

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2018

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**INDEPENDENT AUDITORS' AUDIT REPORT ON THE FINANCIAL STATEMENTS TO THE
SHAREHOLDERS OF CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

Opinion

We have audited the financial statements of Chubb Arabia Cooperative Insurance Company, a Saudi Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2018 and the related statements of income and comprehensive income, statements of changes in shareholders' equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, 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 and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's 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 endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.



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INDEPENDENT AUDITORS' AUDIT REPORT ON THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF CHUBB ARABIA COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY) (Continued)

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of insurance contract liabilities and reinsurance assets</p> <p>As at 31 December 2018, liabilities arising from insurance contracts represents [66%] (2017: 75%) of the total liabilities.</p> <p>Reinsurance assets along with the related gross insurance liability is recognised according to the terms of the relevant reinsurance contracts. The recoverability of reinsurance assets is subject to the probability of default and probable losses in the event of default by respective reinsurance counterparties.</p> <p>Technical reserves mainly include Outstanding Claims reserves ("OCR"), Unearned Premium Reserves ("UPR") and Incurred but Not Reported Reserve ("IBNR"). As disclosed in note [8] to the financial statements, the determination of these reserves involves significant judgement over uncertain future outcome, including primarily the timing and ultimate settlement of insurance liabilities. The liabilities are based on best estimates, including the ultimate cost of all claims incurred but not settled at a given date.</p> <p>A range of methods are used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims. The Company also uses an external actuary who uses different models to validate the insurance and reinsurance technical reserves arrived at by the Company. The complexity of such models may give rise to errors as a result of inadequate/incomplete data or the inappropriate design or application of these models.</p>	<p>We assessed management's calculation of insurance liabilities by performing the following procedures:</p> <ul style="list-style-type: none"> • The evaluation and testing of key controls around the claim handling and reserve setting processes of the Company. We examined evidence of the operation of controls over the valuation of individual claims' reserves, such as large loss review controls. • We checked samples of claims reserves and the respective share of reinsurance assets, through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters. • We reviewed management's reconciliation of the underlying data recorded in the policy administration systems with the data used in the actuarial reserving calculations. • We agreed the insurance contract liabilities and reinsurance assets as recommended by the Company's actuary to the liabilities and assets recorded by the Company. • We obtained the reinsurance treaty summaries for the year and verified the details in the summary to the respective agreements on a sample basis. • We reviewed the ratios of reinsurance assets to related insurance contract liabilities to identify any variance from reinsurance treaty arrangements.



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INDEPENDENT AUDITORS' AUDIT REPORT ON THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF CHUBB ARABIA COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY) (Continued)

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Further, the valuation of these technical reserves is subject to a range of actuarial assumptions and judgements, which include historical trend analysis, empirical data and standard actuarial claim projection techniques.</p> <p>Due to the magnitude of the balances and estimation uncertainty and subjectivity involved in the assessment of these insurance contract liabilities and reinsurance assets, we have considered this as a key audit matter.</p>	<ul style="list-style-type: none"> • We have assessed the objectivity, independence, knowledge and expertise of the external actuary appointed by management and verified the accuracy and completeness of the data used by the independent actuary to arrive at the technical reserve amounts. • We also involved our internal specialists to assess the appropriateness of the model used and reasonableness of key assumptions used by the management by comparison to generally accepted industry practices and accepted actuarial methodology.



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INDEPENDENT AUDITORS' AUDIT REPORT ON THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF CHUBB ARABIA COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY) (Continued)

Other information included in the Company's 2018 Annual Report

Other information consists of the information included in the Company's 2018 annual report, other than the financial statements and our auditors' report thereon. The Board of Directors are responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not 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 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. If, based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

The Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and the Company's By-laws, and for such internal control as Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Board of Directors 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.

Auditor's 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 auditor's 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.



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INDEPENDENT AUDITORS' AUDIT REPORT ON THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF CHUBB ARABIA COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY) (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Board of Directors.
- Conclude on the appropriateness of Board of Directors 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 auditor's 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 auditor's 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.



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INDEPENDENT AUDITORS' AUDIT REPORT ON THE FINANCIAL STATEMENTS TO THE
SHAREHOLDERS OF CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY) (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

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 period and are therefore the key audit matters. We describe these matters in our auditor's 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.

for Ernst & Young

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for PKF Al-Bassam & Co.
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Ibrahim Ahmed Al Bassam
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24 Rajab 1440 H
31 March 2019
Alkhobar



CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	<i>Note</i>	<u>2018</u> <u>SR</u>	<u>2017</u> <u>SR</u>
ASSETS			
Cash and cash equivalents	6	141,510,319	141,924,558
Premiums and insurance balances receivable	8	71,742,938	65,262,463
Amounts due from related parties	21	-	83,254
Reinsurers' share of unearned premiums	9	51,629,690	44,255,912
Reinsurers' share of outstanding claims	9	32,402,153	24,224,633
Reinsurers' share of claims incurred but not reported	9	42,927,788	91,887,300
Deferred policy acquisition costs	9	4,305,281	4,912,113
Investments held for trading	7	82,766,224	75,428,912
Investments available for sale	7	1,932,078	1,932,078
Prepayments and other assets	11	15,697,435	11,327,755
Term deposits		79,467,701	59,845,669
Property and equipment	12	387,427	599,321
Intangible assets	13	720,395	385,005
Goodwill	14	43,774,750	43,774,750
Statutory deposit	15	20,000,000	20,000,000
Statutory deposit commission income	15	1,243,271	817,322
TOTAL ASSETS		<u>590,507,450</u>	<u>586,661,045</u>

(Continued)

The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION (Continued)
AS AT DECEMBER 31, 2018

	<i>Note</i>	<u>2018</u> <u>SR</u>	<u>2017</u> <u>SR</u>
LIABILITIES			
Accounts payable		17,570,524	13,460,813
Accrued expenses and other liabilities	18	9,360,327	10,569,072
Reinsurance balances payable	17	37,892,066	29,815,786
Gross unearned premiums	9	77,264,897	74,285,096
Unearned reinsurance commission income	16	7,110,295	6,225,692
Gross outstanding claims	9	43,917,326	39,475,033
Claims incurred but not reported	9	67,524,759	125,252,803
Additional premium reserves	9	338,987	2,416,499
Other technical reserves	9	4,042,602	3,005,737
End-of-service indemnities	20	7,174,176	6,117,342
Statutory deposit commission income payable	15	1,243,271	817,322
Provision for zakat and income tax	24	18,134,513	13,371,168
TOTAL LIABILITIES		<u>291,573,743</u>	<u>324,812,363</u>
SHAREHOLDERS' EQUITY			
Share capital	25	200,000,000	200,000,000
Statutory reserve	26	28,207,777	19,309,215
Retained earnings		<u>64,861,051</u>	<u>37,462,871</u>
TOTAL EQUITY		<u>293,068,828</u>	<u>256,772,086</u>
Accumulated surplus payable	19	6,764,250	5,234,380
Re-measurement reserve of defined benefit obligation	20	<u>(899,371)</u>	<u>(157,784)</u>
TOTAL ACCUMULATED SURPLUS INSURANCE OPERATIONS'		<u>5,864,879</u>	<u>5,076,596</u>
TOTAL EQUITY AND ACCUMULATED SURPLUS INSURANCE OPERATIONS'		<u>298,933,707</u>	<u>261,848,682</u>
TOTAL LIABILITIES, ACCUMULATED SURPLUS AND SHAREHOLDERS' EQUITY		<u>590,507,450</u>	<u>586,661,045</u>

The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	<i>Note</i>	<u>2018</u> <u>SR</u>	<u>2017</u> <u>SR</u>
REVENUE			
Gross written premiums	21	233,972,759	220,497,866
Less: Reinsurance premiums ceded-			
Local		(6,023,593)	(5,295,506)
Foreign		(126,607,921)	(105,734,339)
Excess of loss expenses		(4,402,746)	(4,077,561)
Net premiums written		96,938,499	105,390,460
Changes in unearned premiums		(2,979,801)	1,712,683
Changes in reinsurer share of unearned premiums		7,373,778	(2,251,364)
Net premiums earned		101,332,476	104,851,779
Reinsurance commission income	16	21,257,548	22,199,835
NET REVENUES		122,590,024	127,051,614
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	21	(49,638,448)	(90,183,744)
Expenses incurred related to claims		(2,609,330)	(3,124,343)
Reinsurers' share of gross claims paid	21	14,237,345	49,717,065
Net claims and other benefits paid		(38,010,433)	(43,591,022)
Changes in outstanding claims		(4,442,293)	51,910,367
Changes in reinsurers' share of outstanding claims		8,177,520	(40,748,443)
Changes in claims incurred but not reported		57,728,044	(49,794,770)
Changes in reinsurance share of claims incurred but not reported		(48,959,512)	43,480,007
Net claims and other benefits incurred		(25,506,674)	(38,743,861)
Changes in additional premium reserves		2,077,512	(510,669)
Changes in other technical reserves		(1,036,865)	(1,865,210)
Policy acquisition costs		(18,247,903)	(18,600,139)
Other underwriting expenses		(2,213,465)	(1,919,430)
TOTAL UNDERWRITING COSTS AND EXPENSES		(44,927,395)	(61,639,309)
NET UNDERWRITING INCOME		77,662,629	65,412,305

(Continued)

The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2018

	<i>Note</i>	<u>2018</u> <u>SR</u>	<u>2017</u> <u>SR</u>
OTHER (EXPENSES) / INCOME			
Allowance for doubtful debts	8	(3,030,692)	(411,815)
General and administrative expenses	22	(33,960,180)	(31,362,974)
Dividend, interest and commission income	23	6,718,223	5,571,793
Realised gain/(losses) on disposal of investment held for trading	7	1,361,289	(119,143)
Unrealised losses on investments held for trading	7	(1,714,266)	(967,526)
Other income, net	11.1	2,459,600	3,844,003
TOTAL OTHER OPERATING EXPENSES		<u>(28,166,026)</u>	<u>(23,445,662)</u>
TOTAL INCOME FOR THE YEAR		<u>49,496,603</u>	<u>41,966,643</u>
Total income for the year		49,496,603	41,966,643
Total income attributed to insurance operations		<u>(5,003,795)</u>	<u>(4,292,099)</u>
Total income for the year attributable to shareholders		<u>44,492,808</u>	<u>37,674,544</u>
Weighted average number of outstanding shares	27	<u>20,000,000</u>	<u>20,000,000</u>
Basic and Diluted Earnings per share	27	<u>2.22</u>	<u>1.88</u>

The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
	<u>SR</u>	<u>SR</u>
Total income for the year	49,496,603	41,966,643
Other comprehensive income		
<i>Items that will not be reclassified to statement of income in subsequent years</i>		
Changes in re-measurement reserve of defined benefit obligation	20 <u>(741,587)</u>	<u>(157,784)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	48,755,016	41,808,859
Total comprehensive income attributed to the insurance operations	<u>(4,262,208)</u>	<u>(4,134,315)</u>
Total comprehensive income for the year attributable to the shareholders	<u>44,492,808</u>	<u>37,674,544</u>

The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Share capital SR	Statutory reserve SR	Retained earnings SR	Total Equity SR	Insurance operations' surplus SR	Total Equity and Insurance Operations' Surplus SR
At January 1, 2018	200,000,000	19,309,215	37,462,871	256,772,086	5,076,596	261,848,682
Net income for the year	-	-	44,492,808	44,492,808	5,003,795	49,496,603
attributable to shareholders/ policyholders	-	-	-	-	(741,587)	(741,587)
Other comprehensive loss for the year	-	-	44,492,808	44,492,808	4,262,208	48,755,016
Total comprehensive income for the year	-	-	-	-	(3,473,925)	(3,473,925)
Surplus distributed (note 19)	-	-	(5,207,355)	(5,207,355)	-	(5,207,355)
Provision for zakat (note 24 a)	-	-	(2,988,711)	(2,988,711)	-	(2,988,711)
Provision for income tax (note 24 b)	-	-	(8,898,562)	-	-	-
Transfer to statutory reserve	-	8,898,562	-	-	-	-
At December 31, 2018	200,000,000	28,207,777	64,861,051	293,068,828	5,864,879	298,933,707
At January 1, 2017	100,000,000	31,774,306	94,605,708	226,380,014	16,905,556	243,285,570
Net income for the year	-	-	37,674,544	37,674,544	4,292,099	41,966,643
attributable to shareholders / policyholders	-	-	-	-	(157,784)	(157,784)
Other comprehensive loss for the year	-	-	37,674,544	37,674,544	4,134,315	41,808,859
Total comprehensive income for the year	-	-	-	-	(15,963,275)	(15,963,275)
Surplus distributed (note 19)	-	-	(4,877,386)	(4,877,386)	-	(4,877,386)
Provision for zakat (note 24 a)	-	-	(2,405,086)	(2,405,086)	-	(2,405,086)
Provision for income tax (note 24 b)	-	-	(7,534,909)	-	-	-
Transfer to statutory reserve	-	7,534,909	-	-	-	-
Increase in share capital through issuance of bonus shares (note 25)	100,000,000	(20,000,000)	(80,000,000)	-	-	-
At December 31, 2017	200,000,000	19,309,215	37,462,871	256,772,086	5,076,596	261,848,682

The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	SR	SR
OPERATING ACTIVITIES		
Net income for the year	49,496,603	41,966,643
Adjustments for non-cash items:		
Depreciation of property and equipment	268,231	353,299
Amortization of intangible assets	199,922	514,715
Gain on sale of property and equipment	(64,160)	(40,050)
Allowance for doubtful debts	3,030,692	411,815
Changes in unrealised losses on investments held for trading	1,714,266	967,526
Realised (gains)/losses on investments held for trading	(1,361,289)	119,143
Provision for end-of-service indemnities	1,193,543	1,087,746
	<u>54,477,808</u>	<u>45,380,837</u>
Working capital adjustments:		
Premiums and insurance balances receivable	(9,511,167)	(7,526,553)
Reinsurers' share of unearned premiums	(7,373,778)	2,251,364
Reinsurers' share of outstanding claims	(8,177,520)	40,748,443
Reinsurers' share of claims incurred but not reported	48,959,512	(43,480,007)
Deferred policy acquisition costs	606,832	345,739
Prepayments and other assets	(4,369,680)	(5,664,703)
Accounts payable	4,109,711	128,284
Accrued expenses and other liabilities	(1,208,745)	(4,542,966)
Reinsurance balances payable	8,076,280	9,746,168
Gross unearned premiums	2,979,801	(1,712,683)
Unearned reinsurance commission income	884,603	9,285
Gross outstanding claims	4,442,293	(51,910,367)
Claims incurred but not reported	(57,728,044)	49,794,770
Additional premium reserves	(2,077,512)	510,669
Amounts due from related parties	83,254	(24,750)
Other technical reserves	1,036,865	1,049,139
	<u>35,210,513</u>	<u>35,102,669</u>
Cash from operations	35,210,513	35,102,669
Surplus paid to policyholders	(3,473,925)	(15,963,275)
Zakat and income tax paid	(3,432,721)	(11,511,406)
End-of-service indemnities paid	(878,296)	(3,127,405)
Net cash from operating activities	27,425,571	4,500,583
INVESTING ACTIVITIES		
Purchase of investments held for trading	(20,645,314)	(13,906,469)
Proceeds from disposal of investments held for trading	12,955,025	17,272,501
Additions to long term deposits	(19,622,032)	(59,845,669)
Statutory deposit	-	(10,000,000)
Proceeds from disposal of property and equipment	87,100	40,050
Purchase of property and equipment	(79,277)	(136,707)
Purchase of intangible assets	(535,312)	(301,500)
Net cash used in investing activities	(27,839,810)	(66,877,794)
DECREASE IN CASH AND CASH EQUIVALENTS	(414,239)	(62,377,211)
Cash and cash equivalents at the beginning of the year	141,924,558	204,301,769
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	141,510,319	141,924,558
NON-CASH TRANSACTIONS:		
Re-measurement reserve of defined benefit obligation	(741,587)	(157,784)

The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
AT DECEMBER 31, 2018

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

CHUBB Arabia Cooperative Insurance Company (“the Company”) is a Saudi Joint Stock Company registered on 28 Rajab, 1430H (corresponding to July 21, 2009) under commercial registration number 2050066029 which was later amended to 2051043431 dated 9 Sha’aban 1431H (corresponding to July 21, 2010), issued in Al-Khobar, Kingdom of Saudi Arabia. The Company has been licensed to conduct cooperative insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree number 60/M dated 18 Ramadan 1427H (corresponding to October 11, 2006), pursuant to Council of Ministers resolution number 233 dated 16 Ramadan 1427H (corresponding to October 9, 2006).

The activities of the Company are to transact cooperative insurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 21 Dhul-Hijjah, 1430H (corresponding to December 8, 2009), the Company received the license from Saudi Arabian Monetary Agency (“SAMA”) to transact insurance business in the Kingdom of Saudi Arabia. Its principal lines of business include property, engineering, motor and casualty insurance.

On 11 Dhul Qadah 1439H corresponding to 24 July 2018, the Board of Directors approved the approved the distribution of the surplus from insurance operations in accordance with the Implementing Regulations issued by SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders’ operations in full.

The registered address of the Company's head office is as follows:

CHUBB Arabia Cooperative Insurance Company
Head office
Alkhobar 31952 Business Gate, King Faisal Bin Abdulaziz Street (Coastal Road)
PO Box 2685
Khobar, Saudi Arabia

The Company’s principal place of business is in Al-Khobar, Kingdom of Saudi Arabia. Furthermore, the Company operates through various branches located in the Kingdom of Saudi Arabia with the following commercial registration numbers:

<i>Branch Name</i>	<i>Location</i>	<i>Commercial registration number</i>
Regional Branch	Al-Khobar	2051043431
Regional Branch	Jeddah	4030233953
Regional Branch	Riyadh	1010310552

2. ASSET PURCHASE AGREEMENT AND TRANSFER OF INSURANCE PORTFOLIO

The Company started its insurance operations on February 1, 2010. The Company acquired the insurance portfolio and the net assets of Ace Arabia Insurance Company BSC and International Insurance Company BSC with effect from January 1, 2009 as set forth in SAMA’s guidelines in this respect, following the approval on the transfer from the respective authorities in 2012.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

3. BASIS OF PREPARATION

- i. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by 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.
- ii. The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of investments in held for trading and investments available for sale and defined benefit obligation which is recognized at the present value of future obligation using the projected unit credit method. The Company’s statement of financial position is not presented using a current/non-current classification. Except for property and equipment, intangibles, statutory deposit, goodwill, end-of-service indemnities, statutory deposit commission payable and engineering related unearned premiums, unearned reinsurance commission, deferred policy acquisition cost, outstanding claims, claims incurred but not reported and technical reserves, all other assets and liabilities are of short-term nature, unless, stated otherwise.
- iii. The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders’ Operations and presents the financial statements accordingly under note 37. Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.
- iv. The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented note 37 of the financial statements have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders’ operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.
- v. These financial statements have been presented in Saudi Arabian Riyals (SAR), which is also the functional currency of the Company. All financial information presented in Saudi Arabian Riyal has been rounded to the nearest Riyal, except where otherwise indicated.
- vi. The Company follows a fiscal year ending December 31.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented except for adoption of the amendments to existing standards mentioned below which has had no material impact on these financial statements on the current year or prior years and is expected to have an insignificant effect in future years:

4.1 New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The Company has adopted the following amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

Standard	Description
IFRS 15	Revenue from Contracts with Customers
IAS 40	Transfers of investment property – Amendments to IAS 40
IFRIC 22	Foreign Currency Transactions and Advances Consideration
IFRS 1 and IAS 28	Annual Improvements to IFRS 2014-2016 cycle
IFRS 4	Amendments to IFRS 4 applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 2	Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

4.2 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

<i>Standard/ Interpretation</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS 2015-2017 cycle	1 January 2019
IAS 19	Amendments to IAS 19 – Plan amendment, curtailment of settlement.	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 9	Financial Instruments	1 January 2022
IFRS 17	Insurance Contracts	1 January 2022

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Standards issued but not yet effective (Continued)

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 Company plans to adopt IFRS 16 retrospectively with a cumulative effect of initially applying the Standard recognised in retained earnings at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17. The Company will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group is expecting no major impact.

IFRS 9 - Financial Instrument

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. Upon implementation of the revised standard IFRS 4 'Insurance Contracts', more assets may be classified as at fair value through profit or loss under the fair value option. The Company continues to monitor the IASB progress on amendments to IFRS 4 which also introduces a temporary exemption for the implementation of IFRS 9 for reporting entities whose activities predominantly relate to insurance. During 2018, the Company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance. The Company intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018 and through the year ended 31 December 2018. The Company has chosen to defer the implementation of IFRS 9 until 1 January 2022.

IFRS 17 – Insurance Contracts

IFRS 17 - "Insurance Contracts", applicable for the period beginning on or after 1 January 2022, and will supersede IFRS 4 "Insurance Contracts". Earlier adoption permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have also been applied. The Company is currently in the process of performing an initial gap assessment and expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the income statement and the balance sheet. The Company has decided not to early adopt this new standard.

4.3 Summary of Significant Accounting Policies

The significant accounting policies used in preparing these financial statements are set out below:

Product classification

Insurance contracts

Insurance contracts are those contracts when the Company ("the insurer") has accepted significant insurance risk from another party ("the policyholders") by agreeing to compensate the policyholders if a specified uncertain future event ("the insured event") adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

Product classification (Continued)

Investment contracts

Investment contracts are those contracts that transfer significant financial risk but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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

Goodwill

Goodwill is initially measured at excess of the fair value of the consideration paid over the fair value of the identifiable assets and liabilities acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Goodwill is tested for impairment annually as and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Property and equipment

Property and equipment are initially recorded at cost and are carried at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. Depreciation is charged to the statement of income on a straight-line basis based on the following estimated useful lives:

	<u>Years</u>
Leasehold improvements	5
Furniture, fixtures and office equipment	4 - 10
Motor vehicles	4

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

Property and equipment (Continued)

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. The carrying values of these assets are reviewed for impairment when event 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.

The Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in "Other income, net" in the statement of income.

Intangible assets

Intangible assets are initially recorded at cost and are carried at cost less accumulated amortisation and any accumulated impairment losses. The intangible asset comprises of software and related implementation costs. All these costs relating to the software package are deferred and amortized using the straight-line method over a period of five years. The amortization expense on intangible assets is recognised in the statement of income.

Policy acquisition costs

Commission paid to internal sales staff and incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are capitalised as an intangible asset. The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts to which they relate as premiums are earned.

Financial instruments

Financial instrument is any contract gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments comprise financial assets and financial liabilities.

The Company's financial assets include cash and cash equivalents, investments held for trading, investments available for sale, premiums and insurance balances receivable, reinsurer's share of outstanding claims, amounts due from related parties, amounts due from shareholders and other assets.

Its financial liabilities consist of gross outstanding claims, reinsurance balances payable, accounts payable, amounts due to related parties, amounts due to shareholders operations, statutory deposit commission income payable and other liabilities.

Fair values measurement

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 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.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Summary of Significant Accounting Policies (Continued)

Fair values measurement (Continued)

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; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

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 of financial assets are transactions that require settlement of assets within the time frame generally established by regulation or convention in the market place.

Investments

All investments, excluding those held at fair value through profit and loss (if any), are initially recognized at cost, being the fair value of the consideration given including transaction cost associated with the Investments.

Investments held for trading

Investments which are bought with the intention of resale in the short term are classified as trading investments. Such investments are measured and carried in the financial position at fair value. Unrealised gains and losses are included in the statement of income and statement of comprehensive income for the financial period.

Investments available for sale

These represent investments which are neither bought with the intention of being held to maturity nor for trading purposes. Such investments are stated at fair value. Changes in fair value are credited or charged to the statement of comprehensive income of shareholders' operation and statement of income. Where there is objective evidence that investments may be impaired, the estimated recoverable amount of those investments is determined and any impairment loss for the difference between the recoverable amount and the carrying amount is recognized in the statement of comprehensive income and in the statement of income.

Determination of fair values of investments

For investment traded in active market, fair value is determined by reference to quoted market bid prices. For unquoted equity investments, fair value is determined by reference to the market value of similar investments or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information is available for such investments.

Where partial holdings are sold, the related carrying values of such investments are accounted for on a weighted average basis.

De-recognition

Financial assets

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

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

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

De-recognition (Continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

Impairment of financial assets

Financial assets carried at amortized cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income.

Available-for-sale investments

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from shareholders' equity and recognized in the statement of income. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income of income.

Financial assets carried at cost

Impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets (Continued)

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGU, to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the statement of income.

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognised. The Company performs its annual impairment test of goodwill as at 31 December.

The recoverable amount of the non-life insurance business CGU and investment management services business CGU have been determined based on a value in use calculation. The calculation requires the Company to make an estimate of the expected future cash flows from each of the CGUs and discount these amounts using a suitable rate which reflects the risk of those cash flows in order to calculate the present value of those cash flows.

Previously recorded impairment losses for goodwill are not reversed in future periods.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

Premiums receivable and reinsurance receivable

Premiums receivable and reinsurance receivable are recognized when due and measured on initial recognition at the fair value of the considerations received or receivable and are stated at gross less allowance for any uncollectable amount (allowance for doubtful debts) and any impairment in value. Bad debts are written off as incurred. The carrying value of premiums receivable and reinsurance 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 income. Premiums receivable and reinsurance receivable are derecognized when the de-recognition criteria for financial assets have been met.

Accounts payable and accruals

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

Revenue recognition

Premium and reinsurance commissions

Premiums and commission are recorded in the statement of income over the terms of the policies to which they relate on a pro-rata basis. The portion of premiums, reinsurance share of premiums and reinsurance commissions that will be earned in the future is reported as unearned premiums and unearned reinsurance commissions, respectively, and is deferred based on the following methods:

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

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

Investment income

Interest income is recognised in the statement of income as it accrues and is calculated by using the EIR method. Fees and commission that are an integral part of the effective yield of the financial asset are recognised as an adjustment to the EIR of the instrument.

Investment income also includes dividends and when the right to receive payment is established.

Claims

Gross claims consist of benefits and claims paid to policyholders and third parties, and related loss adjustments expenses, net of salvage and other recoveries and are charged to the statement of income as incurred changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

Claims (Continued)

Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of income of for that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Further, the Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

Reinsurance claims

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

Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets.

The Company's reinsurance program is affected through proportional, non-proportional and facultative placements based on the Company's net retention policy, treaty limits, nature and size of the risks.

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each statement of financial position 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 reinsurer can be measured reliably. The impairment loss is recorded in the statement of income. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premium and claims on assumed reinsurance are recognised as revenue and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Premium and claims are presented on a gross basis.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

Reinsurance (Continued)

Claims recoveries receivable from the reinsurers are recognised as an asset at the same time as the claims which give rise to the right of recovery are also recognised as a liability and are measured at the amount expected to be recovered.

Deferred policy acquisition costs (“DAC”)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition DAC is amortised over the period in which the related revenue are earned. The reinsurers’ share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the statement of income.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of income. DAC is also considered in the liability adequacy test for each reporting period. DAC is derecognised when the related contracts are either settled or disposed off.

Salvage and subrogation reimbursement

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

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

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

Unearned reinsurance commission income

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable. Amortisation is recorded in the statement of income.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income net of any reimbursement.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions. The liability is not discounted for the time value of money. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of income by setting up a provision for premium deficiency.

End-of-service indemnities

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company primarily has end of service indemnities, which qualify as defined benefit plans. Accruals to defined benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurements, comprising actuarial gains and losses and the effect of the changes to the asset ceiling (if applicable), is reflected immediately in the statement of financial position with a charge or credit recognised in the comprehensive income in statement of comprehensive income in the period in which they occur. Re-measurement recognised in statement of comprehensive income is reflected as a reserve under net surplus from insurance operations after shareholders' appropriation and will not be reclassified to statement of income. Past service cost is recognised in statement of income in the period of a plan amendment.

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals ("SR") at the exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are re-translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in statements of income and comprehensive income.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, cash at banks and time deposits with original maturities of three months or less, which are subject to an insignificant risk of changes in value.

Statutory reserve

In accordance with the Law on Supervision of Cooperative Insurance Companies and the by-laws of the Company, the Company shall set aside 20% of shareholders' net income in each year to the statutory reserve until it has built up a reserve equal to the share capital. This reserve is not available for dividend distribution.

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulation and are charged to the statement of changes in shareholders' equity. The zakat charge is computed on the Saudi shareholder's share of the zakat base. Income tax is computed on the foreign shareholder's share of adjusted net income. Additional amounts, if any, that may become due on finalization of an assessment are recorded in the year in which the assessment is finalised.

Deferred tax liabilities and assets are recognized for all temporary differences at current rates of taxation. The carrying amount of deferred tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the near future to allow all or part of the deferred tax asset to be utilized. The deferred tax is charged to the statement of comprehensive income of shareholders' operation.

Operating leases

Rentals payable under operating leases are charged to the statement of income on a straight-line basis over the term of the operating lease.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense are not offset in the statements of income and statement of comprehensive income unless required or permitted by any accounting standard or interpretation.

Segmental reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenue and incurs expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organised into business units based on their products and services and has five reportable operating segments as follows:

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Summary of Significant Accounting Policies (Continued)

Segmental reporting (Continued)

- Property insurance, which covers fire and allied perils, property all risks.
- Engineering, which provides coverage against the Contractors' All Risks (CAR), Erection All Risks (EAR), Machinery All Risks (MAR), etc.
- Motor insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Casualty which provides coverage against the loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity.

Segments performance is evaluated based on profit or loss which in certain aspects is measured differently from profit and loss in the financial statements.

Other classes, which covers any other classes of insurance not included above. Operating segments do not include shareholders' operation of the Company.

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.

Shareholders income is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity.

As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy 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 income by establishing a provision for losses arising from liability adequacy tests accordingly.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments and estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Following are the accounting judgments and estimates that are critical in preparation of these financial statements:

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements.

Initial recognition of investments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Impairment of equity investments

The Company treats equity financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Estimation and assumptions

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 :

Fair value measurement of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimation and assumptions (Continued)

Fair value measurement of financial instruments (Continued)

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Valuation of insurance contract liabilities

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. For some types of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is the Company's past claims settlement experience can be used to project future claims settlement and hence ultimate claims costs. As such, these methods extrapolate the settlement of paid and incurred losses, average costs per claim and claim numbers based on the observed settlement of earlier years and expected loss ratios. Historical claims settlement is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future settlement. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims settlement data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgment is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

Impairment losses on receivables

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms. The Company classifies balances as "past due but not impaired (note 8) on the basis of the guidelines given by SAMA.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimation and assumptions (Continued)

Deferred policy acquisition costs ("DAC")

Certain acquisition costs related to the sale of policies are recorded as DAC and are amortized in the statement of income over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment/write-offs in the statement of income.

Useful life of property and equipment

The Company's management determines the estimated useful lives of its property and equipment before calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual values and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

Goodwill impairment testing

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

6. CASH AND CASH EQUIVALENTS

	<i>Insurance operations</i>		<i>Shareholders' operations</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cash in hand	-	15,000	-	-
Cash at banks				
- Current accounts	8,298,585	12,935,952	1,523,906	6,712,794
- Time deposits	64,744,141	73,543,177	66,943,687	48,717,635
	73,042,726	86,494,129	68,467,593	55,430,429

Deposits are placed with local banks with maturities of less than three-months and earn financial income at an average rate of 2.1% to 3.6% (December 31, 2017: 1.4% to 1.96%).

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

7. INVESTMENTS

Investments comprise the following:

	<i>Insurance operations</i>		<i>Shareholders' operations</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Investments held for trading	36,028,138	29,108,064	46,738,086	46,320,848
Investments available for sale	-	-	1,932,078	1,932,078
	36,028,138	29,108,064	48,670,164	48,252,926

Investment securities are classified as follows:

i) Investments held for trading:

a) Category wise analysis is as follows:

<i>Insurance Operations</i>	Domestic		International		Total	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Sukuks and bonds	8,455,503	4,080,014	16,930,277	14,223,655	25,385,780	18,303,669
Equity securities	10,642,358	10,804,395	-	-	10,642,358	10,804,395
	19,097,861	14,884,409	16,930,277	14,223,655	36,028,138	29,108,064
<i>Shareholders' Operations</i>	Domestic		International		Total	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Sukuks and bonds	10,969,039	5,292,865	21,963,077	18,451,865	32,932,116	23,744,730
Equity securities	13,805,970	22,576,118	-	-	13,805,970	22,576,118
	24,775,009	27,868,983	21,963,077	18,451,865	46,738,086	46,320,848

b) Movements in investments held for trading is as follows:

	<i>Insurance operations</i>		<i>Shareholders' operations</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
At the beginning of the year	29,108,064	29,943,700	46,320,848	49,937,913
Acquired during the year	8,986,905	7,122,590	11,658,409	6,783,879
Disposals during the year	(1,280,925)	(7,518,720)	(11,674,100)	(9,753,781)
Unrealised losses on investments held for trading	(746,220)	(387,643)	(968,046)	(579,883)
Realised (losses)/gain	(39,686)	(51,863)	1,400,975	(67,280)
At the end of the year	36,028,138	29,108,064	46,738,086	46,320,848

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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7. INVESTMENTS (Continued)

Management has performed a review of the investments available for sale to assess whether impairment has occurred in the value of these investments. Based on specific information, management is of the view that no impairment is required in respect of the investments available for sale.

All investments are denominated in Saudi Arabian Riyals and US Dollars. As at the balance sheet date investments amounting to SR 67.71 million (2017: SR 61.96 million) are denominated in US Dollars.

The Company arranged through a financial institution inside the Kingdom of Saudi Arabia to invest in certain Sukuks, bonds and equity securities traded in active open market in US Dollars. However, as the management's intention is to sell these investments in the short term, accordingly such investments are classified as investments held for trading.

c) There is no movement for available for sale investments.

8. PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Policyholders	25,914,362	16,007,341
Brokers	54,472,241	47,693,443
Receivables from insurance and reinsurance companies	598,390	7,713,542
Premiums and reinsurance receivables from related parties (note 21)	6,512	66,012
	80,991,505	71,480,338
Less: allowance for doubtful debts, net	(9,248,567)	(6,217,875)
Premiums and reinsurers' receivable – net	71,742,938	65,262,463

The movements in the allowance for doubtful debts are as follows:

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
As at January 1	6,217,875	5,806,060
Allowance for doubtful debts for the year, net	3,030,692	411,815
As at December 31	9,248,567	6,217,875

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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8. PREMIUMS AND INSURANCE BALANCES RECEIVABLE (Continued)

The aging analysis of unimpaired premiums and insurance balances receivable at the year-end is set out below:

	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>		<i>Past due and impaired</i>		
	<i>Total SR</i>	<i>SR</i>	<i>31 - 60 days SR</i>	<i>61 - 90 days SR</i>	<i>91 - 180 days SR</i>	<i>181 - 360 days SR</i>	<i>More than 360 days SR</i>
<i>Premiums and insurance balances receivable</i>							
Premiums receivable	71,424,239	10,553,367	26,223,972	11,676,444	10,490,145	11,373,664	1,106,647
Receivables from insurance and reinsurance companies	312,187	780	112,989	-	-	106,979	91,439
Premiums and reinsurance receivables from related parties (note 21)	6,512	6,512	-	-	-	-	-
As at 31 December 2018	71,742,938	10,560,659	26,336,961	11,676,444	10,490,145	11,480,643	1,198,086
<i>Premiums and insurance balances receivable</i>							
Premiums receivable	57,956,094	26,051,681	7,546,380	8,186,644	10,399,740	5,027,065	744,584
Receivables from insurance and reinsurance companies	7,290,871	5,480,965	284,208	199,572	595,024	618,312	112,790
Premiums and reinsurance receivables from related parties (note 21)	15,498	-	15,498	-	-	-	-
As at 31 December 2017	65,262,463	31,532,646	7,846,086	8,386,216	10,994,764	5,645,377	857,374

Premiums and insurance balances receivables comprise a large number of customers, related parties mainly within the Kingdom of Saudi Arabia as well as reinsurance companies. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require immediate settlement if the balance exceeds a certain agreed amount. No individual, company or broker accounts for more than 25% of the premiums receivable as at December 31, 2018 (2017: 26%). In addition, the five largest customers/brokers account for 35% of the premiums receivable as at December 31, 2018 (2017: 35%).

Unimpaired premiums receivable, receivables from insurance and reinsurance companies and reinsurance receivables from related parties are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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9. TECHNICAL RESERVES

9.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Gross outstanding claims	46,098,352	39,870,152
Less: Realizable value of salvage and subrogation	<u>(2,181,026)</u>	<u>(395,119)</u>
	43,917,326	39,475,033
Claims incurred but not reported	<u>67,524,759</u>	<u>125,252,803</u>
Gross outstanding claims and reserves	111,442,085	164,727,836
Premium deficiency reserve	249,262	696,135
Additional unexpired reserve	<u>89,725</u>	<u>1,720,364</u>
Additional premium reserve	338,987	2,416,499
Claims handling provision	2,012,544	739,763
Unallocated loss adjustment expense	2,030,058	1,449,903
Reinsurance accrual reserve	-	<u>816,071</u>
Other technical reserve	4,042,602	3,005,737
	<u>115,823,674</u>	<u>170,150,072</u>
Less:		
- Reinsurers' share of outstanding claims	(32,402,153)	(24,224,633)
- Reinsurers' share of claims incurred but not reported	<u>(42,927,788)</u>	<u>(91,887,300)</u>
Net outstanding claims and reserves	40,493,733	54,038,139

9.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	Year ended December 31, 2018		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	74,285,096	(44,255,912)	30,029,184
Premium written during the year	233,972,759	(137,034,260)	96,938,499
Premium earned during the year	<u>(230,992,958)</u>	<u>129,660,482</u>	<u>(101,332,476)</u>
Balance as at the end of the year	<u>77,264,897</u>	<u>(51,629,690)</u>	<u>25,635,207</u>
	Year-ended December 31, 2017		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	75,997,779	(46,507,276)	29,490,503
Premium written during the year	220,497,866	(115,107,406)	105,390,460
Premium earned during the year	<u>(222,210,549)</u>	<u>117,358,770</u>	<u>(104,851,779)</u>
Balance as at the end of the year	<u>74,285,096</u>	<u>(44,255,912)</u>	<u>30,029,184</u>

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9. TECHNICAL RESERVES (Continued)

9.3 Movement in deferred policy acquisition costs

	2018 SR	2017 SR
At January 1	4,912,113	5,257,852
Incurred during the year	17,641,071	18,254,400
Amortised during the year	<u>(18,247,903)</u>	<u>(18,600,139)</u>
At December 31	<u>4,305,281</u>	<u>4,912,113</u>

Deferred policy acquisition costs only relate to insurance operations, the company does not have any inwards reinsurance arrangements.

10. CLAIMS DEVELOPMENT

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims. The cumulative claims estimate and cumulative payments are in Saudi Riyal.

As required by IFRS, in setting claims provisions the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus.

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the periods beginning from year 2014 onwards whose claim experience has not been fully developed.

Claims triangulation analysis is by accident years spanning a number of financial years.

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10. CLAIMS DEVELOPMENT (Continued)

a) Claims development table gross of reinsurance:

2018							
<i>Accident year or Underwriting year</i>	<i>Before 2014</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Estimate of ultimate claims cost gross of reinsurance:							
- At the end of the accident year		189,406,802	151,673,440	129,269,681	103,574,125	88,453,752	
- One year later		186,036,960	132,167,884	116,560,888	84,847,151	-	
- Two years later		162,434,450	139,415,815	79,286,789	-	-	
- Three years later		157,473,558	113,821,764	-	-	-	
- Four years later		156,497,093	-	-	-	-	
- Five years later	215,859	-	-	-	-	-	
Current estimate of cumulative claims	215,859	156,497,093	113,821,764	79,286,789	84,847,151	88,453,752	523,122,408
Cumulative payments to date	-	156,219,471	110,799,508	66,152,791	46,489,160	32,019,393	411,680,323
Gross outstanding claims and reserves, net	215,859	277,622	3,022,256	13,133,998	38,357,991	56,434,359	111,442,085
2017							
<i>Accident year or Underwriting year</i>	<i>Before 2013</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Estimate of ultimate claims cost gross of reinsurance:							
- At the end of the accident year		181,787,903	189,406,802	151,673,440	129,269,681	103,574,125	
- One year later		181,054,688	186,036,960	132,167,884	116,560,888	-	
- Two years later		177,867,434	162,434,450	139,415,815	-	-	
- Three years later		174,585,615	157,473,558	-	-	-	
- Four years later		173,953,744	-	-	-	-	
- Five years later	387,420,224	-	-	-	-	-	
Current estimate of cumulative claims	387,420,224	173,953,744	157,473,558	139,415,815	116,560,888	103,574,125	1,078,398,354
Cumulative payments to date	382,306,453	170,456,738	155,926,627	108,629,013	59,935,456	36,416,231	913,670,518
Gross outstanding claims and reserve, net	5,113,771	3,497,006	1,546,931	30,786,802	56,625,432	67,157,894	164,727,836

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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10. CLAIMS DEVELOPMENT (Continued)

b) Claims development table net of reinsurance:

2018							
Accident year or Underwriting year	<i>Before 2014</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<i>Estimate of ultimate claims cost net of reinsurance:</i>							
- At the end of the accident year		57,131,949	64,860,281	63,166,954	52,214,892	47,929,912	
- One year later		57,804,093	60,612,867	55,077,856	44,392,945		
- Two years later		54,001,336	58,489,664	50,748,672			
- Three years later		52,345,604	54,375,167				
- Four years later		51,504,961					
- Five years later	71,700						
Current estimate of cumulative claims	71,700	51,504,961	54,375,167	50,748,672	44,392,945	47,929,912	249,023,357
Cumulative payments to date	-	51,308,845	53,781,312	45,598,180	36,256,980	25,965,896	212,911,213
Gross outstanding claims and reserves, net	71,700	196,116	593,855	5,150,492	8,135,965	21,964,016	36,112,144
2017							
Accident year or Underwriting year	<i>Before 2013</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<i>Estimate of ultimate claims cost net of reinsurance:</i>							
- At the end of the accident year		70,173,169	57,131,949	64,860,281	63,166,954	52,214,892	
- One year later		66,877,609	57,804,093	60,612,867	55,077,856		
- Two years later		67,487,107	54,001,336	58,489,664			
- Three years later		67,450,655	52,345,604				
- Four years later		66,813,703					
- Five years later	235,200,363						
Current estimate of cumulative claims	235,200,363	66,813,703	52,345,604	58,489,664	55,077,856	52,214,892	520,142,082
Cumulative payments to date	231,483,537	64,518,139	50,886,144	54,027,079	42,120,477	28,490,803	471,526,179
Gross outstanding claims and reserves, net	3,716,826	2,295,564	1,459,460	4,462,585	12,957,379	23,724,089	48,615,903

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11. PREPAYMENTS AND OTHER ASSETS

	<i>Insurance operations</i>		<i>Shareholders' operations</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Receivable from manafeth third party liability insurance fund (note 11.1)	1,850,115	2,814,500	-	-
Prepaid insurance	378,649	562,360	-	-
VAT payables	378,274	-	-	-
Accrued interest	201,738	165,004	787,986	524,599
Advance payment on electronic systems	176,000	151,066	-	-
Prepaid system maintenance	142,769	143,750	-	-
Prepaid rent	15,208	152,878	-	-
Employees' receivables	68,454	377,952	-	-
Bank margin in respect to guarantee (note 24 and 28)	-	-	9,500,821	3,311,689
Advance tax	-	-	1,584,997	1,543,721
Others	612,424	1,580,236	-	-
	3,823,631	5,947,746	11,873,804	5,380,009

Note 11.1 Receivable from Manafeth third party liability insurance fund, relates to third party liability for foreign motor insurance. As per the Manafeth shared agreement, the net result of Manafeth portfolio after deducting management fee and related expenses are to be distributed equally among the insurance companies. The income obtained from this fund is classified under other income, net in the statement of income.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

12. PROPERTY AND EQUIPMENT

	<i>Leasehold improvements</i>	<i>Furniture, fixtures and office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cost:				
At January 1, 2017	1,269,790	4,225,062	957,354	6,452,206
Additions	-	111,489	25,218	136,707
Disposals	-	-	(147,000)	(147,000)
At December 31, 2017	1,269,790	4,336,551	835,572	6,441,913
Additions	-	79,277	-	79,277
Disposals	-	-	(292,944)	(292,944)
At December 31, 2018	1,269,790	4,415,828	542,628	6,228,246
Accumulated Depreciation:				
At January 1, 2017	1,207,605	3,842,188	586,501	5,636,294
Charge for the year	32,439	149,771	171,088	353,298
Disposals	-	-	(147,000)	(147,000)
At December 31, 2017	1,240,044	3,991,959	610,589	5,842,592
Charge for the year	24,969	126,535	116,727	268,231
Disposals	-	-	(270,004)	(270,004)
At December 31, 2018	1,265,013	4,118,494	457,312	5,840,819
Net book value:				
At December 31, 2018	4,777	297,334	85,316	387,427
At December 31, 2017	29,746	344,592	224,983	599,321

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

13. INTANGIBLE ASSET

<i>Software package</i>	<i>Total SR</i>
Cost:	
At January 1, 2017	4,372,639
Additions	<u>301,500</u>
At December 31, 2017	4,674,139
Additions	<u>535,312</u>
At December 31, 2018	<u>5,209,451</u>
Amortisation:	
At January 1, 2017	3,774,418
Charge for the year	<u>514,716</u>
At December 31, 2017	4,289,134
Charge for the year	<u>199,922</u>
At December 31, 2018	<u>4,489,056</u>
Net book value:	
At December 31, 2018	<u>720,395</u>
At December 31, 2017	<u>385,005</u>

14. GOODWILL

The Company entered into a purchase agreement whereby it has purchased the insurance business operations in the Kingdom of Saudi Arabia of Ace Arabia Insurance Company BSC and International Insurance Company BSC. The purchase price was based on a valuation study conducted in accordance with the due diligence and valuation guidelines issued by SAMA and the value of goodwill was estimated at SR 43.77 million.

Goodwill has been allocated to the operations of the entire Company which is considered as one CGU. The carrying amount of goodwill amounts to SR 43.7 million and no impairment loss has been recognised in 2018 and 2017, as a result of the impairment review for the CGU.

The Company entered into a purchase agreement whereby it has purchased the insurance business operations in the Kingdom of Saudi Arabia of Ace Arabia Insurance Company B.S.C. (c) and International Insurance Company B.S.C. (c). The purchase price was based on a valuation study conducted in accordance with the due diligence and valuation guidelines issued by SAMA. In accordance with the SAMA letter of November 10, 2008 ("the Letter"), the value of combined goodwill was estimated at SR 43.77 million. The amount has been paid in accordance with SAMA's instructions.

As at the statement of financial position date, the management of the Company has assessed the carrying value of the goodwill. Based on their assessment, the management believes that there is no objective evidence or circumstances that indicate any impairment in the value of the goodwill. Therefore, no impairment is required to be recognised in respect of the goodwill in the statement of income of shareholders' operations.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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14. GOODWILL (Continued)

In accordance with the requirements of the International Financial Reporting Standards, the Company's management has annually carried out an impairment test in respect of the abovementioned goodwill. The management conducted the impairment exercise for the year ended 31 December 2018. The recoverable amount of the operations has been based on the value in use calculation using cash flow projections based on financial budgets approved by the senior management covering a five-year period.

The key assumptions used for the VIU impairment calculation are:

- ▶ Investment market conditions – Investment market conditions are based on market research and published statistics. Management plans assume modest investment growth of 1.50 % (2017: 2.5 %), which is lower than the anticipated market growth forecast.
- ▶ Policy lapses – The Company has retained records of policy lapses since its inception and is, therefore, able to predict trends over the coming years. Management plans assume no change from recent experiences.
- ▶ Premiums – Earned premium income is based on average values achieved in the three years preceding the start of the budget period. An average growth rate of 25% (2017: 13%) per annum was applied.
- ▶ Expenses – Estimates are obtained from published indices of inflation and market research. The financial budget plans assume that expenses will broadly increase in line with inflation.
- ▶ Average discount rate – The Company has used an average discount rate of 20.3% (2017: 13.3%).

Sensitivity to changes in assumptions

With regard to the assessment of value in use for the identified CGU, management does not believe a reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to exceed its recoverable amount. The actual recoverable amount exceeds its carrying amount by SR 150.7 million.

Management recognised the fact that current market conditions reflect stable and profitable margins. Management believes even a reduction of 10% in the premium growth rate would not have any significant impact on the recoverable amount as compared to the carrying amount of the CGU.

15. STATUTORY DEPOSIT

The statutory deposit represents 10% of the paid up share capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. Saudi Arabian Monetary Agency ("SAMA") is entitled to the earnings of this statutory deposit and it cannot be withdrawn without its consent.

In accordance with the instruction received from SAMA vide their circular dated 1 March 2016, the Company has disclosed the commission earned on the statutory deposit as at 31 December 2018 as an asset and a liability in these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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16. UNEARNED REINSURANCE COMMISSION INCOME

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
At January 1	6,225,692	7,032,478
Reinsurance commission received during the year	22,142,151	21,393,049
Reinsurance commission earned during the year	<u>(21,257,548)</u>	<u>(22,199,835)</u>
At December 31	<u>7,110,295</u>	<u>6,225,692</u>

17. REINSURANCE BALANCES PAYABLE

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Related parties (note 21)	10,432,831	8,247,481
Others	27,459,235	21,568,305
	<u>37,892,066</u>	<u>29,815,786</u>

18. ACCRUED EXPENSES AND OTHER LIABILITIES

	Insurance operations		Shareholders' operations	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Stale cheques	2,626,851	2,886,298	-	-
Accrued bonus	1,640,933	2,000,000	-	-
Withholding tax payable	829,518	314,756	-	-
Deferred premium receivable	785,171	2,078,367	-	-
Accrued supervision fees	245,609	225,131	-	-
Employees' vacation salary	173,456	-	-	-
Accrued legal and professional fees	112,500	95,000	384,999	343,002
Survey fees payables	98,571	117,404	-	-
Remuneration of board of directors' and other committee's members	-	-	2,241,000	1,545,000
Other	184,219	951,614	37,500	12,500
	<u>6,696,828</u>	<u>8,668,570</u>	<u>2,663,499</u>	<u>1,900,502</u>

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19. SURPLUS DISTRIBUTION PAYABLE

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Opening surplus distribution payable	5234380	16,905,556
Total income attributed to the insurance operations	5,003,795	4,292,099
Surplus paid to policy holders	(3,473,925)	(15,963,275)
Closing surplus distribution payable	<u>6,764,250</u>	<u>5,234,380</u>

20. END-OF-SERVICE INDEMNITIES

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

20.1 The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Present value of defined benefit obligation	<u>7,174,176</u>	<u>6,117,342</u>

20.2 Movement in defined benefit obligation

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
January 1,	6,117,342	7,999,217
Charged during the year	1,193,543	1,087,746
Actuarial loss charged to comprehensive income	741,587	157,784
Paid during the year	(878,296)	(3,127,405)
At December 31	<u>7,174,176</u>	<u>6,117,342</u>

20.3 Charge to statement of income for the year

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Current service cost	1,000,492	827,801
Interest cost	193,051	259,945
Cost recognized in statement of income	<u>1,193,543</u>	<u>1,087,746</u>

20.4 Principal actuarial assumptions

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Discount factor used	4.30%	2.95%
Long term salary increase rate	5.00%	5.00%
Mortality rates	WHO SA 15 - 75%	WHO SA 15 - 75%
Weighted average duration of defined benefit obligation	7.13	8.24
Rates of employees turnover	Moderate	Heavy

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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20. END-OF-SERVICE INDEMNITIES (continued)

20.5 Sensitivity analysis on present value of defined benefit obligations plan are as below:

	<i>31 December, 2018</i>		<i>31 December, 2017</i>	
	<i>Percentage (%)</i>	<i>Amount (SR)</i>	<i>Percentage (%)</i>	<i>Amount (SR)</i>
Discount rate				
Increase	+0.5%	6,927,665	+0.5%	5,920,796
Decrease	-0.5%	7,440,042	-0.5%	6,451,226
Expected changes in long term salary				
Increase	+0.5%	7,346,517	+0.5%	6,341,081
Decrease	-0.5%	7,012,188	-0.5%	6,091,320

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the end-of-service indemnities recognised within the statement of financial position.

2.6 Expected charge to statement of income for the year ending 31 December 2019

	<i>2019</i>
	<i>SR</i>
Current service cost	1,023,462
Interest cost	324,127
Cost to be recognized in statement of income	<u>1,347,589</u>

21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties represent shareholders, companies related to shareholders (“affiliates”) and key management personnel and the entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company’s management and Board of Directors. The following are the details of major related parties’ transactions during the year and the related balances:

<i>Related parties</i>	<i>Nature of transactions</i>	<i>2018</i>	<i>2017</i>
		<i>SR</i>	<i>SR</i>
Shareholders	Reinsurance premiums ceded	52,261,486	44,435,028
	Reinsurers’ share of gross claims	5,395,849	15,671,949
	Reinsurance commission income	8,012,253	8,436,458
Affiliates	Gross written premiums	941,829	1,253,606
	Rent (note 22)	1,399,770	1,420,735
	Claim expenses	3,525,574	3,620,261
Board of Directors	Remuneration	1,425,000	1,104,000
	Meeting fees	1,222,000	234,000
	Travel expenses	390,841	320,012

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Balances due from related parties are comprised of the followings:

<u>Related parties</u>	<i>Amounts due from related parties</i>	
	<u>2018</u>	<u>2017</u>
	<u>SR</u>	<u>SR</u>
ACE Arabia Insurance Company BSC	-	80,750
International Insurance Company BSC	-	2,504
Total	-	83,254

<u>Related parties</u>	<i>Premiums and reinsurance receivables</i>		<i>Reinsurance payables</i>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
CHUBB European Group London, UK	-	-	2,308,082	968,393
CHUBB European Group, France	-	-	1,852,083	1,066,967
CHUBB American Insurance Co., USA	-	-	1,850,805	3,635,732
ACE American Insurance, Bahrain	-	-	1,071,914	-
CHUBB Tempest RE	-	-	1,040,444	700,021
CHUBB Philadelphia, USA	-	-	749,767	119,541
CHUBB, Australia	-	-	641,717	-
CHUBB European Group, Turkey	-	-	447,228	768,372
ACE Mena, Bahrain	6,512	-	169,902	626,191
RFIB Group Limited, UK	-	15,497	-	101,117
Others	-	50,515	300,889	261,147
Total	6,512	66,012	10,432,831	8,247,481

- Amounts due from/ due to, pertain to transactions conducted with affiliates.
- Prices and terms of payment for these transactions are approved by the management.

Remuneration and compensation of BOD Members and Executives

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and top executives for the year ended December 31, 2018 and 2017:

	BOD members	BOD members	Key
	(Executives)	(Non-Executive)	management
2018			
Salaries and compensation	-	-	3,074,319
End of service indemnities	-	-	198,824
Travel expenses	9,697	381,144	390,841
Annual remuneration and meeting fees	305,000	2,342,000	-
Total	314,697	2,723,144	3,663,984

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21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Remuneration and compensation of BOD Members and Executives (Continued)

2017	BOD members (Executives)	BOD members (Non- Executive)	Key Management
Salaries and compensation	-	-	2,821,190
End of service indemnities	-	-	127,383
Travel expenses	-	320,012	320,012
Annual remuneration and meeting fees	150,000	1,188,000	-
Total	150,000	1,508,012	3,268,585

22. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>Insurance operations</i>		<i>Shareholders' operations</i>	
	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>	<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Employees' cost	19,976,485	19,336,031	512,217	495,796
Rent (note 21 and 32)	1,823,942	1,922,937	46,768	49,306
End-of-service indemnities (note 20)	1,145,262	1,056,608	48,281	31,138
Insurance	989,011	1,185,648	25,359	30,401
IT related services	728,114	747,632	18,670	19,171
Utilities	557,273	507,526	14,289	13,013
Depreciation and amortisation	456,449	846,314	11,704	21,700
Business travel and transport	294,511	410,231	7,552	10,518
Training costs	287,002	232,452	7,359	5,960
Stationery	204,313	302,200	5,239	7,749
Professional fees	20,475	16,036	843,774	968,515
Promotion and advertising	52,992	71,509	16,882	57,235
Repairs and maintenance	47,016	70,112	1,206	1,798
Fees and subscriptions	45,632	156,369	1,170	4,009
Remuneration of the board of directors', meeting fee and related expenses	-	-	3,037,841	1,658,012
Others	2,192,921	774,042	540,471	353,006
	28,821,398	27,635,647	5,138,782	3,727,327

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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23. INVESTMENT INCOME

	<i>Insurance operations</i>		<i>Shareholders' operations</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Investment held for trading				
Special commission income	788,605	801,808	1,023,033	1,040,203
Dividend income	302,531	280,639	392,463	364,064
Cash and short-term deposit				
Interest income	1,462,582	1,069,201	2,749,009	2,015,878
	<u>2,553,718</u>	<u>2,151,648</u>	<u>4,164,505</u>	<u>3,420,145</u>

24. ZAKAT AND INCOME TAX

a) **Zakat**

Charge for the year

The zakat charge relating to Saudi shareholders' and principal elements of zakat base are as following:

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Equity	140,000,000	140,000,000
Opening provisions and other adjustments	9,143,156	27,760,259
Book value of long term assets, net of related financing	(2,127,933)	(2,041,485)
	<u>147,015,223</u>	<u>165,718,774</u>
Zakatable income for the year	31,502,162	29,376,650
Zakat base	<u>178,517,385</u>	<u>195,095,424</u>
	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Charge and provision for the year	<u>5,207,355</u>	<u>4,877,386</u>

The difference between the financial results and zakatable income is mainly due to adjustments for certain costs based on relevant regulations.

b) **Income tax**

Charge for the year

Income tax relating to the non-Saudi shareholders' consists of:

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Charge and provision for the year	<u>2,988,711</u>	<u>2,405,086</u>

Income tax has been provided for based on the estimated taxable profit at the rate of 20% per annum.

The differences between the financial results and taxable income are mainly due to adjustments for certain costs/claims based on the relevant fiscal regulations.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
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24. ZAKAT AND INCOME TAX (Continued)

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

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

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	13,371,168	17,600,102
Provision for the year	8,196,066	7,282,472
Paid during the year	<u>(3,432,721)</u>	<u>(11,511,406)</u>
At the end of the year	<u>18,134,513</u>	<u>13,371,168</u>

The following is the shareholding percentage in the financial statements as at the end of the year:

	<i>December</i>	<i>December</i>
	<i>31, 2018</i>	<i>31, 2017</i>
	<i>%</i>	<i>%</i>
Shareholding subject to zakat	<u>70.00</u>	<u>70.00</u>
Shareholding subject to income tax	<u>30.00</u>	<u>30.00</u>

d) Zakat and income tax assessments

In 2015, the General Authority of Zakat and Tax ("the GAZT") raised final assessments for the years ended December 31, 2009 to 2012 and assessed additional income tax, zakat and withholding tax liability amounting to SR 13.79 million and delay fines of SR 4.4 million. The management has filed an appeal against these assessments, however, the Company has paid SR 14.9 million for income tax, withholding tax and delay fines and also furnished a bank guarantee of SR 3.3 million in favor of GAZT for zakat liability for above mentioned years.

During the year, the Company received assessments for the years 2013 to 2015 where the GAZT had requested for an additional zakat and income tax liability and delay fine of SR 6.2 million. The management has filed an appeal against the assessment and submitted a bank guarantee amounting to SR 6.2 million to cover the additional income tax, zakat and delay fine liability.

Zakat and income tax assessments have not been raised by the GAZT for the years 2016 or 2017.

Zakat and income tax has been computed based on the Company's understanding and interpretation of the zakat and income tax regulations enforced in the Kingdom of Saudi Arabia. The GAZT continues to issue circulars to clarify certain zakat and tax regulations which are usually enforced on all open years. The zakat regulations in Saudi Arabia are subject to different interpretations and new zakat regulations have been issued by the GAZT dated 1 Jumada II 1438H (corresponding to 28 February 2017). The zakat and income tax liability as computed by the Company could be different from zakat and tax liability as assessed by the GAZT for years for which assessments have not yet been raised by the GAZT.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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25. SHARE CAPITAL

The authorised, issued and paid-up share capital is SR 200 million at December 31, 2018 consisting of 20 million shares (December 31, 2017: SR 200 million consisting of 20 million shares) of SR 10 each.

In 2017, there has been 100% increase in the share capital of the Company by way of issuance of bonus shares, which was approved by the shareholders in an extraordinary general assembly meeting held on 19 October 2017. The increase in share capital are funded from the retained earnings and statutory reserve accounts by transferring an amount of SR 80 million from retained earnings and SR 20 million from statutory reserve which will resulted in an increase in authorized, issued and paid up share capital to SR 200 million from SR 100 million. The number of issued shares increased from Ten Million (10,000,000) to Twenty Million (20,000,000) shares. The legal formalities for the increase have been completed in 2017.

Shareholding structure of the Company is as below.

	<i>December 31, 2018</i>		
	<i>Type</i>	<i>Country</i>	<i>Percentage Shareholding %</i>
Chubb International Holding Co.	Company	United States of America	30
El-Khereiji Investment Company	Company	Saudi Arabia	10
International Corporation For Trade And Contract Services	Company	Saudi Arabia	5
El-Khereiji Construction Company	Company	Saudi Arabia	5
El-Khereiji Trading & Electronics Company	Company	Saudi Arabia	5
El-Khereiji Real Estate	Company	Saudi Arabia	5
General Public	Individuals	Saudi Arabia	40
	<i>December 31, 2017</i>		
	<i>Type</i>	<i>Country</i>	<i>Percentage Shareholding %</i>
Chubb International Holding Co.	Company	United States of America	30
El-Khereiji Investment Company	Company	Saudi Arabia	10
International Corporation For Trade And Contract Services	Company	Saudi Arabia	5
El-Khereiji Construction Company	Company	Saudi Arabia	5
El-Khereiji Trading & Electronics Company	Company	Saudi Arabia	5
El-Khereiji Real Estate	Company	Saudi Arabia	5
General Public	Individuals	Saudi Arabia	40

26. STATUTORY RESERVE

In accordance with the Law on Supervision of Cooperative Insurance Companies and the by-laws of the Company, the Company has transferred 20% of shareholders' net income to the statutory reserve until the reserve amount equal to 100% of paid up capital.

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(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

27. EARNINGS PER SHARE

Earnings per share for the year have been calculated by dividing the net income for the year by the weighted average number of outstanding shares during the year.

28. COMMITMENTS AND CONTINGENCIES

a) **The Company's commitments and contingencies are as follows:**

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Letters of guarantee	9,500,821	3,311,689

b) **Legal proceedings**

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business relating to policyholders insurance claims. 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 impact on the Company's results or financial position.

29. CAPITAL MANAGEMENT

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

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. 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 Company manages its capital to ensure that it is able to continue as going concern and comply with the regulators' capital requirements of the markets in which the Company operates while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital, reserves and retained earnings.

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

- Minimum Capital Requirement of SAR 100 million
- Premium Solvency Margin
- Claims Solvency Margin

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

29. CAPITAL MANAGEMENT (Continued)

The solvency margin as at December 31, 2018 is 203% (2017: 182%). Further, the Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at December 31, 2018 consists of paid-up share capital of SAR 200 million, statutory reserves of SAR 28.2 million and retained earnings of SAR 64.9 million (December 31, 2017: paid-up share capital of SAR 200 million, statutory reserves of SAR 19.3 million and retained earnings of SAR 37.5 million) in the statement of financial position.

In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial period.

30. SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, operating segment has been approved by Board of Directors in their function as Chief Operating Decision Maker ("CODM") in order to allocate resources to the segments and to assess its performance.

For management purposes, the Company is organized into business segments classified as: Property, Engineering, Motor, Casualty and Others. Others include marine and other general insurance. These segments are the basis on which the Company reports its primary segment information.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit is loss since 31 December 2017.

Segment results do not include , allowance for doubtful debts, general and administrative expenses, dividend, unrealised losses on disposal of investments held for trading, realized gains on investments held for trading and other income, net.

Segment assets do not include cash and cash equivalents, premiums and insurance balances receivable, amounts due from related parties, investments held for trading, investments available for sale, prepayments and other assets, term deposits, property and equipment, intangible assets, goodwill, statutory deposit and statutory deposit commission income. Accordingly, they are included in unallocated assets.

Segment liabilities and accumulated surplus do not include accounts payables, accrued expenses and other liabilities, reinsurance balances payable, end of service indemnities, statutory deposit commission income payable, provision for zakat and income tax and re-measurement reserve of defined benefit obligation. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

The segment information provided to the Company's Board of Directors for the reportable segments for the Company's total assets and liabilities at December 31, 2018 and December 31, 2017, its total revenues, expenses, and net income for the year then ended, are as follows:

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
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30. SEGMENTAL INFORMATION (Continued)

Operating segments

*For the year ended
December 31, 2018*

	<i>Property SR</i>	<i>Engineering SR</i>	<i>Motor SR</i>	<i>Casualty SR</i>	<i>Others SR</i>	<i>Total SR</i>
REVENUE						
Gross written premiums	81,294,722	18,885,215	73,840,778	38,212,101	21,739,943	233,972,759
Less: Reinsurance premiums ceded						
Local	(4,164,629)	(1,453,763)	-	-	(405,201)	(6,023,593)
Foreign	(69,040,175)	(14,462,501)	(11,636,413)	(20,182,442)	(11,286,390)	(126,607,921)
Excess of loss expenses	(1,496,470)	(581,960)	(955,682)	(492,322)	(876,312)	(4,402,746)
Net premiums written	6,593,448	2,386,991	61,248,683	17,537,337	9,172,040	96,938,499
Change in unearned premiums	(4,210,800)	(282,691)	1,186,200	(551,995)	879,485	(2,979,801)
Change in reinsurance share of unearned premiums	3,714,122	629,942	2,515,645	731,446	(217,377)	7,373,778
Net premiums earned	6,096,770	2,734,242	64,950,528	17,716,788	9,834,148	101,332,476
Reinsurance commission income	9,717,258	3,762,938	2,404,761	3,012,345	2,360,246	21,257,548
NET REVENUES	15,814,028	6,497,180	67,355,289	20,729,133	12,194,394	122,590,024
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	(7,068,019)	(3,301,581)	(33,935,377)	(1,486,467)	(3,847,004)	(49,638,448)
Expenses incurred related to claims	(258,912)	(330,192)	(1,863,985)	(46,923)	(109,318)	(2,609,330)
Reinsurers' share of gross claims paid	4,880,597	3,291,166	3,156,435	263,539	2,645,608	14,237,345
Net claims and other benefits paid	(2,446,334)	(340,607)	(32,642,927)	(1,269,851)	(1,310,714)	(38,010,433)
Change in outstanding claims	(4,625,743)	(1,445,750)	3,870,710	(2,194,224)	(47,286)	(4,442,293)
Changes in reinsurance share of outstanding claims	6,840,411	921,497	874,889	140,681	(599,958)	8,177,520
Changes in claims incurred but not reported	47,030,436	158,804	5,305,349	7,443,606	(2,210,151)	57,728,044
Changes in reinsurance share of claims incurred but not reported	(46,064,756)	1,405,438	1,398,696	(6,813,327)	1,114,437	(48,959,512)
Net claims and other benefits incurred	734,014	699,382	(21,193,283)	(2,693,115)	(3,053,672)	(25,506,674)
Changes in additional premium reserve	438,603	1,608,703	-	-	30,206	2,077,512
Changes in other technical reserves	45,013	(487,721)	(54,297)	(210,027)	(329,833)	(1,036,865)
Policy acquisition costs	(4,502,750)	(1,260,824)	(7,255,204)	(3,197,045)	(2,032,080)	(18,247,903)
Other underwriting expenses	(561,569)	(263,076)	(624,722)	(350,780)	(413,318)	(2,213,465)
TOTAL UNDERWRITING COSTS AND EXPENSES	(3,846,689)	296,464	(29,127,506)	(6,450,967)	(5,798,697)	(44,927,395)
NET UNDERWRITING INCOME	11,967,339	6,793,644	38,227,783	14,278,166	6,395,697	77,662,629
OTHER OPERATING (EXPENSES)/ INCOME						
Unallocated allowance for doubtful debts						(3,030,692)
Unallocated general and administrative expenses						(33,960,180)
Unallocated dividend, interest and commission income						6,718,223
Unallocated unrealised losses on disposal of investments held for trading						(1,714,266)
Unallocated realized gains on investments held for trading						1,361,289
Unallocated other income, net						2,459,600
TOTAL OTHER OPERATING EXPENSES						(28,166,026)
TOTAL INCOME FOR THE YEAR						49,496,603
Surplus transferred to Shareholders						(44,492,808)
NET RESULTS AFTER TRANSFER OF SURPLUS TO SHAREHOLDERS						5,003,795

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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30. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

<i>As at December 31, 2018</i>	<i>Property SR</i>	<i>Engineering SR</i>	<i>Motor SR</i>	<i>Casualty SR</i>	<i>Others SR</i>	<i>Total - Insurance operations SR</i>	<i>Shareholders' operations SR</i>	<i>Total SR</i>
Assets								
Reinsurers' share of unearned Premiums	27,572,729	9,116,613	2,828,411	10,311,791	1,800,146	51,629,690	-	51,629,690
Reinsurers' share of outstanding claims	19,285,759	10,117,480	874,889	477,544	1,646,481	32,402,153	-	32,402,153
Reinsurers' share of claims incurred but not reported	32,334,465	4,424,183	1,481,945	1,965,957	2,721,238	42,927,788	-	42,927,788
Deferred policy acquisition costs	960,091	474,423	1,391,635	1,168,997	310,135	4,305,281	-	4,305,281
Unallocated assets						185,745,255	273,497,283	459,242,538
TOTAL ASSETS						317,010,167	273,497,283	590,507,450
Liabilities								
Gross unearned premiums	29,898,291	10,327,128	17,496,013	16,044,956	3,498,509	77,264,897	-	77,264,897
Gross outstanding claims	20,450,791	11,215,127	3,950,502	5,039,080	3,261,826	43,917,326	-	43,917,326
Claims incurred but not reported	35,519,793	6,473,157	11,532,190	7,635,251	6,364,368	67,524,759	-	67,524,759
Unearned reinsurance commission income	2,614,584	1,892,200	724,932	1,347,781	530,798	7,110,295	-	7,110,295
Additional premium reserve	225,670	111,661	-	-	1,656	338,987	-	338,987
Other technical reserves	1,675,686	602,887	1,001,541	375,040	387,448	4,042,602	-	4,042,602
Unallocated liabilities						75,198,473	22,041,283	97,239,756
TOTAL LIABILITIES						275,397,339	22,041,283	297,438,622

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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30. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

*For the year ended
December 31, 2017*

	<i>Property SR</i>	<i>Engineering SR</i>	<i>Motor SR</i>	<i>Casualty SR</i>	<i>Others SR</i>	<i>Total SR</i>
REVENUE						
Gross written premiums	68,317,687	22,800,237	71,758,426	35,865,671	21,755,845	220,497,866
Less: Reinsurance premiums ceded						
Local	(3,554,952)	(1,324,500)	-	-	(416,054)	(5,295,506)
Foreign	(58,024,482)	(18,126,782)	(671,708)	(18,026,011)	(10,885,356)	(105,734,339)
Excess of loss expenses	(1,033,606)	(534,184)	(933,641)	(475,744)	(1,100,386)	(4,077,561)
Net premiums written	5,704,647	2,814,771	70,153,077	17,363,916	9,354,049	105,390,460
Change in unearned premiums	1,705,522	2,480,534	(2,072,324)	(992,296)	591,247	1,712,683
Change in reinsurance share of unearned premiums	(1,591,361)	(1,813,425)	295,484	1,146,760	(288,822)	(2,251,364)
Net premiums earned	5,818,808	3,481,880	68,376,237	17,518,380	9,656,474	104,851,779
Reinsurance commission income	12,010,653	5,214,688	35,130	2,724,026	2,215,338	22,199,835
NET REVENUES	17,829,461	8,696,568	68,411,367	20,242,406	11,871,812	127,051,614
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	(35,162,198)	(10,246,750)	(33,031,197)	(2,269,714)	(9,473,885)	(90,183,744)
Expenses incurred related to claims	(893,581)	(388,767)	(1,331,413)	(196,002)	(314,580)	(3,124,343)
Reinsurers' share of gross claims paid	33,563,917	8,889,483	-	399,155	6,864,510	49,717,065
Net claims and other benefits paid	(2,491,862)	(1,746,034)	(34,362,610)	(2,066,561)	(2,923,955)	(43,591,022)
Changes in outstanding claims	39,808,381	4,828,191	4,173,800	1,661,049	1,438,946	51,910,367
Changes in reinsurance share of outstanding claims	(37,285,776)	(3,483,990)	(285,000)	267,238	39,085	(40,748,443)
Changes in claims incurred but not reported	(42,265,922)	(572,270)	608,588	(5,836,489)	(1,728,677)	(49,794,770)
Changes in reinsurance share of claims incurred but not reported	40,204,229	(1,060,045)	(115,867)	3,649,718	801,972	43,480,007
Net claims and other benefits incurred	(2,030,950)	(2,034,148)	(29,981,089)	(2,325,045)	(2,372,629)	(38,743,861)
Changes in additional premium reserve	(664,273)	185,466	-	-	(31,862)	(510,669)
Changes in other technical reserves	(1,519,041)	(59,531)	(64,010)	(165,013)	(57,615)	(1,865,210)
Policy acquisition costs	(4,648,168)	(1,695,411)	(6,953,261)	(3,194,994)	(2,108,305)	(18,600,139)
Other underwriting expenses	(470,969)	(254,531)	(556,923)	(296,323)	(340,684)	(1,919,430)
TOTAL UNDERWRITING COSTS AND EXPENSES	(9,333,401)	(3,858,155)	(37,555,283)	(5,981,375)	(4,911,095)	(61,639,309)
NET UNDERWRITING INCOME	8,496,060	4,838,413	30,856,084	14,261,031	6,960,717	65,412,305
OTHER OPERATING (EXPENSES)/ INCOME						
Unallocated allowance of doubtful debts						(411,815)
Unallocated general and administrative expenses						(31,362,974)
Unallocated dividend, interest and commission income						5,571,793
Unallocated realised losses on disposal of investments held for trading						(119,143)
Unallocated unrealised losses on investments held for trading						(967,526)
Unallocated other income, net						3,844,003
TOTAL OTHER OPERATING EXPENSES						(23,445,662)
TOTAL INCOME FOR THE YEAR						41,966,643
Surplus transferred to shareholders						(37,674,544)
NET RESULTS AFTER TRANSFER OF SURPLUS TO SHAREHOLDERS						4,292,099

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30. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

<i>As at December 31, 2017</i>	<i>Property SR</i>	<i>Engineering SR</i>	<i>Motor SR</i>	<i>Casualty SR</i>	<i>Others SR</i>	<i>Total - Insurance operations SR</i>	<i>Shareholders' operations SR</i>	<i>Total SR</i>
Assets								
Reinsurers' share of unearned premiums	23,858,607	8,486,671	312,766	9,580,345	2,017,523	44,255,912	-	44,255,912
Reinsurers' share of outstanding claims	12,445,348	9,195,983	-	336,863	2,246,439	24,224,633	-	24,224,633
Reinsurers' share of claims incurred but not reported	78,399,221	3,018,745	83,249	8,779,284	1,606,801	91,887,300	-	91,887,300
Deferred policy acquisition costs	768,168	575,646	1,692,016	1,331,291	544,992	4,912,113	-	4,912,113
Unallocated assets						187,879,982	233,501,105	421,381,087
TOTAL ASSETS						353,159,940	233,501,105	586,661,045
Liabilities								
Gross unearned premiums	25,687,491	10,044,437	18,682,213	15,492,961	4,377,994	74,285,096	-	74,285,096
Gross outstanding claims	15,825,048	9,769,377	7,821,212	2,844,856	3,214,540	39,475,033	-	39,475,033
Claims incurred but not reported	82,550,229	6,631,961	16,837,539	15,078,857	4,154,217	125,252,803	-	125,252,803
Unearned reinsurance commission income	2,412,580	1,807,496	31,081	1,415,852	558,683	6,225,692	-	6,225,692
Additional premium reserves	664,273	1,720,364	-	-	31,862	2,416,499	-	2,416,499
Other technical reserves	1,720,699	115,166	947,244	165,013	57,615	3,005,737	-	3,005,737
Unallocated liabilities						63,139,107	16,088,992	79,228,099
TOTAL LIABILITIES						313,799,967	16,088,992	329,888,959

Geographical segments

All the assets and liabilities of the Company are located in the Kingdom of Saudi Arabia except for certain investments held in countries domiciled in the Gulf Cooperation Council ("GCC").

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31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The management assessed that cash, bank balances and short-term deposits, receivables from related parties, accounts payable, reinsurance balances payable, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Determination of fair value and fair value hierarchy

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

- Level 1 – quoted (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; and
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

	<i>31 December 2018</i>			
	Level 1	Level 2	Level 3	Total
	SR	SR	SR	SR
Investments held for trading	82,766,224	-	-	82,766,224
Investments available for sale	-	-	1,932,078	1,932,078
	<u>82,766,224</u>	<u>-</u>	<u>1,932,078</u>	<u>84,698,302</u>

	<i>31 December 2017</i>			
	Level 1	Level 2	Level 3	Total
	SR	SR	SR	SR
Investments held for trading	75,428,912	-	-	75,428,912
Investments available for sale	-	-	1,932,078	1,932,078
	<u>75,428,912</u>	<u>-</u>	<u>1,932,078</u>	<u>77,360,990</u>

During the year, there has been no transfer between level 1, level 2 and level 3.

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32. OPERATING LEASE ARRANGEMENTS

	<i>Insurance operations</i>		<i>Shareholders' operations</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Operating leases expense recognized during the year (note 22)	1,823,942	1,922,937	46,768	49,306

Future rental commitments under non-cancellable operating leases at the financial position date are as follows:

	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>
Not later than one year	1,745,498	1,750,150
Later than one year and not later than five years	1,620,840	1,203,562
Net minimum lease payments	3,366,338	2,953,712

The Company has operating leases for rental of certain properties located in Al Khobar and Jeddah for a period of 3 years commenced from 2015 and 2013, respectively and in Riyadh for a period of 10 years commenced from 2008 and the agreement will be renewed by mutual agreement of the parties.

33. RISK MANAGEMENT

Risk governance

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

Risk management structure

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

Board of Directors

The apex of risk governance is the centralised oversight of BOD providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Risk Management Committee

The Company has a Risk Management Committee in place. The Committee meets to review the reports of the Risk Manager to give advice and make recommendations on Company's enterprise-wide risk management to the BOD. The risks of each area are managed by the respective Line Managers and Departmental Heads. The Company continues to develop its risk management capability to ensure that an effective framework exists to support the management of all types of risk both currently and in future under SAMA's implementing rules and regulations. Elements of this framework include the regular identification and assessment of the key risks and controls as well as clearly defined ownership of both the risks and controls.

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33. RISK MANAGEMENT (Continued)

Risk governance (continued)

Senior management

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

Audit Committee and Internal Audit Department

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

The primary objective of the Company's risk management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The risks faced by the Company and the manner in which these risks are mitigated by management are summarized below:

Insurance and reinsurance risk management

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under such contracts is the occurrence of the insured events and the severity of reported claims. The Company's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

Underwriting and retention policies, procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local markets are closely observed, reacting where necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

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33. RISK MANAGEMENT (Continued)

Frequency and severity of claims

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

(i) Property

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

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

(ii) Engineering

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

(iii) Motor

For motor insurance contracts, the main elements of risk are claims arising out of insured vehicles as well as damage to third parties' properties. Further, death claims compensation have been made in accordance with the laws as applicable in the Kingdom of Saudi Arabia.

This risk is covered by per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

(iv) Casualty

For casualty class of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The extent of loss or damage is the main factor that influences the level of claims.

(v) Marine

In marine insurance, the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

Reinsurance arrangements have been made with reinsurers through proportional treaties as well as non-proportional treaties.

33. RISK MANAGEMENT (Continued)

Concentration of insurance risk

The Company strictly follows its underwriting process, and ensures it eliminates concentration of risks. Elimination of location limit under the marine proportional treaty and having a third excess of losses (“XOL”) layer to protect accumulation on the net retention to take care of concentration. On the casualty side, concentration of risk is very minimal and XOL treaty takes care of it. In respect to motor line of business, the Company has entered into a proportional reinsurance treaty which covers the risk appropriately. The Company does not have any significant claims where the amount and timing of payment is not resolved within one year of the statement of financial position date.

Reinsurance risk

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company’s liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

Regulatory framework risk

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

Credit risk

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

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

- The Company only enters into insurance and reinsurance contracts with recognised credit worthy third parties. It is the Company’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company’s exposure to bad debts.
- The Company’s investment portfolio is managed by the investment committee in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.
- There are no significant concentrations of credit risk within the Company.

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33. RISK MANAGEMENT (Continued)

Credit risk (Continued)

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

	<i>Insurance operations</i>		<i>Shareholders' operations</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cash and cash equivalents	8,298,585	12,950,952	1,523,906	6,712,794
Time deposits	64,744,141	73,543,177	66,943,687	48,717,635
Term deposits	-	-	79,467,701	59,845,669
Investments held for trading	36,028,138	29,108,064	46,738,086	46,320,848
Investments available for sale	-	-	1,932,078	1,932,078
Premiums and insurance			-	-
balances receivable (note 8)	80,991,505	71,480,338	-	-
Reinsurers' share of			-	-
outstanding claims (note 9)	32,402,153	24,224,633	-	-
Other assets	2,051,853	3,924,275	787,986	524,599
	<u>224,516,375</u>	<u>215,231,439</u>	<u>197,393,444</u>	<u>164,053,623</u>

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits, available for sale and held for trading investments.

Maturity profiles

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

	<i>2018</i>		<i>Total</i>
	<i>Up to</i>	<i>More than</i>	
	<i>one year</i>	<i>one year</i>	<i>SR</i>
	<i>SR</i>	<i>SR</i>	
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	8,298,585	-	8,298,585
Time deposits	64,744,141	-	64,744,141
Investments held for trading	36,028,138	-	36,028,138
Premiums and insurance balances receivable	71,742,938	-	71,742,938
Reinsurers' share of unearned premiums	51,629,690	-	51,629,690
Reinsurers' share of outstanding claims	32,402,153	-	32,402,153
Reinsurers' share of claims incurred but not reported	42,927,788	-	42,927,788
Other assets	11,550,239	-	11,550,239
	<u>319,323,672</u>	<u>-</u>	<u>319,323,672</u>

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33. RISK MANAGEMENT (continued)

Maturity profiles (continued)

	<i>2018</i>		
	<i>Up to</i>	<i>More than</i>	<i>Total</i>
	<i>one year</i>	<i>one year</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
SHAREHOLDERS' FINANCIAL ASSETS			
Cash and cash equivalents	1,523,906	-	1,523,906
Time deposits	66,943,687	-	66,943,687
Term deposits	79,467,701	-	79,467,701
Investments available for sale	1,932,078	-	1,932,078
Investments held for trading	46,738,086	-	46,738,086
Amounts due from insurance operations	45,034,155	-	45,034,155
	<u>241,639,613</u>	<u>-</u>	<u>241,639,613</u>
TOTAL FINANCIAL ASSETS	<u>560,963,285</u>	<u>-</u>	<u>560,963,285</u>

	<i>2017</i>		
	<i>Up to</i>	<i>More than</i>	<i>Total</i>
	<i>one year</i>	<i>one year</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	12,950,952	-	12,950,952
Time deposits	73,543,177	-	73,543,177
Investments held for trading	29,108,064	-	29,108,064
Premiums and insurance balances receivable	65,262,463	-	65,262,463
Reinsurers' share of unearned premiums	44,255,912	-	44,255,912
Reinsurers' share of outstanding claims	24,224,633	-	24,224,633
Reinsurers' share of claims incurred but not reported	91,887,300	-	91,887,300
Other assets	14,619,130	-	14,619,130
	<u>355,851,631</u>	<u>-</u>	<u>355,851,631</u>
SHAREHOLDERS' FINANCIAL ASSETS			
Cash and cash equivalents	6,712,794	-	6,712,794
Time deposits	48,717,635	-	48,717,635
Term deposits	59,845,669	-	59,845,669
Investments available for sale	1,932,078	-	1,932,078
Investments held for trading	46,320,848	-	46,320,848
Amounts due from insurance operations	40,081,776	-	40,081,776
	<u>203,610,800</u>	<u>-</u>	<u>203,610,800</u>
TOTAL FINANCIAL ASSETS	<u>559,462,431</u>	<u>-</u>	<u>559,462,431</u>

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33. RISK MANAGEMENT (continued)

Maturity profiles (continued)

	<i>2018</i>		
	<i>Up to one year SR</i>	<i>More than one year SR</i>	<i>Total SR</i>
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
Gross outstanding claims	43,917,326	-	43,917,326
Claims incurred but not reported	67,524,759	-	67,524,759
Unearned premium reserve	77,264,897	-	77,264,897
Reinsurance balances payable	37,892,066	-	37,892,066
Accounts payable	17,570,524	-	17,570,524
Accrued expenses and other liabilities	6,696,828	-	6,696,828
Amounts due to shareholders' operations	45,034,155	-	45,034,155
	<u>295,900,555</u>	<u>-</u>	<u>295,900,555</u>
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued expenses and other liabilities	2,663,499	-	2,663,499
Amounts due to insurance operations	3,421,327	-	3,421,327
	<u>6,084,826</u>	<u>-</u>	<u>6,084,826</u>
TOTAL FINANCIAL LIABILITIES	<u>301,985,381</u>	<u>-</u>	<u>301,985,381</u>

	<i>2017</i>		
	<i>Up to one year SR</i>	<i>More than one year SR</i>	<i>Total SR</i>
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
Gross outstanding claims	39,475,033	-	39,475,033
Claims incurred but not reported	125,252,803	-	125,252,803
Unearned premium reserve	74,285,096	-	74,285,096
Accounts payable	29,815,786	-	29,815,786
Reinsurance balances payable	13,460,813	-	13,460,813
Amounts due to shareholders' operations	39,359,973	-	39,359,973
Accrued expenses and other liabilities	8,668,570	-	8,668,570
	<u>330,318,074</u>	<u>-</u>	<u>330,318,074</u>
SHAREHOLDERS' FINANCIAL LIABILITIES			
Amounts due to insurance operations	10,798,030	-	10,798,030
TOTAL FINANCIAL LIABILITIES	<u>341,116,104</u>	<u>-</u>	<u>341,116,104</u>

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above.

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33. RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

Commission rate risk

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the Company to cash flow commission risk, whereas fixed commission rate instruments expose the Company to fair value interest risk.

The Company is exposed to commission rate risk on certain of its time deposits, term deposits, investments held for trading and investments available for sale. The Company limits commission rate risk by monitoring changes in commission rates.

The following table demonstrates the sensitivity of statement of shareholders comprehensive income to reasonably possible changes in commission rates, with all other variables held constant.

The sensitivity of the statement of shareholders comprehensive income is the effect of the assumed changes in commission rates on the Company's income for the year, based on the floating rate financial assets and financial liabilities held as at 31 December:

	Change in basis points	Effect on comprehensive income for the year SR
2018	±25	±739,634
2017	±25	± 648,669

Market price risk

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

The Company limits market risk by maintaining a diversified portfolio and by monitoring developments in equity market. The Company does not have significant market risk.

Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the investment committee.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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33. RISK MANAGEMENT (continued)

Market price risk (Continued)

The effect on the statement of income as a result of a change in the fair value of the held for trading investments at December 31, 2018 due to a reasonable possible change in the equity prices, with all other variables held as constant is as follows:

<i>Change in equity price</i>	<i>2018</i>		<i>2017</i>	
	<i>Insurance operations'</i>	<i>Shareholders operations</i>	<i>Insurance operations'</i>	<i>Shareholders operations</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
+5	1,801,407	2,336,904	1,455,403	2,316,042
-5	(1,801,407)	(2,336,904)	(1,455,403)	(2,316,042)

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Company's activities.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- Requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Ethical and business standards; and
- Risk mitigation policies and procedures.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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34. SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2018 that would have a material impact on the financial position of the Company as reflected in these financial statements.

35. COMPARATIVE BALANCES

Certain of the comparative balances have been reclassified and regrouped to conform to the current period presentation. These changes are summarised below were mainly to conform with the SAMA requirements:

- As discussed in note 3 to these financial statements, previously the statement of financial position, statement of income, statement of comprehensive income and statement of cash flows were presented separately for insurance operations and shareholders operations, which are now combined together to present the Company level statement of financial position, statement of income and statement of cash flows.
- The amounts “due to/from” shareholders and insurance operations which were previously reported separately in the respective statement of financial position, are now eliminated in full (refer note 37).
- Share of insurance operations surplus split in the ratio of 90/10 between shareholders and insurance operations and presented separately is now presented as an expense in the statement of income (refer note 37).

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 18 March 2019 corresponding to 11 Rajab 1440 H.

(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
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37. SUPPLEMENTARY INFORMATION

As required by the Implementing Regulations, the statement of financial position, statement of income and statement of cash flows are separately disclosed for both insurance operations and shareholders operations are as follows:

a) Statement of financial position

Note	December 31, 2018			December 31, 2017		
	Insurance operations SR	Shareholders' operations SR	Total SR	Insurance operations SR	Shareholders' operations SR	Total SR
6	73,042,726	68,467,593	141,510,319	86,494,129	55,430,429	141,924,558
8	71,742,938	-	71,742,938	65,262,463	-	65,262,463
21	-	-	-	83,254	-	83,254
9	51,629,690	-	51,629,690	44,255,912	-	44,255,912
9	32,402,153	-	32,402,153	24,224,633	-	24,224,633
9	42,927,788	-	42,927,788	91,887,300	-	91,887,300
9	4,305,281	-	4,305,281	4,912,113	-	4,912,113
7	36,028,138	46,738,086	82,766,224	29,108,064	46,320,848	75,428,912
7	-	1,932,078	1,932,078	-	1,932,078	1,932,078
11	3,823,631	11,873,804	15,697,435	5,947,746	5,380,009	11,327,755
	-	79,467,701	79,467,701	-	59,845,669	59,845,669
12	387,427	-	387,427	599,321	-	599,321
13	720,395	-	720,395	385,005	-	385,005
14	-	43,774,750	43,774,750	-	43,774,750	43,774,750
15	-	20,000,000	20,000,000	-	20,000,000	20,000,000
15	-	1,243,271	1,243,271	-	817,322	817,322
	3,421,327	45,034,155	48,455,482	-	39,359,973	39,359,973
TOTAL ASSETS	320,431,494	318,531,438	638,962,932	353,159,940	272,861,078	626,021,018
Less: inter-operations elimination	(3,421,327)	(45,034,155)	(48,455,482)	-	(39,359,973)	(39,359,973)
TOTAL ASSETS AS PER STATEMENT OF FINANCIAL POSITION	317,010,167	273,497,283	590,507,450	353,159,940	233,501,105	586,661,045

(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

37. SUPPLEMENTARY INFORMATION (Continued)

a) **Statement of financial position (Continued)**

	Note	December 31, 2018			December 31, 2017		
		Insurance operations SR	Shareholders' operations SR	Total SR	Insurance operations SR	Shareholders' operations SR	Total SR
Accounts payable		17,570,524	-	17,570,524	13,460,813	-	13,460,813
Accrued expenses and other liabilities	18	6,696,828	2,663,499	9,360,327	8,668,570	1,900,502	10,569,072
Reinsurance balances payable	17	37,892,066	-	37,892,066	29,815,786	-	29,815,786
Gross unearned premiums	9	77,264,897	-	77,264,897	74,285,096	-	74,285,096
Gross outstanding claims	9	43,917,326	-	43,917,326	39,475,033	-	39,475,033
Claims incurred but not reported	9	67,524,759	-	67,524,759	125,252,803	-	125,252,803
Unearned reinsurance commission income	16	7,110,295	-	7,110,295	6,225,692	-	6,225,692
Additional premium reserves	9	338,987	-	338,987	2,416,499	-	2,416,499
Other technical reserves	9	4,042,602	-	4,042,602	3,005,737	-	3,005,737
End-of-service indemnities	20	7,174,176	-	7,174,176	6,117,342	-	6,117,342
Statutory deposit commission income payable	15	-	1,243,271	1,243,271	-	817,322	817,322
Provision for zakat and income tax	24	-	18,134,513	18,134,513	-	13,371,168	13,371,168
Amounts due to shareholders' operations and insurance operations		45,034,155	3,421,327	48,455,482	39,359,973	-	39,359,973
TOTAL LIABILITIES		314,566,615	25,462,610	340,029,225	348,083,344	16,088,992	364,172,336
Less: inter-operations elimination		(45,034,155)	(3,421,327)	(48,455,482)	(39,359,973)	-	(39,359,973)
TOTAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION		269,532,460	22,041,283	291,573,743	308,723,371	16,088,992	324,812,363
Accumulated surplus payable		6,764,250	-	6,764,250	5,234,380	-	5,234,380
Re-measurement reserve of defined benefit obligation		(899,371)	-	(899,371)	(157,784)	-	(157,784)
TOTAL ACCUMULATED SURPLUS INSURANCE OPERATIONS'		5,864,879	-	5,864,879	5,076,596	-	5,076,596
SHAREHOLDERS' EQUITY							
Share capital	25	-	200,000,000	200,000,000	-	200,000,000	200,000,000
Statutory reserve	26	-	28,207,777	28,207,777	-	19,309,215	19,309,215
Retained earnings		-	64,861,051	64,861,051	-	37,462,871	37,462,871
TOTAL EQUITY		-	293,068,828	293,068,828	-	256,772,086	256,772,086
TOTAL LIABILITIES, ACCUMULATED SURPLUS AND SHAREHOLDERS' EQUITY		275,397,339	315,110,111	590,507,450	313,799,967	272,861,078	586,661,045

(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

37. SUPPLEMENTARY INFORMATION (Continued)

	Note	Year ended December 31, 2018		Year ended December 31, 2017		
		Insurance operations SR	Shareholders' operations SR	Insurance operations SR	Shareholders' operations SR	Total SR
b) Statement of income						
REVENUE						
Gross written premiums	21	233,972,759	-	233,972,759	-	220,497,866
Less: Reinsurance premiums ceded	21	(6,023,593)	-	(6,023,593)	-	(5,295,506)
Local		(126,607,921)	-	(126,607,921)	-	(105,734,339)
Foreign		(4,402,746)	-	(4,402,746)	-	(4,077,561)
Excess of loss premiums		96,938,499	-	96,938,499	-	105,390,460
Net premiums written		(2,979,801)	-	(2,979,801)	-	1,712,683
Changes in unearned premiums	9	7,373,778	-	7,373,778	-	(2,251,364)
Changes in reinsurance share of unearned premiums		101,332,476	-	101,332,476	-	104,851,779
Net premiums earned		21,257,548	-	21,257,548	-	22,199,835
Reinsurance commission income	16	122,590,024	-	122,590,024	-	127,051,614
NET REVENUES		(49,638,448)	-	(49,638,448)	-	(90,183,744)
UNDERWRITING COSTS AND EXPENSES		(2,609,330)	-	(2,609,330)	-	(3,124,343)
Gross claims	9 & 21	14,237,345	-	14,237,345	-	49,717,065
Expenses incurred related to claims		(38,010,433)	-	(38,010,433)	-	(43,591,022)
Reinsurers' share of gross claims paid	9 & 21	(4,442,293)	-	(4,442,293)	-	51,910,367
Net claims and other benefits paid		8,177,520	-	8,177,520	-	(40,748,443)
Changes in outstanding claims		57,728,044	-	57,728,044	-	(49,794,770)
Changes in reinsurance share of outstanding claims		(48,959,512)	-	(48,959,512)	-	43,480,007
Changes in claims incurred but not reported		(25,506,674)	-	(25,506,674)	-	(38,743,861)
Changes in reinsurance share of claims incurred but not reported		2,077,512	-	2,077,512	-	(510,669)
Net claims and other benefits incurred		(1,036,865)	-	(1,036,865)	-	(1,865,210)
Changes in additional premium reserve		(18,247,903)	-	(18,247,903)	-	(18,600,139)
Changes in other technical reserves		(2,213,465)	-	(2,213,465)	-	(1,919,430)
Policy acquisition costs		(44,927,395)	-	(44,927,395)	-	(61,639,309)
Other underwriting expenses		77,662,629	-	77,662,629	-	65,412,305
TOTAL UNDERWRITING COSTS AND EXPENSES		(44,927,395)	-	(44,927,395)	-	(61,639,309)
NET UNDERWRITING INCOME		77,662,629	-	77,662,629	-	65,412,305

(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

37. SUPPLEMENTARY INFORMATION (Continued)

b) Statement of income (Continued)
OTHER OPERATING (EXPENSES)/ INCOME

Allowance for doubtful debts	8	(3,030,692)	-	(3,030,692)	(411,815)	-	(411,815)
General and administrative expenses	22	(28,821,398)	(5,138,782)	(33,960,180)	(27,635,647)	(3,727,327)	(31,362,974)
Dividend, interest and commission income	23	2,553,718	4,164,505	6,718,223	2,151,648	3,420,145	5,571,793
Realised (losses)/gain on disposal of investments held for trading	7	(39,686)	1,400,975	1,361,289	(51,863)	(67,280)	(119,143)
Unrealised losses on investments held for trading	7	(746,220)	(968,046)	(1,714,266)	(387,643)	(579,883)	(967,526)
Other income		2,459,600	-	2,459,600	3,844,003	-	3,844,003
TOTAL OTHER OPERATING EXPENSES		(27,624,678)	(541,348)	(28,166,026)	(22,491,317)	(954,345)	(23,445,662)
Net surplus from insurance operations/total income		50,037,951	(541,348)	49,496,603	42,920,988	(954,345)	41,966,643
Surplus transferred to shareholders		(45,034,155)	45,034,155	-	(38,628,889)	38,628,889	-
Net result from insurance operations after shareholders' transfer of surplus to shareholders		5,003,795	44,492,808	49,496,603	4,292,099	37,674,544	41,966,643

c) Statement of comprehensive income

	Note	Year ended December 31, 2018		Year ended December 31, 2017		
		Insurance operations SR	Shareholders' operations SR	Insurance operations SR	Shareholders' operations SR	Total SR
Net surplus from insurance operations/total income		50,037,950	(541,347)	42,920,988	(954,345)	41,966,643
Surplus transferred to shareholders		(45,034,155)	45,034,155	(38,628,889)	38,628,889	-
Net result from insurance operations after shareholders' transfer of surplus to shareholders		5,003,795	44,492,808	4,292,099	37,674,544	41,966,643
Items that will not be reclassified to statement of income comprehensive income		(741,587)	-	(157,784)	-	(157,784)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,262,208	44,492,808	4,134,315	37,674,544	41,808,859
Weighted average number of outstanding shares (adjusted)	27	20,000,000	-	-	20,000,000	-
Earnings per share for the year (adjusted)	27	2.22	2.22	-	1.88	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

37. SUPPLEMENTARY INFORMATION (Continued)

d) Statement of cash flows

	December 31, 2018		December 31, 2017		Total SR
	Insurance operations SR	Shareholders' operations SR	Insurance operations SR	Shareholders' operations SR	
OPERATING ACTIVITIES					
Total income for the year	5,003,795	44,492,808	4,292,099	37,674,544	41,966,643
Adjustments for:					
Depreciation of property and equipment	268,231	-	353,299	-	353,299
Amortisation of intangible assets	199,922	-	514,715	-	514,715
Gain on sale of property and equipment	(64,160)	-	(40,050)	-	(40,050)
Allowance for doubtful debts	3,030,692	-	411,815	-	411,815
Unrealised losses on investments held for trading	746,220	968,046	51,863	67,280	119,143
Realised (losses)/gain on disposal of investments held for trading	39,686	(1,400,975)	387,643	579,883	967,526
Provision for end-of-service indemnities	1,193,543	-	1,087,746	-	1,087,746
	10,417,929	44,059,879	7,059,130	38,321,707	45,380,837
Working capital adjustments:					
Premiums and insurance balances receivable	(9,511,167)	-	(7,526,553)	-	(7,526,553)
Reinsurers' share of unearned premiums	(7,373,778)	-	2,251,364	-	2,251,364
Reinsurers' share of outstanding claims	(8,177,520)	-	40,748,443	-	40,748,443
Reinsurers' share of claims incurred but not reported	48,959,512	-	(43,480,007)	-	(43,480,007)
Deferred policy acquisition costs	606,832	-	345,739	-	345,739
Prepayments and other assets	2,124,115	(6,493,795)	(787,024)	(4,877,679)	(5,664,703)
Accounts payable	4,109,711	-	128,284	-	128,284
Accrued expenses and other liabilities	(1,971,742)	762,997	(4,608,467)	65,501	(4,542,966)
Reinsurance balances payable	8,076,280	-	9,746,168	-	9,746,168
Gross unearned premiums	2,979,801	-	(1,712,683)	-	(1,712,683)
Unearned reinsurance commission income	884,603	-	9,285	-	9,285
Gross outstanding claims	4,442,293	-	(51,910,367)	-	(51,910,367)
Claims incurred but not reported	(57,728,044)	-	49,794,770	-	49,794,770
Additional premium reserves	(2,077,512)	-	510,669	-	510,669
Amounts due from related parties	83,254	-	(24,750)	-	(24,750)
Other technical reserves	1,036,865	-	1,049,139	-	1,049,139
Cash from operations	(3,118,568)	38,329,081	1,593,140	33,509,529	35,102,669
Surplus distribution payable to policyholders	(3,473,925)	-	(15,963,275)	-	(15,963,275)
Zakat and income tax paid	-	(3,432,721)	-	(11,511,406)	(11,511,406)
End-of-service indemnities paid	(878,296)	-	(3,127,405)	-	(3,127,405)
Net cash from/(used in) operating activities	(7,470,789)	34,896,360	(17,497,540)	21,998,123	4,500,583

(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2018

37. SUPPLEMENTARY INFORMATION (Continued)

d) Statement of cash flows (Continued)

	December 31, 2018		December 31, 2017		
	Insurance operations SR	Shareholders' operations SR	Total SR	Shareholders' operations SR	Total SR
INVESTING ACTIVITIES					
Purchase of investments held for trading	(8,986,905)	(11,658,409)	(20,645,314)	(6,783,879)	(13,906,469)
Proceeds from disposal of investments held for trading	1,280,925	11,674,100	12,955,025	9,753,781	17,272,501
Additions in long term deposits	-	(19,622,032)	(19,622,032)	(59,845,669)	(59,845,669)
Statutory deposit	-	-	-	(10,000,000)	(10,000,000)
Proceeds from sale of property and equipment	87,100	-	87,100	40,050	40,050
Purchase of property and equipment	(79,277)	-	(79,277)	(136,707)	(136,707)
Purchase of intangibles assets	(535,312)	-	(535,312)	(301,500)	(301,500)
Net cash used in investing activities	(8,233,469)	(19,606,341)	(27,839,810)	(66,875,767)	(66,877,794)
CASH FLOWS FROM FINANCING ACTIVITIES					
Interoperation balances	5,674,182	(5,674,182)	-	3,000,815	-
Due to (from) shareholders/insurance operations	(3,421,327)	3,421,327	-	1,653,818	-
Net cash from/(used in) financing activities	2,252,855	(2,252,855)	-	4,654,633	-
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(13,451,403)	13,037,164	(414,239)	(12,844,934)	(62,377,211)
Cash and cash equivalents at the beginning of the year	86,494,129	55,430,429	141,924,558	99,339,063	204,301,769
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	73,042,726	68,467,593	141,510,319	86,494,129	141,924,558
NON-CASH TRANSACTION:					
Re-measurement reserve of defined benefit obligation	(741,587)	-	(741,587)	(157,784)	(157,784)