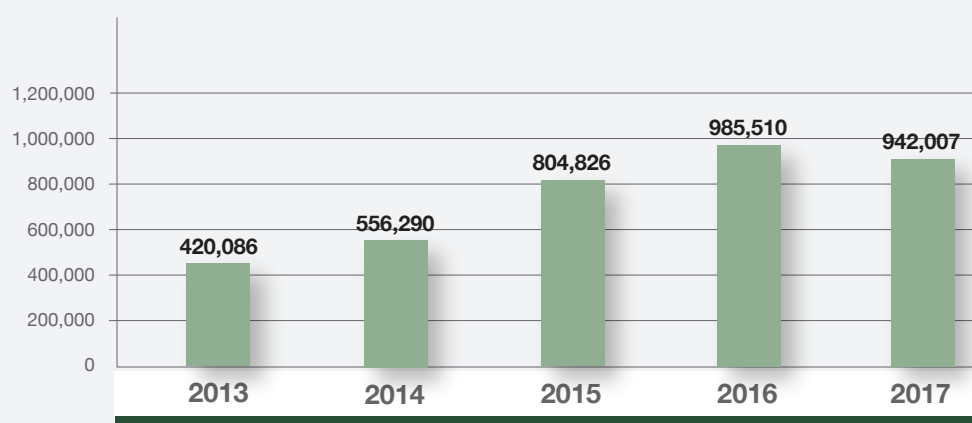
Second: Operating Results and Significant Differences



5. WRITTEN PREMIUMS AND GEOGRAPHIC ANALYSIS

Gross written premiums written decreased by 4% in 2017 to SR 942,007 thousand from SR 985,510 thousand in 2016.

The following graph indicates the gross premiums written during the period 2013-2017 (in thousand Saudi Riyals).



Gross Premium

The following table displays the distribution of written premiums over major business segments: (In Thousands Saudi Riyals)

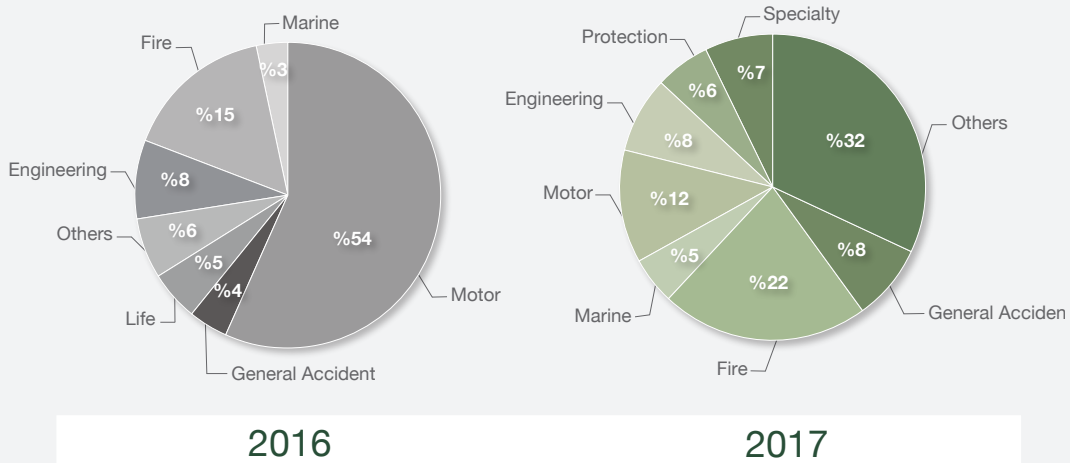
Segment	2017	2016	Variance + or (-)	Change %
Engineering	77,540	81,357	(3,817)	-5%
Fire	201,208	142,788	58,420	41%
Marine	47,262	32,854	14,408	44%
Motor	113,589	530,949	(417,360)	-79%
General Accidents	75,981	42,053	33,928	81%
Protection	56,149	48,467	7,682	16%
Specialty	68,105	44,594	23,511	53%
Others	302,173	62,448	239,725	384%
Total	942,007	985,510	(43,503)	-4%

DIRECTORS REPORT

Second: Operating Results and Significant Differences



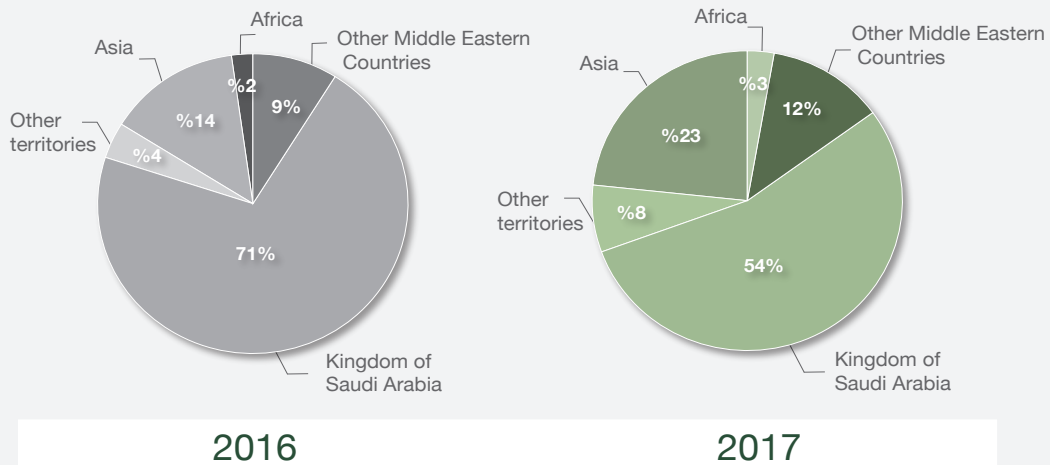
Gross Written Premiums



Geographical analysis of gross premiums written, (In thousand Saudi Riyals).

Geographical segment	2017		2016	
	%	GWP	%	GWP
Kingdom of Saudi Arabia	54%	509,970	71%	702,453
Other Middle Eastern Countries	12%	110,254	9%	87,071
Africa	3%	31,615	2%	17,932
Asia	23%	221,262	14%	133,460
Other territories	8%	68,906	4%	44,594
Total	100%	942,007	100%	985,510

Geographical Analysis of Gross Written Premiums



DIRECTORS REPORT

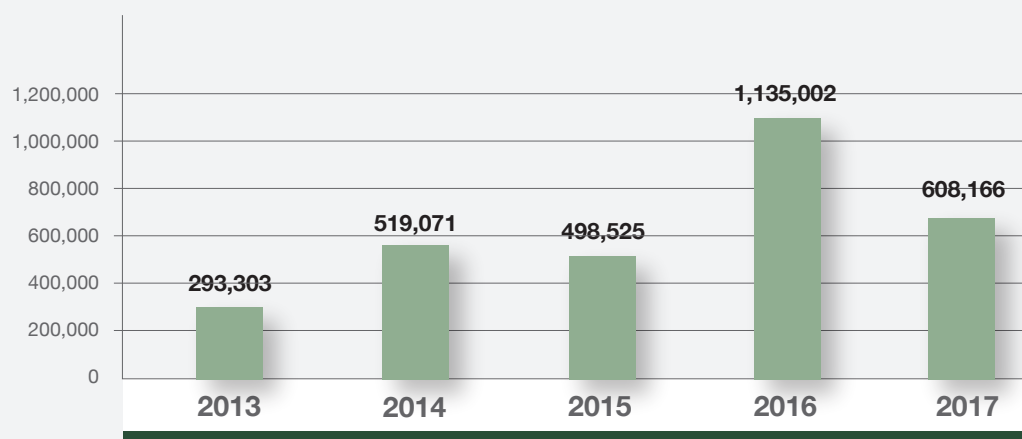
Second: Operating Results and Significant Differences



6. TOTAL UNDERWRITING REVENUES

Total underwriting revenue decreased by 46% to SR 608,166 thousand in 2017 from SR 1,135,002 thousand in 2016 main contribution to this was the decrease in net earned premiums by 47%.

The following diagram shows the total revenues from 2013-2017 (in thousand Saudi Riyals).



Total Revenues

The following are the details of underwriting revenues (In thousand Saudi Riyals).

Revenues	2017	2016	Variance + or (-)	Change %
Net earned premiums	595,833	1,131,098	(535,265)	-47%
Commission earned on retroceded business	11,258	2,982	8,276	278%
Return on Standby Letter of Credit for participation in A Lloyd Syndicate	1,075	922	153	17%
Total	608,166	1,135,002	(526,836)	-46%

Geographical analysis of underwriting revenues (In Thousands Saudi Riyals)

Geographical segmet	2017	2016	Variance + or (-)	Change %
Within Kingdom of Saudi Arabia	249,075	901,792	(652,717)	-72%
Outside Kingdom Of Saudi Arabia	359,091	233,210	125,881	54%
Total	608,166	1,135,002	(526,836)	-46%

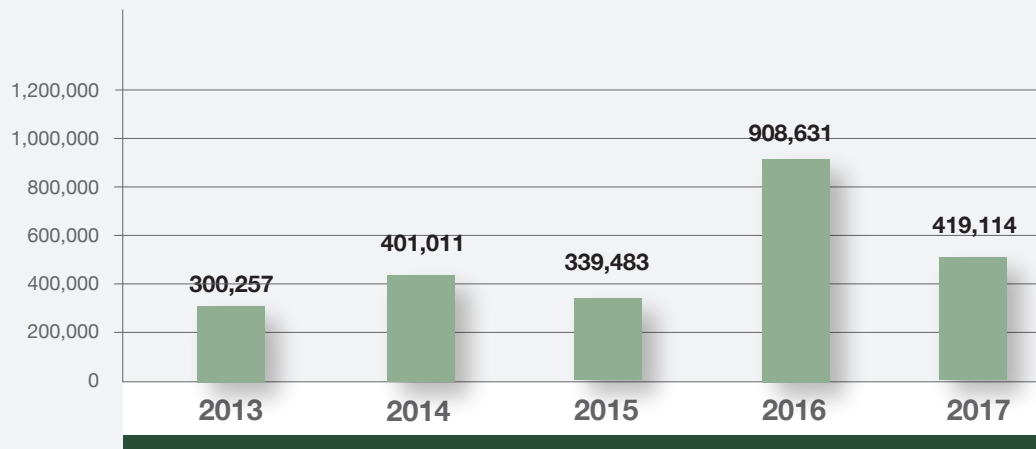
DIRECTORS REPORT

Second: Operating Results and Significant Differences

7. NET INCURRED CLAIMS

The net claims incurred after deduction of reinsurers share decreased by 54% to SR 419,114 thousand in 2017 from SR 908,631 thousand in 2016.

The following diagram shows the net claims incurred from 2013-2017 (in thousand Saudi Riyals).



Net Claims Incurred

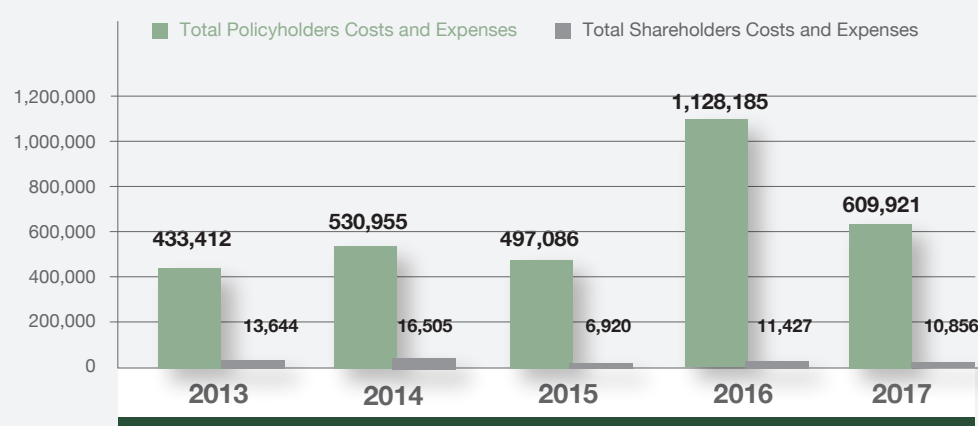
DIRECTORS REPORT

Second: Operating Results and Significant Differences

8. TOTAL COSTS AND EXPENSES

Total costs and expenses for policyholders' operations decreased by 46% to SR 609,921 thousand in 2017 from SR 1,128,185 thousand in 2016 due mainly to the decrease in net incurred claims as mentioned in (f) above. While the total costs and expenses for shareholders' operations decreased by 5% to SR 10,856 thousand in 2017 from SR 11,427 thousand in 2016.

The following are the details of costs and expenses for policyholders' operations (In Thousand Saudi Riyals)



Total costs and Expenses

Following the details of costs and expenses for policyholders' operations (In Thousand Saudi Riyals)

Policyholders operations costs and expenses	2017	2016	Variance + or (-)	Change %
Net claims incurred	419,114	908,631	(489,517)	-54%
Gross acquisition costs and profit commissions	146,126	164,692	(18,566)	-11%
Supervision and inspection fees	4,710	4,928	(218)	-4%
General and administrative expenses	38,874	38,059	815	2%
Foreign exchange losses	1,097	11,875	(10,778)	-91%
Total	609,921	1,128,185	(518,264)	-46%

Following the details of costs and expenses for shareholders' operations (In Thousand Saudi Riyals)

Shareholders operations costs and expenses	2017	2016	Variance + or (-)	Change %
General and administrative expenses	7,854	9,851	(1,997)	-20%
Board of directors remunerations, meetings fees and expenses	3,002	1,576	1,426	90%
Total	10,856	11,427	(571)	-5%

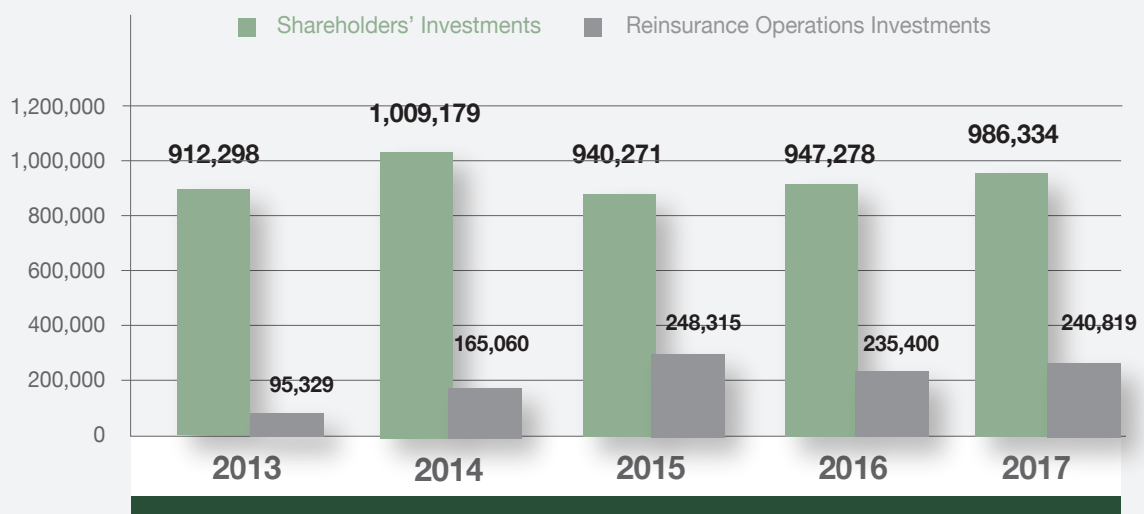
DIRECTORS REPORT

Second: Operating Results and Significant Differences

9. TOTAL INVESTMENTS

Total shareholders' investments were SR 986,334 thousand in 2017 compared with SR 947,278 thousand in 2016, a rise by 4%. The total reinsurance operations investments were SR 240,819 thousands in 2017 compared with SR 235,400 thousands in 2016, a rise by 2%.

The following Graph shows total investments during the period 2013-2017 (in thousand Saudi Riyals)



Total Investments

DIRECTORS REPORT

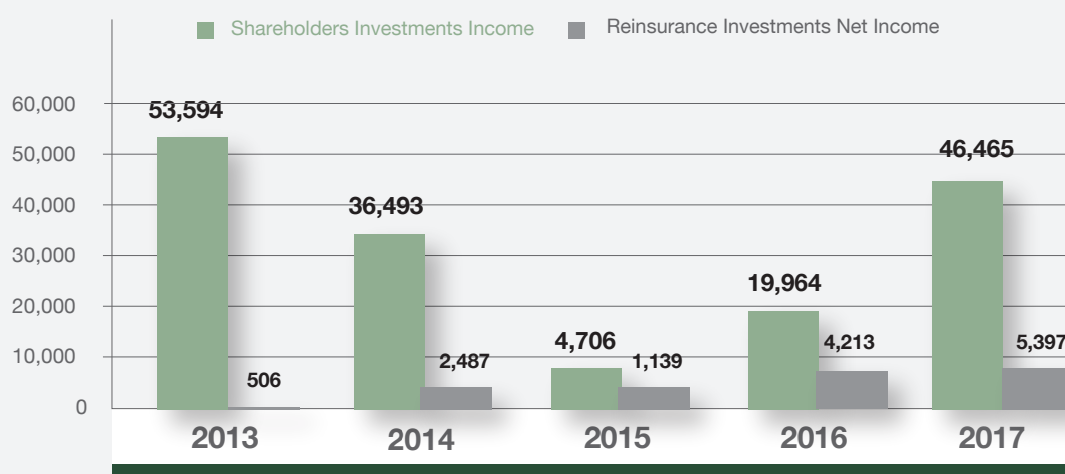
Second: Operating Results and Significant Differences

10. NET INVESTMENTS INCOME

The net Income generated from investments of reinsurance funds, net of investment management expenses were SR 5,397 thousand in 2017 as compared with SR 4,213 thousand in 2016, an increase by 28%.

As such as the net income generated from shareholders' fund investments, net of investment management expenses was SR 46,465 thousand in 2017 as compared with SR 19,964 thousand in 2016, a rise of 133%. This is due to the upturn of the financial markets during 2017.

The following graph shows the Investments net income during 2013-2017 (in thousand Saudi Riyals).



Net Investments Income

Geographical analysis of Net investments income (in thousand Saudi Riyals).

Geographical segment	2017		2016	
	Reinsurance operations investments net income	Shareholders investments net income	Reinsurance operations investments net income	Shareholders investments net income
Within the Kingdom of Saudi Arabia	2,746	13,146	2,004	6,083
Outside the Kingdom of Saudi Arabia	2,651	33,319	2,209	13,881
Total	5,397	46,465	4,213	19,964

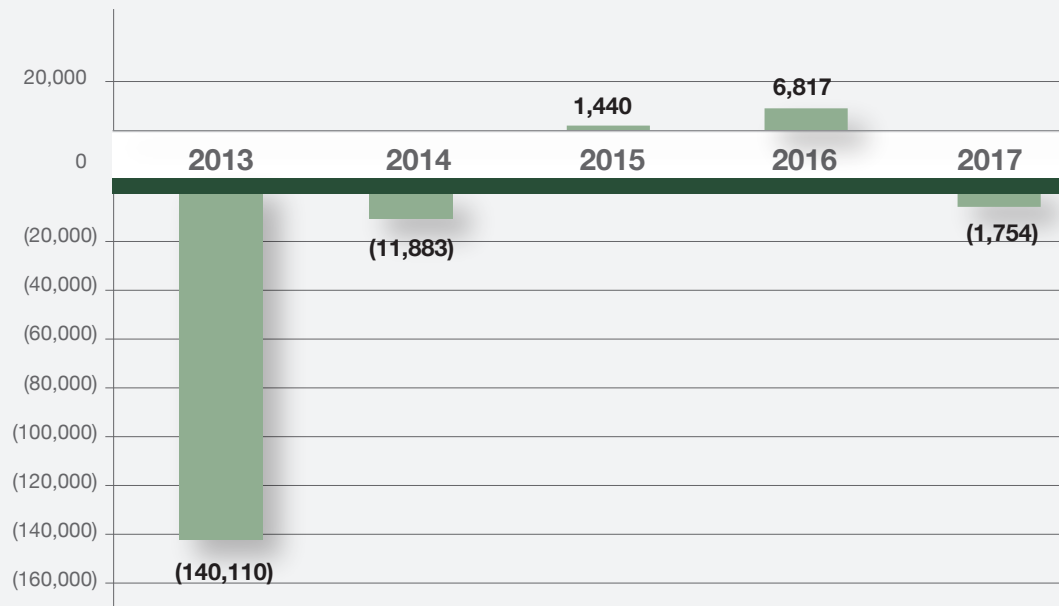
DIRECTORS REPORT

Second: Operating Results and Significant Differences

11. (DEFICIT) / SURPLUS FROM REINSURANCE OPERATIONS

Reinsurance operations before investment returns posted a deficit of SR 1,754 thousand during 2017 as compared with a surplus of SR 6,817 thousand in 2016. This is due to a decrease in net earned premiums by 47%.

The following graph shows the (deficit) / surplus in reinsurance operations during 2013-2017 (in thousand Saudi Riyals).



(Deficit) / Surplus in Reinsurance Operations

DIRECTORS REPORT

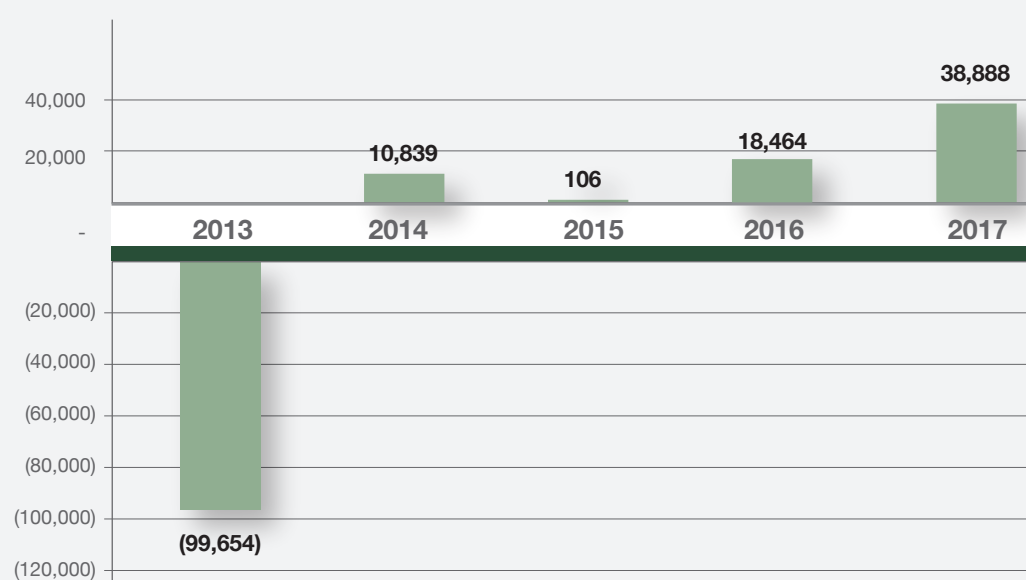
Second: Operating Results and Significant Differences

12. NET INCOME / (LOSS) FROM SHAREHOLDERS' OPERATIONS

Shareholders' operations recorded a net income of SR 38,888 thousand in 2017 as compared to a net income of SR 18,464 thousand in 2016, an increase of 111%. This increase in income is attributed mainly to an increase in shareholders investments net income by 133%

The following diagram indicates total net income from shareholders operations during the period 2013-2017

(in thousand Saudi Riyals).



Net Income / (Loss) from Shareholders Operations

Statement of Shareholders Operations during the Period 2013-2017

In Thousand Saudi Riyals	2017	2016	2015	2014	2013
Investment Revenues	55,450	22,667	7,795	40,120	54,781
Other Income	-	-	3	248	-
Investment Management expenses	(8,947)	(2,803)	(3,001)	(3,077)	(2,311)
General and administrative expenses	(7,854)	(9,851)	(5,272)	(14,947)	(13,309)
Board of directors' remunerations, meetings fees and expenses	(3,002)	(1,576)	(1,648)	(1,558)	(335)
Foreign exchange translation (losses) / gains	(38)	100	(91)	(550)	1,124
Shareholders appropriation from reinsurance operations Surplus/(deficit)	3,279	9,927	2,320	(9,397)	(139,604)
Net Income/(Loss) for the year	38,888	18,464	106	10,839	(99,654)

DIRECTORS REPORT

Second: Operating Results and Significant Differences



13. TOTAL COMPREHENSIVE INCOME/(DEFICIT)

Total comprehensive income was SR 36,926 thousand in 2017 as compared with an income SR 18,464 thousand in 2016. an increase of 100%.

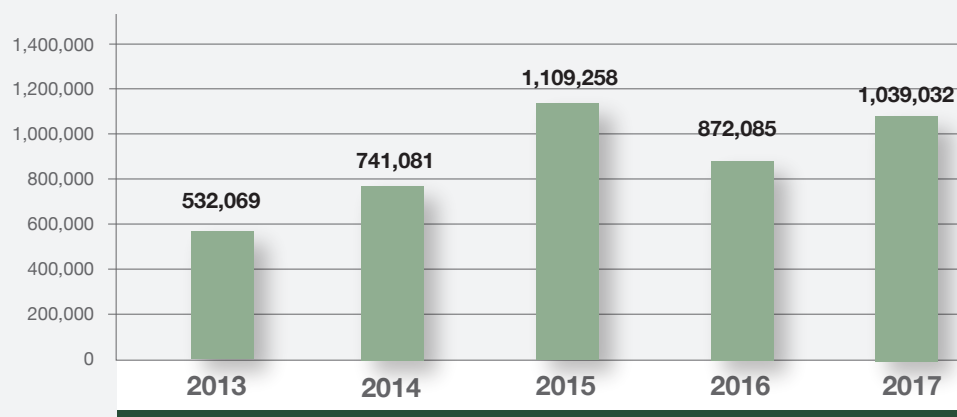
Statement of Shareholders Comprehensive Operations during the Period 2013-2017

In Thousand Saudi Riyals	2017	2016	2015	2014	2013
Net income / (loss) for the year	38,888	18,464	106	10,839	(99,654)
Other comprehensive income	(1,962)	-	-	-	-
Total comprehensive income / (Loss) for the year	36,926	18,464	106	10,839	(99,654)

14. TECHNICAL RESERVES

Technical reserves increased Net by 19% to SR 1,039,023 thousand in 2017 from SR 872,085 thousand in 2016.

The following diagram depicts the technical reserves during the period 2013-2017 (in thousand Saudi Riyals)..



Technical Reserves

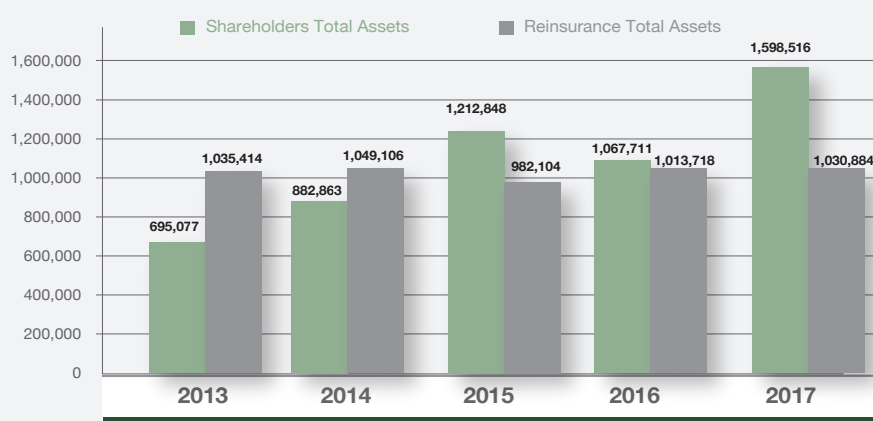
DIRECTORS REPORT

Second: Operating Results and Significant Differences

15. ASSETS

Assets increased by 26% to SR 2,629,400 thousand in 2017 from SR 2,081,429 thousand in 2016. Reinsurance operation assets totaled to SR 1,598,516 thousand in 2017 as opposed to SR 1,067,711 thousand in 2016, and total shareholders assets were SR 1,030,884 thousand in 2017 as opposed to SR 1,013,718 thousand in 2016.

The following diagram depicts assets during the period 2013-2017 (in thousand Saudi Riyals).



Total Assets

16. DIVIDEND POLICY

Due to the accumulated losses, the Company will not pay dividends. The Company dividends policy aims to achieve suitable returns to the Company's shareholders in one or more of the following:

1. Distribution of cash dividends to the shareholders taking into consideration the financial position of the company, solvency margin requirements, available credit lines and the general economic situation.
2. Stock dividends taking into consideration the requirements and conditions related to retained earnings and other stock holder's equity in the balance sheet.
3. Shareholders who are registered at the end of trading before of the General Assembly at which dividend preminent is approved will be entitled for the dividends.
4. Dividends will be paid in accordance with the dates specified by the Board of Directors.

As per the Company's Article of Association, Dividends will be paid based on a General Resolution on the following steps:

1. Zakat and Income tax will be set aside.
2. 10% of the net profits are set aside to for statutory reserves. The General Assembly may stop allocation to the Statuary Reserves once the reserve is equal to 30% of the capital.
3. Subject to General Assembly resolution, the Company may allocate a percentage of the net profit to create an additional reserve to support the financial position of the company.
4. The remaining profits will be distributed to the shareholders as Dividends or it may be transferred to the retained earnings.
5. The Board of Directors may decide to pay interim dividends that will be deducted from the annual dividends specified in 4 above in accordance with applicable rules issued by the concerned regulators.

NOTE:

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.



Market

Since its inception in 2008, the strategic approach of Saudi Re has evolved around on developing a diversified book of business, targeting profitable and growing markets, and building long-term and mutually rewarding relationships with clients and brokers. Despite being a new entrant to an already competitive marketplace, Saudi Re has managed to successfully position itself in more than 40 markets across the Middle East, Asia and Africa, and has recently entered to the Lloyd's market in the UK. Naturally, the Kingdom is Saudi Re's home market, yet international business represents about 45% of its portfolio, the fact that reinforces the portfolio diversity and balance. This rapid expansion and noticeable progress were enabled by Saudi Re's strong financial position, technical capabilities and its proximity to promising markets.

DIRECTORS REPORT

**THIRD: OBLIGATIONS, DISCLOSURES
AND DECLARATIONS ACCORDING
TO THE REGULATIONS**

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

1. COMPLIANCE WITH RULES AND REGULATIONS

In general, the Company complied in 2017 with the laws and regulations applicable in Saudi Arabia. These include:

- Laws and regulations issued by CMA.
- Laws and regulations issued by SAMA, including The Corporate Governance Regulation.
- Zakat and Income Tax Regulations issued by the Zakat and Income Tax Department.
- Labor Law issued by the Ministry of Labor.
- The Company Law issued by the Ministry of Commerce and investment

2. COMPLIANCE WITH CORPORATE GOVERNANCE REGULATIONS

During 2017, the Company was in compliance with stipulations indicated in the Corporate Governance Regulations except for the following:

Article	Article Description	Reasons
Article 25/4	The Board shall form the Executive Management of the Company, regulate its operating procedures, monitor and oversee it and ensure that it performs the duties assigned to it, and to achieve this, the Board: 4) Appoint the manager of the internal audit unit or department, or the internal auditor and dismiss him and determine his remuneration, if any;	It is conflicted with Audit committee regulations which issued by SAMA article No. 49

3. General Assembly Meetings

During the year 2017, the Company held two General Assembly meetings as detailed below:

- The General Assembly meeting dated 23/04/2017 was chaired by Mr. Hesham Al-Shaikh (Chairman of the Board) and was attended by Mr. Mishari Al-Mishari (Vice- Chairman), Mr. Mansour Al-Bosaily, Mr. Hammam Badr , Mr. Ismail Mahbob, Mr. Mahmoud J Hassoubah, Mr. Ahmad Sabbagh and Mr. Fahad Al-Hesni (MD-CEO)
- The General Assembly meeting dated on 24/05/2017 was headed by Mr. Hesham Al-Shaikh (Chairman of the Board) and was attended by Mr. Mishari Al-Mishari (Vice Chairman), Mr. Mohamad Al-Otaibi, Mr. Ahmad Sabbagh and Mr. Fahad Al-Hesni (MD-CEO)

4. THE PROCEDURES THAT THE BOARD TOOK TO INFORM THEIR MEMBERS OF THE INVESTORS SUGGESTIONS

The Investor Relations function in Saudi Re has collated and analyzed the suggestions and comments received from the shareholders thru the interaction via communication channels or the general assembly meetings and submitted the findings to the Board of Directors.

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

5. COMPOSITION OF THE BOARD OF DIRECTORS, DIRECTOR CATEGORIES AND MEMBER SHIPS ON BOARDS OF OTHER JOINT STOCK COMPANIES FOR EACH DIRECTOR

Category*	Term	Name	Other Joint Stock Companies of which the Directors are Board Members	Type
Non-Executive Director	Renewed from 11/05/2017 To 10/05/2020	Mr. Hesham AL-Shaikh Chairman of the Board of Directors	Ashmore Investment KSA	Private Company
			Saudi Civil Aviation Holding Company	Governmental Company
			Probitas Holdings (Bermuda) Ltd	Closed Joint – Stock Company
			Watan First Institute	Limited Company
			Bank AlJazira (Previous)	Joint Stock Company
			Arab National Bank (Previous)	Joint Stock Company
Independent Director	Renewed from 11/05/2017 To 10/05/2020	Mr. Mishari AL-Mishari Vice Chairman	Saudi Investment Bank	Joint Stock Company
			Doroob for Education and Training company	Governmental company
			Hana Water Company	Private Company
			Enwanuk Real Estate Development Company	Private Company
			Saudi Fund for Development (Previous)	Governmental
			Aloula Real Estate Development Company (Previous)	Closed Joint – Stock Company
			Sadan National Limited (Previous)	Closed Joint – Stock Company
			Bank AlJazira (Previous)	Joint stock Company
Non-Excutive Director	Renewed from 11/05/2017 To 10/05/2020	Mr. Ahmad Sabbagh	Islamic Insurance Company (Jordan)	Limited Joint Stock Company
			Contempro For Housing Projects P.L.C	Joint stock Company
			Tunisia Takaful Insurance Company - Tunisia	Joint Stock Company
			Al Aman Takaful Insurance – Beirut (Previous)	Closed Joint – Stock Company
			The International Federation of Takaful and Islamic Insurance Companies – Sudan (Previous)	Federation
			The Islamic Insurance Company – Jordan (Previous)	Joint Stock Company

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

Non-Executive Director	Renewed from 11/05/2017 To 10/05/2020	Mr. Jean-Luc Gourgeon	Jean-Luc Gourgeon Company	Limited Company
			Probitas Holdings (Bermuda) Ltd	Closed Joint – Stock Company
			Probitas Corporate capital limited	Closed Joint – Stock Company
			Probitas Holdings UK Ltd.	Closed Joint – Stock Company
			Probitas 1492 Services Ltd.	Closed Joint – Stock Company
			Paris Re Holdings Ltd – France (Previous)	Limited Company
			GTT Company - France (Previous)	Joint stock Company
			Cunningham Lindsey Group - USA (Previous)	Limited Company
			Paris Diderot University - France (Previous)	Governmental
French reinsurance association - France (Previous)	Governmental			
Non-Executive Director	Renewed from 11/05/2017 To 10/05/2020	Mr. Hammam Badr	Iskan Insurance Company (Egypt)	Closed Joint – stock Company
			Housing & Real Estate Investment Company	Closed Joint – Stock Company
			Data & Transaction Services Company - (Egypt)	Closed Joint – Stock Company
			Egyptian Reinsurance Company – Egypt (Previous)	Governmental Company
			Al-Shrq Insurance Company – Egypt (Previous)	Governmental Company
Non-Executive Director	Renewed from 11/05/2017 To 10/05/2020	Mr. Mansour Al-Bosaily	United Electornics Company	Joint Stock Company
			Jabal Omar Development Company	Joint Stock Company
			HSBC KSA	Closed Joint – Stock Company
			Saudi Ground Services Company	Joint Stock Company
			Amlak International	Closed Joint – Stock Company

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

Independent Director	Renewed from 11/05/2017 To 10/05/2020	Mr. Ismail Mahbob	Export-Import Bank of Malaysia	Governmental Company
			Bank of Tokyo Mitsubishi UFJ (Malaysia) Berhad	Subsidiary
			MNRB Retakaful Berhad (Previous)	Subsidiary
Independent Director	Elected From 11/05/2017 To 10/05/2020	Mr. Mohamad Al-Otaibi	Al Yamamah Steel Company	Joint - stock Company
			Abo Moati Company	Joint - stock Company
			Riyad Bank	Joint - stock Company
			National Gas and Industrialization Company (GASCO)	Joint - stock Company
			United Arab Company for Flat Glass (Previous)	Closed Joint – Stock Company
			Middle East Shipment Company – Emirate (Previous)	Limited Company
			NSCSA AMERICA – USA (Previous)	Limited Company
			Bahri Company (Previous)	Limited Company
			National Chemical Carriers Ltd. Co (Previous)	Limited Company
			West of England Company (Previous)	Limited Company
Executive Director	Renewed from 11/05/2017 To 10/05/2020	Mr. Fahad Al-Hesni	International Shipowners Re (Previous)	Limited Company
			Probitas Holdings (Bermuda) Ltd.	Closed Joint – Stock Company
			Probitas Holdings UK Ltd	Closed Joint – Stock Company
			Probitas 1492 Services Ltd	Closed Joint – Stock Company

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

6. RESPONSIBILITIES OF THE BOARD OF DIRECTORS:

- Providing strategic guidance to the Company, including setting objectives and formulating strategic plans.
- Supervising the implementation of strategic plans and major transactions.
- Approving key policies and procedures and regularly reviewing and updating them.
- Establishing and monitoring the Company's internal control system and ensuring its adequacy and effectiveness.
- Establishing and monitoring a risk management system, where risks are assessed, managed, and monitored on a continuous basis.
- Selecting and changing (if needed) executives in key positions, and ensuring that the Company has an appropriate replacement policy for their replacement by an appropriate alternative with the necessary skills and eligibility for the office.
- Supervising Senior Management and monitoring the Company's performance against the performance objectives set by the Board.
- Ensuring the integrity of the Company's accounting and financial reporting system and the appropriateness of its disclosure process.
- Ensuring that the interests of the policyholders are being protected at all times.
- Promoting higher standards of corporate governance and ensuring compliance with applicable laws and regulations at all times.
- Promoting a culture of good corporate governance and high ethical standards.
- Granting Audit committee the appropriate level of authority to investigate any matter within its mandate and shall ensure that the internal audit function is autonomous and is granted full access to all the information it needs to conduct its activities. In addition, the Board should take all necessary measures to ensure the responsiveness of Senior Management to internal auditors' queries and recommendations.

7. ATTENDANCE RECORD OF BOARD MEETINGS DURING 2017

Member	1st Meeting 12/02 2017	2nd Meeting 23/04 2017	3rd Meeting 01/05 2017	4th Meeting 02/05 2017	5th Meeting 24/05 2017	6th Meeting 15/06 2017	7th Meeting 13/07 2017	8th Meeting 28/07 2017	9th Meeting 22/10 2017	10th Meeting 10/12 2017	Total
Mr. Hesham Al-Shaikh	present	present	present	present	present	present	absent	absent	present	present	8
Mr. Mishari Al-Mishari	present	present	present	present	present	present	present	present	present	present	10
Mr. Ahmad Sabbagh	present	present	present	present	present	present	present	present	present	present	10
Mr. Jean-Luc Gourgeon	present	present	present	present	absent	present	present	present	present	present	9
Mr. Hammam Badr	present	present	present	present	present	present	present	present	present	present	10
Mr. Mansour Al-Bosaily	present	present	present	present	present	present	present	present	present	present	10
Mr. Ismail Mahbob	present	present	present	present	present	present	present	present	present	present	10
Mr. Mohamad Al-Otaibi ¹	-	-	-	-	present	present	present	present	absent	present	5
Mr. Mahomoud J Hassoubah ²	present	present	absent	absent	-	-	-	-	-	-	2
Mr. Fahad Al-Hesni	present	present	present	present	present	present	present	present	present	present	10

¹ Mr. Mohamad Al-Otaibi joined on 11/05/2017

² Mr. Mahmoud Hassoubah left on 10/05/2017

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

8. BOARD COMMITTEES

8.1 Executive Committee

The General Assembly shall approve, based on proposals by the Board of Directors, the rules for the selection of Executive Committee members, the term of their membership and the method of the Committee work.

The duties and responsibilities of the executive Committee should include the following:

- Exercising the full powers and prerogatives of the Board between Board meetings and while the Board is not in session in cases where a quick action or resolution is required or warranted, except that the Committee shall not have the power to act in lieu of the full Board in any matter in respect of which the delegation of powers is prohibited under applicable law or that requires the approval of the Company's shareholders or is specifically assigned to another committee of the Board.
- Reviewing the details of the Company's business strategy and making recommendations to the Board for approval.
- Reviewing the details of the Company's work plans and budget and regularly monitor the progress of the work plan and budget.
- Oversee the activities of the Chief Executive Officer of the Company.
- Supporting the Chief Executive Officer on an ad hoc basis to address specific needs or requirements.
- Reviewing alliance, mergers, acquisition and other strategic agreements and making recommendations to the Board for approval.
- Taking any other action or assuming any other powers and responsibilities that may from time to time be assigned or delegated to it by the Board.

2017 EXECUTIVE COMMITTEE MEETINGS

BOD Member Name	1st Meeting 12/02/2017	2nd Meeting 15/03/2017	3rd Meeting 23/04/2017	4th Meeting 22/10/2017	5th Meeting 26/11/2017	6th Meeting 10/12/2017	Total
Mr. Hesham Al-Shaikh (Chairman)	present	present	present	present	present	present	6
Mr. Fahad Al-Hesni (CEO/MD - Member)	present	present	present	present	present	present	6
Mr. Jean-Luc Gourgeon (Member)	present	present	present	present	present	present	6
Mr. Hammam Badr ¹ (Member)	present	present	present	-	-	-	3
Mr. Mansour Al-Bosaily (Member)	present	present	present	present	present	present	6

¹ Mr. Hammam Badr left the Executive Committee on 10/05/2017

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

8.2 Audit Committee

The General Assembly shall approve, based on proposals by the Board of Directors, the rules for the selection of Internal Audit committee members, the term of their membership and the method of the Committee work. The duties and responsibilities of the Audit Committee should include the following:

- supervising the company's internal audit department to ensure its effectiveness in executing its activities and duties specified by the Board of Directors.
- To review the internal audit procedures and prepare a written reports on such review including its recommendations.
- Reviewing audit plan of internal auditors and external auditors and make any comments thereon.
- Assessing the efficiency, effectiveness and objectivity of work performed by external auditors, internal audit department or Internal Auditor and compliance control department or Compliance officer.
- Coordinating between internal and external auditors.
- Reviewing the internal and external auditor's assessment of internal control procedures.
- Discussing the annual and interim quarterly financial statements with external auditors and Company's Senior Management before issuance thereof.
- To review the interim and annual financial statements prior to presentation to the Board of Directors; and to give opinion and recommendations with respect thereto.
- To review the accounting policies in force and advise the Board of Directors of any recommendations thereto.
- Reviewing internal financial and non-financial controls and risk management system.
- Audit Department or Internal Auditor and Head of Compliance Control Department or Compliance Officer after obtaining SAMA No Objection, their performance evaluation and remunerations for all respective staff.
- Ensuring independence of Internal Audit Department or Internal Auditor and Compliance Control Department or Compliance Officer in performing tasks, and ensuring there is no restriction in their scope of work or any impediments that might negatively affect their work.
- Reviewing related parties transactions
- Reviewing, approving and monitoring the implementation of compliance plan.
- To recommend to the Board of Directors the appointment, dismissal and the Remuneration of external auditors; taking into consideration the independence of the auditors and necessary experience in Insurance/Reinsurance sector.
- To supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.
- To review the external auditor's comments on the Financial Statements and follow up on the actions taken.
- Ensuring independence of External Auditors from Company, Board Members and Senior Management.
- Following-Up the reports issued by SAMA, and other relevant supervisory and control entities and making recommendations thereon to the Board.
- Reviewing the Actuary Reports and making recommendation thereon for the Board.
- Ensuring the Company's compliance with the Actuary's proposals and recommendations where these are mandatory and required by Regulations or SAMA instructions.
- Determining the monthly salary, bonus and other remuneration of the Internal Audit or Compliance Control Department or the Internal Auditor or Compliance Officer in accordance with the Company's internal by-laws approved by the Board.
- Ensuring the Company has written code of conducts approved by its BOD to ensure that the Company's activities are conducted in a fair and ethical manner.
- Following Up on important lawsuits filed by or against Company and submitting periodical reports Thereon to the Boards.

DIRECTORS REPORT

Third: Obligations, Disclosures and
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- Ensuring optimal use and control of information technology necessary to generate reliable information and data is in place.
- Reviewing Reports of Compliance Control Department or Compliance Officer and Internal Audit Reports and pursue the implementation of the recommended corrective measures and make necessary recommendation to Board.
- Reviewing the comments of SAMA and other relevant supervisory and control entities related to any regulatory violation or corrective actions requested and making recommendations thereon for the Board.
- Monitoring the activities of compliance department and ensuring that company's compliance with SAMA, CMA and other laws & regulations.
- Authority to investigate any activity within its terms of reference and have access to any information it may need.

Profiles of member of Audit Committee

Ali Al-Qahtani: Mr. Ali Al-Qahtani joined the Audit Committee in 2011 as an external independent member and become the Chairman of the committee in 2016. Mr. Al-Qahtani has 20 years of experience in the in the fields of Accounting, Finance within Mr. Al-Qahtani held the position of Vice President of Financial Affairs Unit in Tawuniya Insurance Company from 2007 to 2011. Mr. Al-Qahtai now currently assume the position of Vice President of Common Services in Saudi Arabian Mining Company. Mr. Al-Qahani received his Bachelor degree in Accounting from King Saud University and obtained an association ship from the Saudi Organization for Certified Public Accountants.

Hisham Al-Akil: Mr. Hisham Al-Akil joined the Audit Committee in 2016 as an external independent member. Mr. Al-Akil enjoys more than 13 years of experience in the Banking and Finance sector, during which Mr. Al-Akil occupied positions in Banking and Insurance supervision within the Saudi Arabian Monterey Agency. Mr. Al- Akil now currently assume the position of the Chief Financial Officer in Albilad Capital Company. Mr. Al-Qahani received his Master degree in Accounting from the University of Illinois and obtained an association ship from the the American Institute of Certified Public Accountant in addition he is completed the Strategic Financial Leadership program from Stanford University.

Ismail Mahbob: Mr. Ismail Mahbob joined Saudi Re as an Independent Board Member in 2012, he serves as a member in the Audit Committee and the Risk and Underwriting Committee of the Company. Currently he's a Board Member of the Export-Import Bank of Malaysia and the Bank of Tokyo-Mitsubishi UFJ (Berhad). He has more than 35 years of experience in the Insurance and Reinsurance industry during which he assumed various leading positions in the Asian market in Malaysia during which he held the position of the CEO of the National Malaysian Reinsurance Company and the position of the Vice President of Labuan Reinsurance Company. Mr. Mahbob has a High Diploma from the Chartered Institute of Marketing (CIM) in UK, and an Association degree from the Malaysian Institute of Finance.

2017 AUDIT COMMITTEE MEETINGS

BOD Member Name	1st Meeting 14/01/2017	2nd Meeting 11/2/2017	3rd Meeting 22/04/2017	4th Meeting 22/07/2017	5th Meeting 21/10/2017	6th Meeting 09/12/2017	Total meetings attended on 2017
Mr. Ali Al-Qahtani (Chairman)	present	present	present	present	present	present	6
Mr. Ismail Mahbob (Member)	present	present	present	present	present	present	6
Mr. Hisham Al-Akil (Member)	present	present	present	present	present	present	6

The current Audit Committee member have been reappointed by the General Assembly on it's meeting on 24/05/2017

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

8.3 Nomination and Remuneration Committee

The General Assembly shall approve, based on proposal by the Board of Directors, the rules for the selection of Nominations and Remuneration Committee members, the term of their membership and the method of the Committee work.

The duties and responsibilities of the Nomination and Remuneration Committee should include the following:

- Recommending to the Board appointments to membership of the Board and its committees in accordance with the approved policies and standards. The Committee shall ensure that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership.
- Preparing a description of the required capabilities and qualifications for the membership of the Board and its committees, including the time that a Board member should set aside for carrying out the duties of the Board and its committees.
- Reviewing at least annually the requirement and availability of suitable skills within the membership of the Board and recommending remedies that are in the company's best interest
- Recommending succession planning policies to the Board & Committees.
- Reviewing the structure of the Board and its committees and determining their points of weakness and recommending changes where needed.
- Assessing and monitoring the independence of the independent Board and Board Committee Members at least on an annual basis and ensuring that no conflict of interest exists in the cases where a Board member also acts as a member of the Board of another company.
- Drawing clear policies regarding the compensation, remunerations and indemnities of the Board (as approved by the general assembly) its committees, CEO and Senior Management employees based on their performance in achieving the Company's strategic objectives and risk adjusted profits.
- Ensuring that an annual review of remuneration and compensation plans for members of Senior Management¹ is conducted independently of executive management.
- Making the final recommendations to the Board with regards to selecting members of the Senior Management¹ and/or promoting current employees to Senior Management¹ positions as per SAMA's Fit and Proper rules.
- Making the final recommendations to the Board with regards to dismissing members of the Senior Management.
- Establishing a succession policy and procedure for the CEO and other key members of Senior Management¹ and monitoring the implementation of the succession plans and process.
- Evaluate the performance of the Board (overall and individual performance) and its committees in a regular basis (at least on an annual basis).
- Overseeing the induction programmers and training programs for Board Members.
- Taking any other action or assuming any other powers and responsibilities that may from time to time be assigned or delegated to it by the Board.

2017 NOMINATION AND REMUNERATION COMMITTEE MEETINGS

BOD Member Name	1st Meeting 12/02/2017	2nd Meeting 10/12/2017	Total meetings attended on 2017
Mr. Mishari Al-Mishari (Chairman)	present	present	2
Mr. Mansour Al-Bosaily (Member)	present	present	2
Mr. Hammam Badr (Member)	present	present	2
Mr. Ahmad Sabbagh (Member)	present	present	2

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

8.4 Investment Committee

The General Assembly shall approve, based on proposal by the Board of Directors, the rules for the selection of Investment Committee members, the term of their membership and the method of the Committee work.

The duties and responsibilities of the Investment Committee should include the following:

- Ensuring that the Investment Policy Statement (IPS) is prepared in line with the overall business strategy of the company as well as the regulatory guidelines.
- Obtaining Board approval for the IPS.
- Reviewing and revising the Investment Strategy on a quarterly basis taking changes in business requirements and market conditions into consideration.
- Appointment and evaluating the performance of Investment and Fund Managers.
- Recommending to the Board, the appointment and removal of Investment Advisors.
- Delegating when required execution of their decisions to a selected subcommittee and/or to the Management Team.
- Deciding the execution strategy for each segment of the investment portfolios, that is, whether the exposure in each segment will be executed via a passive or active management style, will be managed in-house or by external managers via segregated mandates or investment funds.
- Reviewing the decisions made by the Management Team and Investment Advisor (s).
- Reporting to the Board, the performance of the Company's investments in terms of risk, returns, and allocations and on any major pertinent developments.
- Taking any other action or assuming any other powers and responsibilities that may from time to time be assigned or delegated to it by the Board.

2017 INVESTMENT COMMITTEE MEETINGS

BOD Member Name	1st Meeting 16/01/2017	2nd Meeting 12/02/2017	3rd Meeting 23/04/2017	4th Meeting 28/09/2017	Total meetings attended on 2017
Mr. Hesham Al-Shaikh (Chairman)	absent	present	present	present	3
Mr. Mishari Al-Mishari (Member)	present	present	present	present	4
Mr. Mahmoud J. Hassoubah ¹ (Member)	absent	present	present	-	2
Mr. Mohamad Al-Otaibi ² (Member)	-	-	-	present	1
Mr. Fahad Al-Hesni (CEO/ MD Member)	present	present	present	present	4

¹ Mr. Mahmoud Hassoubah left on 10/05/2017

² Mr. Mohamad Al-Otaibi joined on 11/05/2017

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

8.5 Risk and Underwriting Committee

The General Assembly shall approve, based on proposal by the Board of Directors, the rules for the selection of Risk and Underwriting Committee members, the term of their membership and the method of the Committee work.

The duties and responsibilities of the Risk and Underwriting Committee should include the following

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

2017 RISK AND UNDERWRITING COMMITTEE MEETINGS

Member	1st Meeting 12/01 2017	2nd Meeting 11/02 2017	3rd Meeting 12/02 2017	4th Meeting 18/04 2017	5th Meeting 22/04 2017	6th Meeting 10/07 2017	7th Meeting 16/10 2017	8th Meeting 21/10 2017	9th Meeting 09/12 2017	Total
Mr. Jean-Luc Gourgeon (Chairman)	present	present	present	present	present	present	present	present	present	9
Mr. Fahad Al-Hesni ¹ (CEO/MD Member)	present	present	present	present	present	-	-	-	-	5
Mr. Ismail Mahbob (Member)	present	present	present	present	present	absent	present	present	present	8
Mr. Hammam Badr (Member)	present	present	present	present	present	present	present	present	present	9
Mr. Ahmad Sabbagh (Member)	present	present	present	present	present	present	present	present	present	9

¹ Mr. Fahad Al-Hesni left on 10/05/2017

DIRECTORS REPORT

Third: Obligations, Disclosures and
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9. PROFILES OF MEMBERS OF SENIOR MANAGEMENT

Fahad Al-Hesni: Mr. Fahad Al-Hesni joined Saudi Re as an Executive Board Member in 2011, and he serves as the Managing Director and the Chief Executive Officer, in addition to his membership of the Executive Committee and the Investment Committee of the Company. Also, he's a Board Member of Probitas Holding Company (Bermuda). Moreover, a member of the International Insurance Society (IIS), the Vice Chairman of the Reinsurance Committee and a member of the Executive Committee of the Gulf Insurance Federation (GIF). He has more than 20 years of experience in the Insurance and Reinsurance industry, within which he assumed different leading positions in the fields of Business Development, Underwriting and Claims Management. Mr. Al-Hesni has a Master degree in Insurance & Risk Management from City University of London and an Association Degree from the Chartered Insurance Institute (CII).

Nilmin Pieries: Chief Financial Officer / Board Secretary. Mr. Pieries joined the company in 2010 bringing more than 25 years worth of experience in the fields of Accounting, Finance, Investment, and Risk Management. Mr. Pieries also has worked in various companies in Asia, the Gulf region and the UK, through which Mr. Pieries has gained considerable experience in the insurance and reinsurance sector. Moreover, Mr. Pieries was awarded Master's Degree in Business Administration by Nottingham University in the United Kingdom and is an associate of the Chartered Institute of Management Accountants, CIMA UK.

Momen Mukhtar: Chief Underwriting Officer since 2015. Mr. Mukhtar enjoys more than 30 years of experience in the regional and international insurance and reinsurance sector. During this period, Mr. Mukhtar held various leading positions in the fields of Underwriting and Reinsurance, last of which was General Manager of Reinsurance and Technical Support in Tawuniya Insurance Company. Mr. Mukhtar obtained Bachelor degree in Commerce and Business Administration from Helwan University in Egypt.

Ahmed Al-Jabr: Chief Operating Officer. Mr Al-Jabr Joined the company in 2011 and has experience in insurance sector of more than 17 years. Mr. Al-Jabr assumed different roles within the insurance industry covering areas of human resources, strategy, business development and claims. Mr. Al-Jabr has masters' degree in Business Administration from Bradford University in the UK.

Mamraj Chahar: Chief Investment Officer since 2014. For more than 15 years, Mr. Chahar has worked in different senior positions in the Investment and Portfolio Management fields. Mr. Chahar has a Master's degree in Accounting and Business Statistics from Rajasthan University in India, and is a fellowship of Insurance Institute of India (FIII) and a Chartered Financial Analyst (CFA).

Hashim Taha: Chief Legal Affairs & Claims Officer. Mr. Taha joined the company in 2009 bringing more than 30 years worth of experience in the insurance and reinsurance industry especially in the fields of Underwriting, Claims, and Legal Affairs. Mr. Taha received his Bachelor degree in Law from Cairo University in Sudan.

Ahmed Al-Qarishi: Chief Risk Officer & Chief Actuary. Mr. Ahmed joined the company on 2014 and has experience that exceed 14 years, during which Mr. Al-Quraishi occupied positions in Banking and Insurance supervision within the Saudi Arabian Monterey Agency. Mr. Al-Quraishi has a master degree in actuarial science from Ball State University in USA, in addition he is a Fellowship of the Society of Actuaries in USA (FSA)

10. INTERESTS OF BOARD MEMBERS, THEIR WIVES, DEPENDENTS AND THEIR SUBSIDIARIES IN SHARES AND DEBT INSTRUMENTS OF THE COMPANY.

The board members, their wives and dependents or any of their subsidiaries do not have any interests in shares or debt instruments of the company other than the shareholdings mentioned in section 13.

11. PERSONS WITH INTERESTS IN ANY VOTING SHARES WHO HAS INFORMED THE COMPANY OF SUCH RIGHTS.

No person with interests in voting rights on any category of shares has notified the company of such interests.

DIRECTORS REPORT

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12. DESCRIPTION OF ANY INVESTMENTS OR RESERVES ESTABLISHED BY THE COMPANY FOR THE BENEFIT OF ITS EMPLOYEES.

The Company has not made any investments or reserves for the benefit of its employees.

13. SHAREHOLDING PERCENTAGE OF BOARD MEMBERS AND SENIOR EXECUTIVES

Name	Number of shares and debt instruments at the beginning of the year	Percentage of ownership at the beginning of the year	Net change in the number of shares during the year	Percentage of change during the year	Total shares held at year end	Percentage of holding at year end
Mr. Hesham Al-shaikh and his family (Chairman)	10,000	0.01%	0	0%	10,000	0.01%
Mr. Mishari Al-Mishari and his family (Vice-Chairman)	5,000	0.005%	0	0%	5,000	0.005%
Mr. Ahmad Sabbagh and his family (Board member)	400,000	0.4%	0	0%	400,000	0.4%
Mr. Jean-Luc Gourgeon and his family (Board member)	0	0%	0	0%	0	0%
Mr. Mansour Al-Bosaily and his family (Board member)	71,117	0.07%	0	0%	71,117	0.07%
Mr. Ismail Mahbob and his family (Board member)	0	0%	0	0%	0	0%
Mr. Fahad Al-Hesni and his family (Executive board member)	1,500	0.0015%	0	0%	1,500	0.0015%
Mr. Hammam Badr and his family (Board member)	0	0%	0	0%	0	0%
Mr. Mohamad Al Otaibi and his family (Board member)	1000	0.001%	0	0%	1000	0.001%
Mr. Nilmin Pieries and his family (CFO)	0	0%	0	0%	0	0%
Mr. Momen Mukhtar and his family (Chief Underwriter Officer)	0	0%	0	0%	0	0%
Mr. Ahmed AlJabr and his family (Chief Operating Officer)	0	0%	0	0%	0	0%
Mr. Mamraj Chahar and his family (Chief Investment Officer)	0	0%	0	0%	0	0%
Mr. Hashim Taha and his family (Chief Legal Affairs & Claims Officer)	0	0%	0	0%	0	0%
Mr. Ahmed Al- Qarishi and his family (Chief Risk Officer & Chief Actuary)	0	0%	0	0%	0	0%

DIRECTORS REPORT

Third: Obligations, Disclosures and
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14. REMUNERATIONS OF THE BOARD MEMBERS AND SENIOR EXECUTIVES

The company declares:

In thousand Saudi Riyals	BOD Members (Executives)	BOD Members (Non-Executive & Independent)	5 top Executives including CEO & CFO
Salaries & Benefits	-	-	6,782
Annual compensation	229	1,714	2,030
Meeting Fees & Expenses	79	980	-
Consultancy fees	-	346	-
Benefits in kind granted monthly or yearly	-	-	-
Total	308	3,040	8,812

The General Assembly has approved on 24/05/2017 an amended remuneration policy for the board and non-board members where the sitting fees were increased to SAR 5,000 per member for each attended meeting of the board and any board committee meeting. The company's Board directors will be paid a lump-sum amount of SAR 120,000 as an annual compensation against Board directorship and contribution to Board business. The Chairman of the Board will be paid a lump-sum amount of SAR 180,000 per year. Each Non-Board member will be paid an amount of SAR 5,000 as an attendance fee per meeting per committee, whether such member is attending physically or through any remote channel and will be paid a lump sum of SAR 90,000 per year as a compensation for contribution to the Committee functions.

DIRECTORS REPORT

Third: Obligations, Disclosures and
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15. NAME OF ALL SUBSIDIARIES COMPANIES

Name of Subsidiary Company	Paid up Capital	Holding Percentage	Main Activity	Place of Operation	Place of Incorporation
Probitas Holding LTD	4,508,982 USD	49.9%	Insurance	United Kingdom	Bermuda

16. COMPANY SHARES OWNERSHIP

Shareholder Name	Holding Percentage at 01/01/2017	Holding Percentage at 31/12/2017	Change
Ahmed Hamad Algosaibi & Bros. Company	5%	5%	0.00

17. MATERIAL CONTRACTS IN WHICH BOARD MEMBERS AND EXECUTIVE MANAGEMENT HAVE INTERESTS

A consultancy services contract was arranged with Mr. Jean-Luc Gourgeon with an amount of SR 788,123 for one year till 30/04/2018. Also a reinsurance contract with Islamic Insurance Company (Jordan) with an estimated gross premium of SR 3,335,090 which is represented by Mr. Ahmed Sabbagh as a board member. In addition, a reinsurance contract for one year was made with Iskan Insurance Company in Egypt with an estimated gross premium SR 243,085 which is represented by Mr. Hammam Badr as Chairman of the board of directors. Also a reinsurance contract for one year was made with Mamda Reinsurance Company in Morocco with an estimated gross premium SR 259,292 which is represented by Mr. Jean-Luc Gourgeon as Vice Chief Executive Officer. In addition, the company has a custody fees with HSBC SR 154,000 is represented by Mr. Mansour Al-Bosaily as Chairman of the board of directors.

Transactions with Probitas Corporate Capital Ltd. a fully own subsidiary of Probitas Holdings (Bermuda) Ltd. in which Saudi Re owns 49.9% of its ordinary shares and accordingly the transactions have interest for the Chairman Mr. Hesham Al-Shaikh, and the directors Mr. Jean-Luc Gourgeon and Mr. Fahad Al-Hesni for being board members in Probitas Holdings (Bermuda) Ltd. and Mr. Jean-Luc Gourgeon and Mr. Nilmin pieries for being a board member in Probitas Corporate Capital Ltd. The transactions are reinsurance treaties for one year with estimated premiums of SAR 22,312,500 by providing funds at Lloyds' totaling to USD 10,000,000. The transactions were applied based on the approved underwriting guidelines. In addition, approval was obtained from the general assembly of the company on the related party contracts.

18. PENALTY PRECAUTIONARY PROCEDURE OR PREVENTATIVE MEASURE IMPOSED ON THE COMPANY BY THE AUTHORITY :

SAMA has imposed a penalty with total amount S.R 1,511 due to the delay for paying the control and inspection fee. The reason for the delay is the conflict of publishing the financial results as per CMA and SAMA fees due. To avoid it in future, the company will settle fees by end of quarter regardless the publishing date.

19. INTERNAL CONTROL SYSTEMS IN THE COMPANY

The internal control system intends to ensure that control and monitoring tools are in place to ensure, at a reasonable level, the soundness of financial reports and mitigation of risk. The results of the annual audit conducted by the internal auditor have not revealed any deficiency or weakness in the company's internal control system.

The Audit Committee confirms that there was no conflict between the Audit Committee resolutions and the Board.

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations



20. NUMBER OF TIMES THE COMPANY REQUESTED THE SHARE REGISTER

Number of Requested Share Register	Date Of Request	Raasons Of Request
1	31/01/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
2	28/02/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
3	31/03/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
4	30/04/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
5	31/05/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
6	02/07/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
7	31/07/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
8	31/08/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
9	30/09/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
10	31/10/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
11	30/11/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right
12	31/12/2017	to comply with article number 38 of the Implementing Regulations of the Cooperative Insurance Companies Control Law And to calculate the differences in the shareholder right

DIRECTORS REPORT

Third: Obligations, Disclosures and
Declarations According To The Regulations

21. STATEMENT OF ACCRUED REGULATORY PAYMENTS (IN THOUSAND SAUDI RIYALS)

Description	Paid Due	Payments Due
Zakat and Income Tax	15,731	37,431
With-holding Tax	3,107	1,430
General Organization for Social Insurance (GOSI)	1,689	138
SAMA's control and inspection costs	4,437	311
Total	24,964	39,310

22. EXTERNAL AUDITORS

The ordinary general assembly convened on 23/04/2017 and approved the board's recommendation to appoint M/s Al-Bassam & Al-Nemer Allied and KPMG Al-Fozan & Al-Sadhan Accountants to act jointly as external auditors of the company for the year ending 31/12/2017.

23. ACCOUNTING STANDARDS ADOPTED IN FINANCIAL STATEMENTS

The company applies the International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and income tax.

The Auditor's report did not contain any reservations.

24. DECLARATION

- It has no loans payable on call or otherwise, and the Company has not repaid any loans during the year ended 31/12/2017.
- It has no convertible debt instruments, contractual securities, preemptive right or similar rights issued or granted by the company, during the financial year ended 31/12/2017.
- There have not been any conversion or subscription rights under any convertible debt instruments, contractually based securities, warrants or similar rights issued or granted by the company during 2017.
- There have not been any, redemption, purchase or cancellation by the company of any redeemable debt instruments and the value of such securities outstanding.
- During 2017, there have not been any arrangement or agreement under which a director or a Senior Executive of the company has waived any remuneration.
- During 2017, there is no any business or contract to which the company is a party and in which a director of the company, a Senior Executive or any person related to any of them is or was interested, other than the contracts mentioned in the item 17 here above.
- There have not been any arrangement or agreement under which a shareholder of the company has waived any rights to dividends.

The company further declares that:

- Proper books of account have been maintained
- The system of internal control is sound in design and has been effectively implemented;
- There are no significant doubts concerning the company's ability to continue its activity.

CONCLUSION

The board of directors extends appreciation and thanks to our valued customers for their trust and to all of our shareholders whose contributions play a significant role in developing the company. The board also extends its appreciation to the company's management and staff for their wholehearted efforts during the year which contributed to the progress of the company.



Assets value

SAR Billion

Since its establishment in 2008, Saudi Re has employed its strong financial position as competitive advantages to build an image of reliable partner, offer ample capacity, provide extensive coverage, and produce investment yields to support core reinsurance operation. Currently, Saudi Re ranks among the strongest reinsurance companies in the Middle East in terms of capital strength, which exceeds four times the minimum regulatory requirements. The total assets of the company exceeds SAR 2.6 billion riyals compared to 1 billion riyals at the time of incorporation. Saudi Re also enjoys a “extremely strong” capital position as rated by Standard & Poor's.

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

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

INDEPENDENT AUDITORS' REPORT

As at 31 December 2017



KPMG Al Fozan & Partners
Certified Public Accountants



Al-Bassam & Co.
Allied Accountants

Audit - Consultants - Zakat & Tax (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.

INDEPENDENT AUDITORS' REPORT

As at 31 December 2017



KPMG Al Fozan & Partners
Certified Public Accountants



**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>Gross outstanding claims</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 require significant judgments relating to factors and assumptions such as inflation, claims development pattern and regulatory requirements.</p> <p>Due to significance of amount involved and the exercise of significant judgment by management in the process for determination of gross outstanding claims, we have determined it to be a key audit matter.</p> <p><i>Refer to 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>

INDEPENDENT AUDITORS' REPORT

As at 31 December 2017



KPMG Al Fozan & Partners
Certified Public Accountants



Al-Bassam & Co.
Allied Accountants
Audit - Consultants - Zakat & Tax (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.

INDEPENDENT AUDITORS' REPORT

As at 31 December 2017



KPMG AI Fozan & Partners
Certified Public Accountants



Al-Bassam & Co.
Allied Accountants
Audit - Consultants - Zakat & Tax
(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)

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 AI Fozan & Partners Certified Public Accountants

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License No. 337



11 Rajab 1439H
(28 March 2018)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 SR	2016 SR
REINSURANCE OPERATIONS' ASSETS			
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
SHAREHOLDERS' ASSETS			
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

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

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2017

	Notes	2017 SR	2016 SR
REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
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
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
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
SHAREHOLDERS' EQUITY			
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 AND SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY		2,629,400,162	2,081,429,056

STATEMENT OF COMPREHENSIVE INCOME REINSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For the year ended 31 December 2017

	Notes	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

STATEMENT OF INCOME - SHAREHOLDERS' OPERATOIN

For the year ended 31 December 2017

	Notes	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 investment 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' remuneration, 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



STATEMENT OF COMPREHENSIVE INCOME SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2017

	Notes	2017 SR	2016 SR
Net income for the year		38,887,885	18,463,824
Other comprehensive loss			
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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

	GCC Shareholders and General Public				Non - GCC Shareholders				Total				Total SR
	Share capital SR	Statutory reserve SR	Accumulated deficit SR	Other reserves	Share capital SR	Statutory reserve SR	Accumulated deficit SR	Other reserves	Share capital SR	Statutory reserve SR	Accumulated deficit SR	Other reserves	
Balance as at 1 January 2017	970,890,400	5,894,202	(200,723,350)	-	29,109,600	176,722	(46,603)	-	1,000,000,000	6,070,924	(200,769,953)	-	805,300,971
Transfer during the year	7,156,640	43,447	2,031,633	-	(7,156,640)	(43,447)	(2,031,633)	-	-	-	-	-	-
Net profit for the year	-	-	38,034,296	-	-	-	853,589	-	-	-	38,887,885	-	38,887,885
Other comprehensive loss	-	-	-	(1,918,523)	-	-	-	(43,057)	-	-	-	(1,961,580)	(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)	36,926,305
Zakat charge for the year (note 21)	-	-	(13,360,674)	-	-	-	-	-	-	-	(13,360,674)	-	(13,360,674)
Tax charge for the year (note 21)	-	-	-	-	-	-	(73,804)	-	-	-	(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	(1,298,451)	(43,057)	1,000,000,000	6,070,924	(175,316,546)	(1,961,580)	828,792,798
Balance as at 1 January 2016	976,078,306	5,925,697	(204,507,637)	-	23,921,694	145,227	573,437	-	1,000,000,000	6,070,924	(203,934,200)	-	802,136,724
Transfer during the year	(5,187,906)	(31,495)	1,086,968	-	5,187,906	31,495	(1,086,968)	-	-	-	-	-	-
Net profit for the year	-	-	17,926,342	-	-	-	537,482	-	-	-	18,463,824	-	18,463,824
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	17,926,342	-	-	-	537,482	-	-	-	18,463,824	-	18,463,824
Zakat charge for the year (note 21)	-	-	(15,229,023)	-	-	-	-	-	-	-	(15,229,023)	-	(15,229,023)
Tax charge for the year (note 21)	-	-	-	-	-	-	(70,554)	-	-	-	(70,554)	-	(70,554)
Balance as at 31 December 2016	970,890,400	5,894,202	(200,723,350)	-	29,109,600	176,722	(46,603)	-	1,000,000,000	6,070,924	(200,769,953)	-	805,300,971

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
Adjustments to reconcile reinsurance operations' surplus after shareholders' appropriation to net cash from operating activities:			
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

STATEMENT OF CASH FLOWS - REINSURANCE OPERATIONS' (continued)

For the year ended 31 December 2017

	Notes	2017 SR	2016 SR
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 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

STATEMENT OF CASH FLOWS - SHAREHOLDERS OPERATIONS'

for the year ended 31 December 2017

	Notes	2017 SR	2016 SR
OPERATING ACTIVITIES			
Net income for the year		38,887,885	18,463,824
Adjustments to reconcile net profit to net cash used in operating activities:			
Realized gains on investments held at fair value through income statement	8(iii)	(1,151,270)	(433,532)
Unrealized gains losses on investments held at fair value through income statement	8(iii)	(46,017,732)	(12,819,617)
Share of profit of associate	17	(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	8(iii)	(154,342,957)	(149,522,772)
Proceeds from investments held at fair value through income statement	8(iii)	167,339,479	125,777,170
Investment in associate	17	(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	6	31,737,579	27,950,269

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

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 of 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

Line of business	Years
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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
- 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)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Impairment losses on receivables

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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 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. Primarily 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 statement 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

6. CASH AND CASH EQUIVALENTS

	2017		2016	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations 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	-
	53,494,191	31,737,579	42,891,784	27,950,269

Time deposits are placed with banks which have credit ratings in line with Company's investment policy 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 SR	2016 SR
Premiums receivable, gross	364,157,470	186,910,560
Less: Provision for doubtful debts	(5,286,406)	(4,952,966)
Premium receivable, net	358,871,064	181,957,594

The movement of provision for doubtful debts is as follows:

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

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

	Past due but not impaired					Total SR
	Neither past due nor impaired SR	Less than 90 days SR	91 to 180 days SR	More than 180 days SR	Past due and impaired 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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

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 SR	2016 SR	2017 SR	2016 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 / Sukuks	47,956,869	52,685,763	377,834,683	378,817,260
Floating-Rate Bonds / Sukuks	5,359,938	1,516,490	67,811,178	67,375,776
	106,316,032	93,447,337	758,751,497	724,579,017

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

	2017		
	Quoted SR	Unquoted 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 / Sukuks	327,770,169	50,064,514	377,834,683
Floating-Rate Bonds / Sukuks	27,811,178	40,000,000	67,811,178
	618,686,983	140,064,514	758,751,497
	2016		
	Quoted SR	Unquoted 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 / Sukuks	321,252,746	57,564,514	378,817,260
Floating-Rate Bonds / Sukuks	27,375,776	40,000,000	67,375,776
	577,014,503	147,564,514	724,579,017

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

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

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:

	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 / Sukuks	327,770,169	-	50,064,514	377,834,683
Floating-Rate Bonds / Sukuks	27,811,178	-	40,000,000	67,811,178
	516,176,050	102,510,933	140,064,514	758,751,497
	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 / Sukuks	321,252,746	-	57,564,514	378,817,260
Floating-Rate Bonds / Sukuks	27,375,776	-	40,000,000	67,375,776
	491,603,730	85,410,773	147,564,514	724,579,017

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 risk adjusted discount rate. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

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

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

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 reinsurance operations include SR 496 million (31 December 2016: SR 454.1 million) which are held through discretionary managed portfolios.

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 SR		2016 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	106,316,032	758,751,497	93,447,337	724,579,017

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

	Domestic		International		Total	
	2017 SR	2016 SR	2017 SR	2016 SR	2017 SR	2016 SR
Reinsurance operations						
Money Market Funds	52,999,225	39,245,084	-	-	52,999,225	39,245,084
Fixed-Rate Bonds / Sukuks	-	-	47,956,869	52,685,763	47,956,869	52,685,763
Floating-Rate Bonds / Sukuks	-	-	5,359,938	1,516,490	5,359,938	1,516,490
Total	52,999,225	39,245,084	53,316,807	54,202,253	106,316,032	93,447,337

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

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

	Domestic		International		Total	
	2017 SR	2016 SR	2017 SR	2016 SR	2017 SR	2016 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 /Sukuks	40,000,000	40,000,000	337,834,683	338,817,260	377,834,683	378,817,260
Floating-Rate Bonds / Sukuks	40,000,000	40,000,000	27,811,178	27,375,776	67,811,178	67,375,776
Total	288,630,505	266,167,043	470,120,992	458,411,974	758,751,497	724,579,017

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

	Reinsurance operations		Shareholders' operations	
	2017 SR	2016 SR	2017 SR	2016 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
	53,316,807	54,202,253	445,645,861	446,193,036
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
	52,999,225	39,245,084	313,105,636	278,385,981
Total	106,316,032	93,447,337	758,751,497	724,579,017

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	680,013,941	(110,649,986)	569,363,955
Outstanding claims provided during the year	12,214,311	34,882,991	47,097,302
Claims incurred but not reported provided during the year	168,824,715	(90,072,488)	78,752,227
Change in outstanding claims	181,039,026	(55,189,497)	125,849,529
Closing balance	861,052,967	(165,839,483)	695,213,484

	2016		
	Gross SR	Retroceded share SR	Net SR
Opening balance	674,119,737	(60,496,840)	613,622,897
Outstanding claims provided during the year	35,047,589	(47,656,047)	(12,608,458)
Claims incurred but not reported provided during the year	(29,153,385)	(2,497,099)	(31,650,484)
Change in outstanding claims	5,894,204	(50,153,146)	(44,258,942)
Closing balance	680,013,941	(110,649,986)	569,363,955

10. PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS

	2017		2016	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Refundable deposits	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	-
	103,964,040	228,471	49,276,087	45,178

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

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

12. DEFERRED ACQUISITION COSTS

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

13. PROPERTY AND EQUIPMENT, NET

a. Reinsurance operations:

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

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

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
	2,744,532	3,237,773

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

13. PROPERTY AND EQUIPMENT, NET (continued)

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	18,329,960	11,454,040	4,706,907	34,490,907
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	-	1,361,310	1,880,017	3,241,327
Net book value:				
As at 31 December 2017	18,329,960	10,092,730	2,826,890	31,249,580
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	Reinsurance operations SR	Shareholders' operations SR
Deposits with banks	58,003,125	-	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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

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	(11,258,223)	(2,982,263)
Closing balance	7,542,299	848,245

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

18. EMPLOYEES' END OF SERVICE BENEFITS (continued)

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	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.

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

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	22,761,794							22,761,794
Total gross outstanding claims provision per the statement of financial position	22,761,794	28,273,937	49,824,385	71,524,625	169,425,815	218,847,615	300,394,796	861,052,967

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

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	218,967,447	-
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	1,008,441,285	-	-	-
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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

21. ZAKAT AND INCOME TAX (continued)

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 operations' 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

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 withholding 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2017		2016	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations 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	1,068,557
	38,873,345	7,853,573	38,058,515	9,851,144

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

	2017 SR	2016 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

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 31 December		Balance as at 31 December	
		2017 SR	2016 SR	2017 SR	2016 SR
Board of directors	Consulting fees	788,123	330,233	442,200	-
	Remuneration, 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".

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.

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*	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

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 commission	(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
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

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
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

31. SEGMENTAL INFORMATION (continued)

31.2 Geographical segments (continued)

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

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:

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

32. RISK MANAGEMENT (continued)

32.1 Reinsurance risk (continued)

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.

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	Net 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	Net 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:

- a. Minimum acceptable credit rating by recognized rating agencies (e.g. Standard & Poors) that is not lower than BBB (S&P) or equivalent.
- b. Reputation of particular retrocessionaire companies.
- c. 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).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

32. RISK MANAGEMENT (continued)

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. The Company's claims teams are focused on delivering quality, reliability and speed of service to the ceding companies under 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%). 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

32. RISK MANAGEMENT (continued)

32.6 Credit risk (continued)

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	
	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 investment of statutory deposit	-	13,127,882	-	10,242,145
	1,117,977,370	148,699,694	720,366,100	256,983,870

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
			106,316,032	93,447,337	758,751,497	724,579,017

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

32. RISK MANAGEMENT (continued)

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
	1,121,098,910	-	1,121,098,910	7,069,892	13,127,882	20,197,774

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

32. RISK MANAGEMENT (continued)

32.7 Liquidity risk (continued)

Maturity profile (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.

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

	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 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
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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

32. RISK MANAGEMENT (continued)

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.

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

31 December 2017	SR SR	USD SR	QAR SR	AED SR	EUR SR	KWD SR	INR SR	Other SR	Total SR
ASSETS									
Reinsurance operations									
Cash and cash equivalents	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 Deposits	-	-	-	-	-	-	-	-	-
Accrued special commission income from time deposits	-	3,250	-	-	-	-	-	-	3,250
Accrued special commission income from bonds and Sukuks	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 Associates	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
	1,246,148,290	986,634,311	16,453,088	28,432,571	4,630,173	11,635,076	61,050,963	274,415,690	2,629,400,162

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 SR	USD SR	QAR SR	AED SR	EUR SR	KWD SR	INR SR	Other SR	Total 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 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
Return on investment of statutory deposit	45,178	-	-	-	-	-	-	-	45,178
Statutory Deposit	100,000,000	-	-	-	-	-	-	-	100,000,000
Prepaid expenses and other assets	10,242,145	-	-	-	-	-	-	-	10,242,145
Property and equipment, net	32,110,109	-	-	-	-	-	-	-	32,110,109
	1,141,163,840	652,395,409	21,994,289	7,445,205	3,246,988	12,494,011	33,629,766	209,059,548	2,081,429,056

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	Other	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
	896,495,564	284,764,045	33,930,555	49,576,491	8,266,037	34,612,884	116,539,167	376,422,621	1,800,607,364

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 SR	USD SR	QAR SR	AED SR	EUR SR	KWD SR	INR SR	Other SR	Total 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	-	-	-	-	-	-	-	35,603
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
	670,570,950	85,792,758	31,194,942	91,761,071	6,758,336	25,287,903	91,301,110	273,461,015	1,276,128,085

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 SR	2016 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 II 1439H corresponding to 28. March 2018.

