UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

INDEX	PAGE

PKF
Al-Bassam & Al-Nemer
Allied Accountants
(A member firm of PKF International)
P.O. Box 15651
Jeddah – 21454

Alnaim
P.O. Box 26991
Riyadh – 11496

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

SCOPE OF AUDIT

We have audited the accompanying statement of financial position of United Cooperative Assurance Company – a Saudi Joint Stock Company ('the Company') as at 31 December 2016 and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations cash flows and shareholders' operations cash flows for the year then ended and the related notes 1 to 28 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards ("IFRS") and the provisions of the Saudi Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

UNQUALIFIED OPINION

In our opinion, the financial statements taken as a whole:

Present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with IFRSs; and

Comply in all material respects, with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

EMPHASIS OF MATTER

We draw attention to note 2 to the accompanying financial statements that these financial statements have been prepared in accordance with IFRS and not in accordance with accounting standards issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

PKF Al-Bassam & Al-Nemer
Allied Accountants

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

المحاسبون المتحالفون
ترخيص رقم
520/11/323
Licence No.
Allied Accountants

for Abdulaziz A. Alnaim
Certified Public Accountants

Abdulaziz A. Alnaim
Certified Public Accountant
License No. 394

Alnaim
CPA
مكتب عبد العزيز عبد الله النعيم
محاسبون ومراجعون قانونيون
Licence No:394 : ترخيص رقم

1 March 2017
2 Jamaad Al-Thani 1438H
Jeddah, Kingdom of Saudi Arabia

UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	Note	2016 SR'000	2015 SR'000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	5	**61,736**	281,546
Time deposit		**136,070**	114,300
Available-for-sale investments	6	**109,469**	185,072
Held to maturity investments	7	**119,855**	-
Premiums receivable, net	8	**193,240**	266,929
Reinsurance receivables, net	9	**20,604**	23,510
Reinsurers' share of unearned premiums	14	**184,906**	174,250
Reinsurers' share of outstanding claims	15	**321,697**	305,769
Deferred policy acquisition costs	10	**10,726**	24,550
Prepayments and other assets	11	**30,814**	40,643
Due from shareholders' operations		**-**	69,895
Furniture, fittings and office equipment	12	**2,968**	3,200
Total insurance operations' assets		**1,192,085**	1,489,664
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	**1,268**	19,409
Time deposit		**74,600**	145,800
Available-for-sale investments	6	**35,355**	85,888
Held to maturity investments	7	**96,198**	-
Due from insurance operations		**50,322**	-
Prepayments and other assets		**1,305**	1,451
Goodwill	25	**78,400**	78,400
Accrued commission on statutory deposit		**1,242**	457
Statutory deposit	20	**73,500**	49,000
Total shareholders' assets		**412,190**	380,405
TOTAL ASSETS		**1,604,275**	1,870,069

The accompanying notes 1 to 28 form part of these financial statements.

	Note	2016 SR'000	2015 SR'000
INSURANCE LIABILITIES AND SURPLUS			
Insurance operations' liabilities			
Due to reinsurers		127,064	151,283
Unearned commission income	13	30,860	35,160
Unearned premiums	14	294,762	591,791
Unexpired risk reserve		2,993	6,486
Claims handling provision		5,367	4,779
Catastrophe reserve		1,089	1,772
Other technical reserves		2,802	1,401
Outstanding claims	15	561,152	592,263
Due to policyholders		11,727	29,851
Accrued expenses and other liabilities	16	53,205	37,596
Due to shareholders' operations		50,322	-
Employees' terminal benefits		18,639	16,069
Total insurance operations' liabilities		1,159,982	1,468,451
Insurance operations' surplus			
Accumulated surplus from insurance operations		32,456	21,258
Available-for-sale investments reserve	6	(353)	(45)
Total insurance operations' liabilities and surplus		1,192,085	1,489,664
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accrued expense and other liabilities		387	391
Due to a related party	24	270	270
Due to insurance operations		-	69,895
Accrued commission on statutory deposit payable to SAMA		1,242	457
Provision for zakat and income tax	17	20,681	14,681
Total shareholders' liabilities		22,580	85,694
Shareholders' equity			
Share capital	18	490,000	490,000
Statutory reserve	19	31,944	31,944
Accumulated losses		(128,120)	(221,888)
Available-for-sale investments reserve	6	(4,214)	(5,345)
Total shareholders' equity		389,610	294,711
Total shareholders' liabilities and equity		412,190	380,405
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		1,604,275	1,870,069

The accompanying notes 1 to 28 form part of these financial statements.

UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 SR'000	2015 SR'000
Revenue			
Gross written premiums		819,595	1,271,736
Less: Reinsurance premiums ceded		(492,097)	(371,973)
Excess of loss premiums		(4,191)	(8,132)
Net written premiums		323,307	891,631
Change in net unearned premiums	14	307,685	(152,289)
Net premiums earned		630,992	739,342
Reinsurance commission earned	13	83,577	44,715
Net revenue		714,569	784,057
Cost and expenses			
Gross claims paid	15	750,173	755,014
Less: Reinsurers' share of claims paid	15	(258,073)	(103,462)
Net claims paid		492,100	651,552
Change in net outstanding claims		(47,039)	36,647
Net claims incurred	15	445,061	688,199
Policy acquisition costs	10	38,707	28,633
Unexpired risk reserve		(3,493)	3,203
Claims handling provision		588	2,374
Catastrophe reserve		(683)	1,272
Other technical reserves		1,401	1,401
Net cost and expenses		481,581	725,082
Net underwriting result		232,988	58,975
General and administration expenses	22	(118,715)	(103,749)
Provision for doubtful debts	8 & 9	(15,835)	(14,135)
Supervision and inspection fee		(5,618)	(4,661)
Council of Cooperative Health Insurance (CCHI) fee		(1,006)	(1,336)
Investment income		15,977	3,429
Other income		4,191	1,348
Surplus / (deficit) from insurance operations		111,982	(60,129)
Shareholders' share of insurance operations (surplus) / deficit		(100,784)	60,129
Surplus for the year		11,198	-
Accumulated surplus at the beginning of the year		21,258	21,258
Accumulated surplus at the end of the year		32,456	21,258

The accompanying notes 1 to 28 form part of these financial statements.

UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 SR'000	2015 SR'000
REVENUE			
Shareholders' share of insurance operations deficit		**100,784**	(60,129)
Commission income		**3,730**	3,906
Dividend income		**288**	935
Amortization of held to maturity investments		**17**	-
Realised (loss) / gain on sale of available-for-sale investments		**(2,729)**	4,693
		102,090	(50,595)
EXPENSES			
General and administration expenses	22	**(1,153)**	(1,257)
Board remunerations	24	**(1,169)**	(1,123)
Total expenses		**(2,322)**	(2,380)
NET INCOME / (LOSS) FOR THE YEAR		**99,768**	(52,975)
Weighted average number of ordinary shares outstanding ('000)	21	**49,000**	46,238
Basic and diluted earnings / (loss) per share for the year – (SR)	21	**2.04**	(1.15)

The accompanying notes 1 to 28 form part of these financial statements.

UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	**2016 SR'000**	2015 SR'000
Net income / (loss) for the year		**99,768**	(52,975)
Other comprehensive income:			
Other comprehensive income to be reclassified to statement of shareholders' operations in subsequent periods			
Change in fair value of available-for-sale investments	6	**(1,598)**	(2,531)
Net loss / (gain) on sale of available-for-sale investments		**2,729**	(4,693)
Other expense:			
Zakat and income tax	17	**(6,000)**	(3,505)
Total comprehensive income / (loss) for the year		**94,899**	(63,704)

The accompanying notes 1 to 28 form part of these financial statements.

UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

For the year ended 31 December 2016	**Share capital SR'000**	**Statutory reserve SR'000**	**Accumulated losses SR'000**	**Available-for-sale investments reserve SR'000**	**Total SR'000**
Balance as at 31 December 2015	**490,000**	**31,944**	**(221,888)**	**(5,345)**	**294,711**
Net income for the year	**-**	**-**	**99,768**	**-**	**99,768**
Change in fair value of available-for-sale investments	**-**	**-**	**-**	**(1,598)**	**(1,598)**
Net loss on sale of available-for-sale investments	**-**	**-**	**-**	**2,729**	**2,729**
Zakat and income tax for the year (note 17)	**-**	**-**	**(6,000)**	**-**	**(6,000)**
Balance as at 31 December 2016	**490,000**	**31,944**	**(128,120)**	**(4,214)**	**389,610**

For the year ended 31 December 2015	Share capital SR'000	Statutory reserve SR'000	Accumulated losses SR'000	Available-for-sale investments reserve SR'000	Total SR'000
Balance as at 31 December 2014	280,000	31,944	(160,460)	1,879	153,363
Issuance of right shares (note 18)	210,000	-	-	-	210,000
Net loss for the year	-	-	(52,975)	-	(52,975)
Change in fair value of available-for-sale-investments	-	-	-	(2,531)	(2,531)
Net gain on sale of available-for-sale investments	-	-	-	(4,693)	(4,693)
Issuance cost (note 18)	-	-	(4,948)	-	(4,948)
Zakat and income tax for the year (note 17)	-	-	(3,505)	-	(3,505)
Balance as at 31 December 2015	490,000	31,944	(221,888)	(5,345)	294,711

The accompanying notes 1 to 28 form part of these financial statements.

UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES		
Surplus for the year from insurance operations	11,198	-
Adjustment for:		
Depreciation	1,902	2,668
Employees' terminal benefits, net	2,570	4,095
Realised gain on available-for-sale investments	(490)	(2)
Movement in allowance for doubtful premiums receivables	14,712	14,245
Movement in allowance for doubtful reinsurance receivables	1,123	(110)
Reinsurers' share of unearned premiums	(10,656)	(8,314)
Amortisation of held to maturity	(1)	-
Unearned premiums	(297,029)	160,603
Unexpired risk reserve	(3,493)	3,204
Claims handling provision	588	2,374
Catastrophe reserve	(683)	1,272
Other technical reserves	1,401	1,401
	(278,858)	181,436
Changes in operating assets and liabilities:		
Premiums receivable	58,977	73,603
Reinsurance receivables	1,783	(17,941)
Reinsurers' share of outstanding claims	(15,928)	(204,924)
Deferred policy acquisition cost	13,824	(10,565)
Prepayments and other assets	9,829	46,825
Due from shareholders' operations	120,217	94,604
Due to reinsurers	(24,219)	22,695
Unearned commission income	(4,300)	5,717
Outstanding claims	(31,111)	241,571
Due to policyholders	(18,124)	8,998
Accrued expenses and other liabilities	15,609	10,546
Net cash (used in) / from operating activities	(152,301)	452,565
INVESTING ACTIVITIES		
Time deposit	(21,770)	(114,300)
Purchase of furniture, fittings and office equipment	(1,670)	(1,400)
Purchase of available-for-sale investments	(1,107)	(177,990)
Purchase of held to maturity investments	(119,854)	-
Proceeds from sale of available-for-sale investments	76,892	49,029
Net cash used in investing activities	(67,509)	(244,661)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(219,810)	207,904
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	281,546	73,642
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	61,736	281,546
Non-cash transactions		
Change in fair value of available-for-sale investments	(308)	(166)

The accompanying notes 1 to 28 form part of these financial statements.

UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS OPERATIONS' CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES		
Net income / (loss) for the year	99,768	(52,975)
Adjustment for:		
Realised gain on available-for-sale investments	2,729	(4,693)
Amortization of held to maturity investments	(17)	-
	102,480	(57,668)
Changes in operating assets and liabilities:		
Prepayments and other assets	146	433
Accrued commission on statutory deposit	(785)	(457)
Statutory deposit	(24,500)	(21,000)
Due to insurance operations	(120,217)	(94,604)
Accrued expenses and other liabilities	(4)	(95)
Accrued commission on statutory deposit payable to SAMA	785	457
Net cash used in operating activities	(42,095)	(172,934)
INVESTING ACTIVITIES		
Time deposit	71,200	(145,800)
Purchase of available-for-sale investments	(16,036)	(54,570)
Purchase of held to maturity investments	(96,181)	-
Proceeds from sale of available-for-sale investments	64,971	148,355
Net cash used in investing activities	23,954	(52,015)
FINANCING ACTIVITIES		
Issuance of right shares	-	210,000
Issuance cost	-	(4,948)
Due to a financial institution	-	(18,750)
Net cash from financing activities	-	186,302
NET CHANGE IN CASH AND CASH EQUIVALENTS	(18,141)	(38,647)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	19,409	58,056
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,268	19,409
Non-cash transactions		
Change in fair value of available-for-sale investments	(1,598)	(2,531)

The accompanying notes 1 to 28 form part of these financial statements.

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

United Cooperative Assurance ("the Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030179955 dated 6 Jamad-al-Thani 1429H, corresponding to 6 June 2008. Registered Office address of the Company is Al-Mukmal Centre (1st and 4th floor) Prince Saud Al Faisal Street, Khalediya District, P. O. Box 5019, Jeddah 21422, Kingdom of Saudi Arabia.

The activities of the Company are to transact cooperative insurance and reinsurance operations and related activities in the Kingdom of Saudi Arabia. On 29 Rabi Al Thani 1429H (5 May 2008), the Company received a license from the Saudi Arabian Monetary Agency ("SAMA") to engage in insurance and reinsurance in Saudi Arabia. The Company started the operations on 1 January 2009.

2. BASIS OF PREPARATION

Basis of measurement
The financial statements are prepared under the historical cost convention except measurement of available-for-sale investments at fair value.

Statement of compliance
The Company has prepared these financial statements in accordance with International Financial Reporting Standards ("IFRS"). The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Basis of presentation
As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. Assets, liabilities, income and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses of joint operations is determined by the management and approved by the Board of Directors and is applied on consistent basis.

As per the by-laws of the Company, surplus arising from the Insurance Operations is distributed as follows:

Transfer to Shareholders' operations	90%
Transfer to Policyholders' operations	10%
	100%

If the insurance operations results in a deficit, the entire deficit is borne by the shareholders' operations.

In accordance with article 70 of the Saudi Arabian Monetary Agency ("SAMA") implementing regulations, the Company must obtain SAMA approval before distribution of policyholders surplus directly to policyholders at a time, and according to criteria set by its board of directors, provided that the customer contract is active and paid up to date at the time of settlement of the cooperative distribution account.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance contracts

Insurance contracts are defined as those containing insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance of existence of insurance risk. This insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

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 year.

Insurance contracts are principally divided into marine, property, motor, engineering, medical, energy and accident & liability and are principally short term insurance contracts.

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover). For property insurance contracts, the main risks are fire, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. In Saudi Arabia, it is compulsory for all vehicles to have minimum third party cover. The Company also issues comprehensive motor policies. Such motor policies cover damages to vehicles due to storm, tempest, flood, fire, theft and personal accident.

Engineering insurance covers two principal types (a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs. (b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

Medical insurance is designed to compensate holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers with a large population to be covered under the policy.

Energy insurance includes property damage and business interruption indemnity in case of terrorism coverage and property floater, loss of revenue, drilling rigs and contingent liability protection in case of asset protection policy.

Accident and liability insurance includes money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Claim and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Reinsurance

In the ordinary course of business, the Company cedes insurance premiums and risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' statement of financial position representing premiums due to reinsurers, net of commission income which represents income earned from reinsurance companies, or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties.

The Company assesses its reinsurance assets, if any, for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the impairment loss in the statement of insurance operations and accumulated surplus. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for insurance and other receivables. The impairment loss is also calculated following the same method used for these financial assets.

Impairment and un-collectability of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets (including insurance receivables) may be impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amounts as follows:

- for financial assets at amortized cost, the impairment loss is based on the difference between the present value of future anticipated cash flows and the carrying amount;
- for financial assets at fair value, the impairment loss is based on the decline in fair value; and
- for assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For presentation purposes, the resulting reserve is carried in the respective category within the statement of financial position and the related statements of insurance operations and accumulated surplus or shareholders' operations are adjusted.

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

Significant financial difficulty of the issuer or debtor;

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

Impairment of non-financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Deferred policy acquisition costs

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 recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized on a pro-rata basis based on the term of expected future premiums, except for marine cargo where the deferred portion shall be the cost incurred during the last quarter. Amortization is recorded in the statement of insurance operations and accumulated surplus.

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

Available-for-sale investments

Available-for-sale financials assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Such investments are initially recognized at cost and subsequently measured at fair value. Cumulative changes in fair value of investments are shown as a separate component in the statement of financial position and shareholders' comprehensive income. Realized gains or losses on sale of these investments are reported in the related statements of insurance operations and accumulated surplus or shareholders' operations. Dividend income, commission income and foreign currency gain/loss on available-for-sale investments are recognised in the statements of insurance operations and accumulated surplus or shareholders' operations.

Any permanent decline in value of investments is adjusted for and reported in the related statements of insurance operations or shareholders' operations as impairment charges.

Fair values of investments are based on quoted prices for marketable securities. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

Investments in held to maturity securities

Investments which have fixed or determined payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of shareholders' operations or statement of insurance operations and accumulated surplus when the investment is derecognized or impaired.

Trade date accounting

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

Cash and cash equivalents

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

Goodwill

Purchase price paid in excess of fair value of net assets is considered as goodwill. Goodwill is tested for impairment by management at least once at the end of each financial year. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in the future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture, fittings and office equipment

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis based on the following estimated useful lives:

	Years
Motor vehicles	4
Furniture and fittings	4 – 10
Computers and office equipment	4 – 10
Leasehold improvements	5

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of insurance operations and accumulated surplus.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of shareholders' operations as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

Provisions for obligations

Provisions are recognized when the Company has a legal or constructive obligation 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.

Trade and other payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

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

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement of such transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are included in the statement of insurance operations and accumulated surplus or shareholders' operations.

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the 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 insurance operations and accumulated surplus initially by writing off related deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Insurance and other receivables

Insurance and other receivables are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an provision account, and the amount of the loss is recognized in the statement of insurance operations and accumulated surplus. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Subsequent recoveries, of amounts previously written off are credited in the statement of insurance operations and accumulated surplus. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' terminal benefits

Employees' terminal benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labour Regulations on termination of their employment contracts. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. Terminal benefits payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of Saudi Arabia.

Revenue recognition

Recognition of premiums and commission revenue

Gross premiums and commissions on insurance contracts are recognized when the insurance policy is issued. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents last three months of the premiums written during the current financial period.

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

- At last three month of premiums for marine cargo business as marine cargo policies cover variable periods shorter than one year, in order to spread the premiums earned over the tenure of the insurance policies.
- Engineering business premiums are calculated using the new method as communicated by the regulator assuming that the premiums are earned linearly over time on the basis of increase in risk.
- Actual number of days for other lines of business

Commission income

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

Dividend income

Dividend income is recognized when the right to receive is established.

Claims

Gross claims consist of benefits and claims paid to policyholders, changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses net of salvage recoveries.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. 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 experience is maintained for the cost of settling claims incurred but not reported (IBNR) including related claims handling costs and the expected value of salvage and other recoveries 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 period is included in the statement of insurance operations and accumulated surplus for that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

Salvage and subrogation reimbursements

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

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvaged vehicles or property acquired are recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the vehicle or property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

De-recognition of financial instruments

The de-recognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Leases

Operating lease payments are recognised as an expense in the statement of insurance operations and accumulated surplus on a straight-line basis over the lease term.

Zakat and income tax

In accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders and to income taxes attributable to the foreign shareholders. Provisions for zakat and income taxes are charged to the equity accounts of the Saudi and the foreign shareholders, respectively. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

No adjustments are made in the financial statements to account for the effect of deferred income taxes since zakat and income tax are the liabilities of the shareholders' in the Kingdom of Saudi Arabia.

Unearned commission income

Commission income on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. Amortisation is recorded in the statement of insurance operations and accumulated surplus.

Cash dividend to shareholders

The Company recognises a liability to make cash distributions to shareholders of the Company when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders and SAMA. A corresponding amount is recognised directly in equity.

Fair values of financial instruments

Financial instruments comprise cash and cash equivalents, premiums receivable, reinsurance receivables, investments, outstanding claims, reinsurance payables, payables to policyholders and certain other assets and liabilities.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. 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 mathematical models. The inputs to these models are derive from observable market data where possible, but if this is not available, judgement is required to establish fair values.

The fair values of financial assets and liabilities are not materially different from their carrying values at the reporting date.

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

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

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

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

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 liability simultaneously. Income and expense are not offset in the statement of insurance operations and accumulated surplus and statement of shareholders operations unless required or permitted by any accounting standard or interpretation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premium deficiency reserve

The Company carries out an analysis of loss / combined ratios for the expired period. Such ratios are being calculated by taking into account the relevant incurred but not reported provision and then used for the determination of premium deficiency reserve for each class of business.

Segmental reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues 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 organized into business units based on their products and services and has four reportable operating segments as follows:

- Medical insurance, which covers medical costs, medicines, and all other medical services and supplies.
- Motor Insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Energy insurance
- Other classes, which covers any other classes of insurance not included above.

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

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

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

New IFRS and amendments thereof, adopted by the Company

The accounting policies used in preparation of these financial statements are consistent with those of the previous financial year and the adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on the financial statements of 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 11	Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 27	Amendments to IAS 27 Equity Method in Separate Financial Statements
IFRS 10 and IAS 28	Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IAS 1	Amendments to IAS 1 Disclosure initiative
IFRS 10, IFRS 12 and IAS 28	Amendments to IFRS 10, IFRS 12 and IAS 28 Applying the Consolidation Exception
IFRS 5, IFRS 7, IAS 19 and IAS 34	Annual Improvements to IFRS 2012-2014 cycle

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company 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 are effective.

Standard	*Description*	*Effective date*
IAS 12	Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised losses	1 January 2017
IAS 7	Amendments to IAS 7 Disclosure Initiative	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

The Management is currently assessing the implications of the above mentioned standards, amendments or interpretations on the Company's financial statements on adoption.

Adoption of the relevant standards and interpretations applicable to the Company would result in some additional disclosures and changes in certain classifications in the financial statements. However, the Company does not expect any significant impact on its financial position or performance from such adoption.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on quarterly basis.

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS – continued

Premium deficiency reserve

Estimation of the premium deficiency reserve is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the claims and premiums relationship which is expected to apply on month to month basis. Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that past claims pattern are stable and will continue in future.

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.

Deferred acquisition costs

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs (DAC) and are amortized in the statement of insurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus.

Reinsurance

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

Impairment of available-for-sale investments

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

Useful lives of furniture, fittings and equipment

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

Fair values of financial instruments

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. 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 mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

Going concern

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

5. CASH AND CASH EQUIVALENTS

	2016 SR'000	2015 SR'000
Insurance operations		
Cash at banks	61,736	281,546
Shareholders' operations		
Cash at banks	1,268	19,409

Cash at banks are placed with counterparties who have good credit ratings.

The carrying amounts disclosed above reasonably approximate fair value at the statement of financial position date.

6. AVAILABLE-FOR-SALE INVESTMENTS

Insurance operations

Available-for-sale-investments with local banks represent units in investment funds listed in the Saudi Stock Exchange (Tadawul) whereas the investment with foreign banks are listed in international stock exchanges. The available-for-sale investments reserve is SR 0.35 million as at 31 December 2016 (2015: SR 0.045 million) and was debited to the surplus from insurance operations.

Movement in available-for-sale investments has summarized below:

As at 31 December 2016	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
Investment in bonds	4,112	(500)	180	3,792
Investment in sukuk	101,083	-	(7)	101,076
Investment in equity shares	4,686	205	(290)	4,601
Investment in mutual funds	75,191	(75,000)	(191)	-
	185,072	(75,295)	(308)	109,469

As at 31 December 2015	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
Investment in bonds	4,282	-	(170)	4,112
Investment in sukuk	41,102	60,000	(19)	101,083
Investment in equity shares	892	3,962	(168)	4,686
Investment in mutual funds	10,000	65,000	191	75,191
	56,276	128,962	(166)	185,072

6. AVAILABLE-FOR-SALE INVESTMENTS – (continued)

Shareholders' operations

	2016 SR'000	2015 SR'000
Quoted securities	33,432	83,965
Unquoted securities	1,923	1,923
	35,355	85,888

i. Available-for-sale – quoted securities

As at 31 December 2016	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
Investment in equity shares	11,444	(5,090)	1,691	8,045
Investment in bonds	10,927	2,511	183	13,621
Investment in sukuk	43,165	(39,085)	(9)	4,071
Investment in mutual funds	18,429	(10,000)	(734)	7,695
	83,965	(51,664)	1,131	33,432

As at 31 December 2015	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
Investment in equity shares	14,152	(1,009)	(1,699)	11,444
Investment in bonds	22,309	(11,263)	(119)	10,927
Investment in sukuk	14,097	29,086	(18)	43,165
Investment in mutual funds	10,002	10,000	(1,573)	18,429
	60,560	26,814	(3,409)	83,965

ii. Available-for-sale – unquoted securities

As at 31 December 2016	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
Investment in local company	1,923	-	-	1,923

As at 31 December 2015	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
Investment in local company	1,923	-	-	1,923
Investment in sukuk	60,000	(60,000)	-	-
Investment in murabaha deposit	59,721	(60,599)	878	-
	121,644	(120,599)	878	1,923

The unrealized loss of SR 1.598 million for the year 31 December 2016 (2015: Unrealized loss of SR 2.531 million) was charged to the statement of changes in shareholders' equity as available-for-sale investments reserve. The available-for-sale investments reserve as of 31 December 2016 is SR 4.214 million (2015: SR 5.345 million).

These investments are managed by a professional fund manager in accordance with the guidelines approved by the Board of Directors.

7. HELD TO MATURITY INVESTMENTS

Insurance operations

Held-to-maturity investments represent Government Bonds with a maturity of ten (10) to thirty (30) years issued by Saudi Government. The average commission rate on these investments at 31 December 2016 is 3.25% to 4.5% per annum (31 December 2015: - %).

Shareholders' operations

Held-to-maturity investments represent Government Bonds with a maturity of ten (10) to thirty (30) years issued by Saudi Government. The average commission rate on these investments at 31 December 2016 is 3.25% to 4.5% per annum (31 December 2015: - %).

8. PREMIUMS RECEIVABLE

	2016 SR'000	2015 SR'000
Due from policyholders	142,559	175,080
Due from policyholders – related parties (note 24)	98,435	128,188
Allowance for doubtful debts	(47,754)	(36,339)
	193,240	266,929

Movement in provision for doubtful debts is as follows:

	2016 SR'000	2015 SR'000
Balance at the beginning of the year	36,339	22,094
Provision for the year	14,712	14,245
Written off during the year	(3,297)	-
Balance at the end of the year	47,754	36,339

		Past due but not impaired		
As at 31 December 2016	Less than 90 days	91 to 180 days	More than 180 days	Total
Amount in SR '000				
Premiums receivable	45,997	31,614	64,948	142,559
Premiums receivable – related parties	76,755	12,684	8,996	98,435
Provision for doubtful debts	-	(6,645)	(41,109)	(47,754)
Premiums receivable, net	122,752	37,653	32,835	193,240

		Past due but not impaired		
As at 31 December 2015	Less than 90 days	91 to 180 days	More than 180 days	Total
Amount in SR '000				
Premiums receivable	92,855	42,492	39,733	175,080
Premiums receivable – related parties	70,494	57,694	-	128,188
Provision for doubtful debts	-	(15,028)	(21,311)	(36,339)
Premiums receivable, net	163,349	85,158	18,422	266,929

Past due but not impaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customer balances accounted for approximately 57% of the balance as at 31 December 2016 (2015: 57%).

9. REINSURANCE RECEIVABLES, NET

	2016 SR'000	2015 SR'000
Reinsurance receivables	22,611	25,862
Provision for doubtful debt	(2,007)	(2,352)
	20,604	23,510

Movement in provision for doubtful debts is as follows:

	2016 SR'000	2015 SR'000
Balance at the beginning of the year	2,352	2,462
Provision for the year	1,123	-
Release of provision during the year	-	(110)
Written off during the year	(1,468)	-
Balance at the end of the year	2,007	2,352

		Past due but not impaired		
31 December 2016	Less than 90 days	91 to 180 days	More than 180 days	Total
Amount in SR '000				
Reinsurance receivables	17,726	1,599	3,286	22,611
Provision for doubtful debts	-	-	(2,007)	(2,007)
Reinsurance receivables, net	17,726	1,599	1,279	20,604

		Past due but not impaired		
31 December 2015	Less than 90 days	91 to 180 days	More than 180 days	Total
Amount in SR '000				
Reinsurance receivables	17,870	4,549	3,443	25,862
Provision for doubtful debts	-	-	(2,352)	(2,352)
Reinsurance receivables, net	17,870	4,549	1,091	23,510

Past due but not impaired reinsurance receivables 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 is, therefore, unsecured.

10. DEFERRED POLICY ACQUISITION COSTS

	2016 SR'000	2015 SR'000
As at 1 January	24,550	13,985
Cost incurred during the year	24,883	39,198
Charge for the year	(38,707)	(28,633)
As at 31 December	10,726	24,550

11. PREPAYMENTS AND OTHER ASSETS

	2016 SR'000	2015 SR'000
Deferred third party administrator (TPA) fee	1,449	1,508
Prepaid expenses	5,053	4,614
Accrued interest	2,320	1,217
Claim recoveries	15,000	17,015
Advances to staff	1,572	2,207
Others	5,420	14,082
	30,814	40,643

12. FURNITURE, FITTINGS AND OFFICE EQUIPMENT

Insurance Operations

	Motor vehicles SR'000	Furniture & fittings SR'000	Computers & office equipment SR'000	Leasehold improvements SR'000	2016 Total SR'000	2015 Total SR'000
Cost:						
At the beginning of the year	431	8,247	9,175	4,540	22,393	20,993
Additions	-	258	1,075	337	1,670	1,400
Closing balance	431	8,505	10,250	4,877	24,063	22,393
Depreciation:						
At the beginning of the year	330	7,167	7,590	4,106	19,193	16,525
Charge for the year	55	664	883	300	1,902	2,668
Closing balance	385	7,831	8,473	4,406	21,095	19,193
Net book value:						
At 31 December 2016	46	674	1,777	471	2,968	
At 31 December 2015	101	1,080	1,585	434		3,200

13. UNEARNED COMMISSION INCOME

	2016 SR'000	2015 SR'000
As at 1 January	35,160	29,443
Commission received during the year	79,277	50,432
Commission earned during the year	(83,577)	(44,715)
As at 31 December	30,860	35,160

14. MOVEMENT IN UNEARNED PREMIUMS

	2016 SR'000	2015 SR'000
Gross unearned premiums as at 1 January	591,791	431,188
Gross unearned premiums as at 31 December	(294,762)	(591,791)
Movement in gross unearned premiums	297,029	(160,603)
Reinsurers' share of unearned premiums as at 1 January	(174,250)	(165,936)
Reinsurers' share of unearned premiums as at 31 December	184,906	174,250
Movement in reinsurers' share of unearned premiums	10,656	8,314
Movement in unearned premiums, net	307,685	(152,289)

15. CLAIMS

	2016 SR'000	2015 SR'000
Gross claims paid	750,173	755,014
Gross outstanding claims at the end of the year (see note (i) below)	561,152	592,263
	1,311,325	1,347,277
Gross outstanding claims at the beginning of the year	(592,263)	(350,692)
Gross claims incurred	719,062	996,585
Reinsurance recoveries	(258,073)	(103,462)
Reinsurers' share of outstanding claims at the end of the year (see note (ii & iii) below)	(321,697)	(305,769)
	(579,770)	(409,231)
Reinsurers' share of outstanding claims at the beginning of the year	305,769	100,845
Reinsurers' share of claims	(274,001)	(308,386)
Net claims incurred	445,061	688,199

Gross outstanding claims as at 31 December 2016 include provision for claims incurred but not reported – (IBNR) amounting to SR 354.6 million (2015: SR 244.88 million).

Reinsurers' share of outstanding claims as at 31 December 2016 include provision for claims incurred but not reported – (IBNR) – amounting to SR 179.47 million (2015: SR 63.53 million)

Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

15. CLAIMS – (continued)

Claims Development Table

The following reflects the cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each financial position date, together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims.
The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

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

As at 31 December 2016

Accident year	2012 & earlier	2013	2014	2015	2016	Total
						SR'000
Estimate of ultimate claims cost:						
At the end of accident year	796,430	915,814	706,492	842,457	670,251	
One year later	826,300	970,795	743,982	826,870	-	
Two years later	852,094	975,127	570,144	-	-	
Three years later	863,919	795,932	-	-	-	
Four years later	872,717	-	-	-	-	
Current estimate of cumulative claims	872,717	795,932	570,144	826,870	670,251	3,735,914
Cumulative payments to date	(863,754)	(771,968)	(534,297)	(632,711)	(372,032)	(3,174,762)
Liability recognised in statement of financial position	8,963	23,964	35,847	194,159	298,219	561,152

As at 31 December 2015

Accident year	2011 & earlier	2012	2013	2014	2015	Total
						SR'000
Estimate of ultimate claims cost:						
At the end of accident year	1,337,072	796,430	915,814	706,492	842,457	
One year later	1,185,306	826,300	970,795	743,982	-	
Two years later	1,226,291	852,094	975,127	-	-	
Three years later	1,252,636	863,919	-	-	-	
Four years later	1,262,340	-	-	-	-	
Current estimate of cumulative claims	1,262,340	863,919	975,127	743,982	842,457	4,687,825
Cumulative payments to date	(1,254,512)	(850,758)	(932,664)	(676,283)	(381,345)	(4,095,562)
Liability recognised in statement of financial position	7,828	13,161	42,463	67,699	461,112	592,263

16. ACCRUED EXPENSES AND OTHER LIABILITIES

	2016 SR'000	2015 SR'000
Insurance Operations		
Accrued expenses	220	248
Garages	3,618	2,183
Third party administrator (TPA) fees	762	782
Payables to hospitals	486	8,341
Insurance brokers	3,214	5,133
Surveyor	2,580	-
Commission and incentives payable	9,507	2,665
CCHI fees payable	196	1,252
Supervision and inspection fee payable	784	1,845
Withholding tax payable	16,680	5,829
Others	15,157	9,318
	53,204	37,596

17. ZAKAT AND INCOME TAX

Zakat and Income Tax

The Zakat and Income tax payable by the Company has been calculated in accordance with Zakat and Income tax regulations in Kingdom of Saudi Arabia.

The Zakat and Income tax provision for the year is based on the following:	2016 SR'000	2015 SR'000
Share capital	490,000	280,000
Statutory deposit	(73,500)	(28,000)
Statutory reserves	31,944	31,944
Accumulated losses	(221,888)	(160,460)
End of services benefits	16,069	11,974
Held to maturity investments	(216,053)	-
Other opening provisions	53,372	35,732
Furniture, fittings and office equipment, net	(2,968)	(3,200)
	76,976	167,990
Income / (loss) for the year	99,768	(52,975)
Provision for doubtful debts	15,835	14,245
End of services benefits	2,570	4,095
Other technical provisions	(2,187)	8,250
Adjusted income / (loss) for the year	115,986	(26,385)
Zakat base	192,962	141,605
Attributable to Saudi Shareholders @ 99% (2015: 99%)	191,032	140,189
Zakat @ 2.5%	4,776	3,505
Income tax		
Attributable income to Non Saudi Shareholder @ 1% (2015: 1%)	1,160	-
Income tax @ 20%	232	-
Zakat and income tax	5,008	3,505

17. ZAKAT AND INCOME TAX – (continued)

The movement in the Zakat and Income tax payable is as follows:

	2016 SR'000	2015 SR'000
Balance at the beginning of the year	14,681	11,176
Charge for the year	6,000	3,505
Balance at the end of the year	20,681	14,681

The differences between the financial and the zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

Zakat base has been computed based on the Company's understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations, and the assessments to be raised by the GAZT could be different from the declarations filed by the Company.

Status of assessment:
The Company has filed its zakat declarations for the years ended 31 December 2009 to 2015 and obtained restricted zakat certificates.

During 2013, the Company received the final zakat assessments for the years 2009 to 2011 from the General Authority of Zakat and Income Tax (GAZT) claiming zakat liability amounting to SR 17.69 million. The management believes that the existing provision for zakat is sufficient. The Management has filed an objection against the above assessments and is confident of receiving a favourable ruling. However, during 2014, the Company has paid SR 14.288 million with respect to these assessments. GAZT has not yet raised assessments for the years from 2012 to 2014.

18. SHARE CAPITAL

The authorised and issued share capital of the Company was SR 280 million divided into 28 million ordinary shares of SR 10 each.

In the extra-ordinary general meeting held on 18 February 2015 corresponding to 29 Rabi Al-Thani 1436H, the shareholders approved rights issue of SR 210 million. As approved by the regulators, 21 million ordinary shares were offered at an exercise price of SR 10 during the subscription period which started on 22 February 2015 and ended on 10 March 2015. The legal formalities were completed and the share capital was increased from SR 280 Million to SR 490 Million. The Company incurred a sum of SR 4.95 million during 2015 as issuance cost to raise additional capital of SR 210 million through rights issue which was accounted through statement of changes in shareholders' equity.

19. STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. As the Company has accumulated losses at year end, no transfer to statutory reserve has been made during the year. The reserve is not available for dividend distribution.

20. STATUTORY DEPOSIT

	2016 SR'000	2015 SR'000
Shareholders' Operations		
Statutory deposit	73,500	49,000

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 49 million (31 December 2015: SR 49 million) in a bank designated by the Saudi Arabian Monetary Authority (SAMA). The Company cannot withdraw this deposit without SAMA's approval and commission accruing on this deposit is payable to SAMA.

During the year, the Company has increased its statutory deposit from 10% to 15% of the paid-up capital SR 73.5 million as required by SAMA.

21. BASIC AND DILUTED LOSS PER SHARE

Earnings / (loss) per share for the year have been calculated by dividing the net income / (loss) for the year by the weighted average number of issued and outstanding shares for the year.

a) The weighted average number of shares has been retrospectively adjusted for prior period to reflect the bonus element of right share issue as required by IAS 33 "Earnings per share" as follows:

	2016	2015
Issued ordinary shares as at 1 January ('000')	49,000	28,000
Effect of right share issue	-	18,238
Weighted average number of ordinary shares ('000')	49,000	46,238

The weighted average number of ordinary shares for prior year is computed using an adjustment factor of 1.3 which is a ratio of the theoretical ex-rights price of SR 16.63 per ordinary share and the closing price of SR 21.61 per ordinary share on the last day on which the shares were traded before the right issue.

b) The basic and diluted loss per share are calculated as follows:

	2016	2015
Net income / (loss) for the year (SR '000')	99,768	(52,975)
Weighted average number of ordinary shares ('000') – (Note 21. a)	49,000	46,238
Basic and diluted earnings / (loss) per share (SR)	2.04	(1.15)

22. GENERAL AND ADMINISTRATION EXPENSES

	2016 SR'000	2015 SR'000
Insurance operations		
Employee costs	84,664	74,308
Legal and professional fees	2,821	1,518
Office rent	9,556	9,132
Depreciation	1,902	2,668
Office expenses	1,867	1,590
Communication expenses	3,517	3,979
Vehicle expenses	155	116
Withholding tax	8,000	2,000
Printing & stationery	1,773	2,610
Courier and postage	546	560
Electricity	425	298
Others	3,489	4,970
	118,715	103,749

	2016 SR'000	2015 SR'000
Shareholders' operations		
Professional fees	572	699
Others	581	558
	1,153	1,257

23. SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, operating segments have been approved by Management in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include general and administrative expenses and investment income. Segment assets do not include insurance operations cash and cash equivalents, available-for-sale investments, premiums receivable (net), reinsurance receivables (net), prepaid expenses and other assets and furniture, fittings and equipment.

Segment liabilities do not include due to reinsurers, due to policyholders, accrued and other liabilities, due to shareholders' operations and employees' terminal benefits.

Consistent with the Company's internal reporting process, operating segments have been approved by the management in respect of the Company's activities, assets and liabilities as stated below:

	Medical SR'000	Motor SR'000	Energy SR'000	Others SR'000	Total SR'000
For the year ended 31 December 2016					
Gross written premiums	65,667	491,810	89,334	172,784	819,595
Less: Reinsurance premiums ceded	(12,215)	(243,944)	(87,796)	(148,142)	(492,097)
Excess of loss premiums	(565)	(1,152)	-	(2,474)	(4,191)
Net written premiums	52,887	246,714	1,538	22,168	323,307
Change in net unearned premiums	34,070	269,304	(19)	4,330	307,685
Net premiums earned	86,957	516,018	1,519	26,498	630,992
Reinsurance commission earned	-	49,036	1,902	32,639	83,577
Net revenue	86,957	565,054	3,421	59,137	714,569
Gross claims paid	80,155	523,180	-	146,838	750,173
Less: Reinsurers' share of claims paid	(310)	(119,823)	-	(137,940)	(258,073)
Net claims paid	79,845	403,357	-	8,898	492,100
Change in net outstanding claims	(14,437)	(29,113)	8	(3,497)	(47,039)
Net claims incurred	65,408	374,244	8	5,401	445,061
Policy acquisition costs	5,115	26,189	-	7,403	38,707
Unexpired risk reserve	-	-	-	(3,493)	(3,493)
Claims handling provision	-	588	-	-	588
Catastrophe reserve	-	-	-	(683)	(683)
Other technical reserves	(345)	1,746	-	-	1,401
Net cost and expenses	70,178	402,767	8	8,628	481,581
Net underwriting result	16,779	162,287	3,413	50,509	232,988
General and administration expenses (unallocated)					(118,715)
Provision for doubtful debts (unallocated)					(15,835)
Supervision and inspection fee	(1,387)	(3,011)	(446)	(774)	(5,618)
CCHI fee	(1,006)	-	-	-	(1,006)
Investment income (unallocated)					15,977
Other income (unallocated)					4,191
Surplus from insurance operations					111,982

23. SEGMENTAL INFORMATION – (continued)

	Medical SR'000	Motor SR'000	Energy SR'000	Others SR'000	Total SR'000
As at 31 December 2016					
Insurance operations' assets					
Reinsurers' share of unearned premiums	9,070	77,342	-	98,494	184,906
Reinsurers' share of outstanding claims	521	48,059	640	272,477	321,697
Deferred policy acquisition costs	1,511	5,400	-	3,815	10,726
Unallocated assets					674,756
Total insurance operations' assets					1,192,085
Insurance operations' liabilities and surplus					
Unearned premiums	28,563	157,989	-	108,210	294,762
Unexpired risk reserve	-	-	-	2,993	2,993
Claims handling provision	-	5,367	-	-	5,367
Catastrophe reserve	-	-	-	1,089	1,089
Other technical reserves	76	1,969	-	757	2,802
Outstanding claims	24,174	244,504	648	291,826	561,152
Unearned commission income	-	11,049	-	19,811	30,860
Unallocated liabilities and accumulated surplus					293,060
Total insurance operations' liabilities and accumulated surplus					1,192,085

23. SEGMENTAL INFORMATION – (continued)

	Medical SR'000	Motor SR'000	Energy SR'000	Others SR'000	Total SR'000
For the year ended 31 December 2015					
Gross written premiums	123,588	794,571	156,500	197,077	1,271,736
Less: Reinsurance premiums ceded	2,079	(65,085)	(153,806)	(155,161)	(371,973)
Excess of loss premiums	(2,079)	(2,676)	-	(3,377)	(8,132)
Net written premiums	123,588	726,810	2,694	38,539	891,631
Change in net unearned premiums	754	(157,475)	(78)	4,510	(152,289)
Net premiums earned	124,342	569,335	2,616	43,049	739,342
Reinsurance commission earned	1	2,375	2,625	39,714	44,715
Net revenue	124,343	571,710	5,241	82,763	784,057
Gross claims paid	155,967	492,395	-	106,652	755,014
Less: Reinsurers' share of claims paid	(2,216)	(7,624)	-	(93,622)	(103,462)
Net claims paid	153,751	484,771	-	13,030	651,552
Change in net outstanding claims	(11,028)	43,867	-	3,808	36,647
Net claims incurred	142,723	528,638	-	16,838	688,199
Policy acquisition costs	6,117	14,568	-	7,948	28,633
Unexpired risk reserve	-	-	-	3,203	3,203
Claims handling provision	-	2,374	-	-	2,374
Catastrophe reserve	-	-	-	1,272	1,272
Other technical reserves	421	223	-	757	1,401
Net cost and expenses	149,261	545,803	-	30,018	725,082
Net underwriting result	(24,918)	25,907	5,241	52,745	58,975
General and administration expenses (unallocated)					(103,749)
Provision for doubtful debts	-	-	-	-	(14,135)
Supervision and inspection fee	(626)	(2,408)	(781)	(846)	(4,661)
CCHI fee	(1,336)	-	-	-	(1,336)
Investment income (unallocated)					3,429
Other income (unallocated)					1,348
Deficit from insurance operations					(60,129)

	Medical SR'000	Motor SR'000	Energy SR'000	Others SR'000	Total SR'000
As at 31 December 2015					
Insurance operations' assets					
Reinsurers' share of unearned premiums	-	58,403	-	115,847	174,250
Reinsurers' share of outstanding claims	-	6,785	-	298,984	305,769
Deferred policy acquisition costs	3,554	14,562	-	6,434	24,550
Unallocated assets					985,095
Total insurance operations' assets					1,489,664
Insurance operations' liabilities and surplus					
Unearned premiums	53,562	408,354	78	129,797	591,791
Unexpired risk reserve	-	-	-	6,486	6,486
Claims handling provision	-	4,779	-	-	4,779
Catastrophe reserve	-	-	-	1,772	1,772
Other technical reserves	421	223	-	757	1,401
Outstanding claims	38,089	232,343	-	321,831	592,263
Unearned commission income	-	12,538	-	22,622	35,160
Unallocated liabilities and accumulated surplus					256,012
Total insurance operations' liabilities and accumulated surplus					1,489,664

24. RELATED PARTY TRANSACTIONS

The related parties comprise of directors, companies where directors have control and key management personnel.

The following are the details of major related party transactions during the year.

Related party	Nature of transactions	Amount of transactions For the year ended 31 December		Balance as of 31 December	
		2016 SR'000	2015 SR'000	2016 SR'000	2015 SR'000
Insurance Operations					
Saudi Bin Laden – Group	Premiums underwritten	87,184	93,409		
	Payments and claims	(116,955)	(107,426)	98,435	128,206
Board member:					
Claim and risk services (CARS)	Claim handling fee	-	(1,426)		
	Payment made	488	2,803	-	(488)
Claim and risk services (CARS)	Premiums underwritten	-	376		
	Payments and claims	(109)	(642)	-	(109)
Law Office of Hassan Mahassni	Premiums underwritten	614	515		
	Payments and claims	(751)	(496)	(46)	91
Key management personnel	Remuneration and related expenses	4,725	4,856	-	-
Shareholders' Operations					
Najm for insurance services	Payment received	-	-	(270)	(270)
Board members	Board of directors remunerations	1,169	1,123	62	-

25. GOODWILL

The Company entered into an agreement with UCA Insurance Bahrain BSC ('the seller') pursuant to which it acquired the seller's insurance operations in the Kingdom of Saudi Arabia, effective from 31 December 2008, for a total consideration of SR 656.95 million with a goodwill amount of SR 78.4 million. The transaction was approved by SAMA. The goodwill amount payable to the seller was paid in full subsequent to 2008, after obtaining specific approval from SAMA.

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units to which goodwill has been allocated. The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial budgets approved by the Board of Directors covering a five-year period. The budgeted annual growth rate for gross premiums to be written over the next five years to be in the range of 10% to 15% (2015: 9.2% to 15%). The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 3.8% (2015: 3%). The discount rate applied to the cash flow projections is 11% (2015: 11.1%). The valuation result has determined that the carrying value of the goodwill at the reporting date is less than its recoverable amount.

The calculation of value in use is most sensitive to the following assumptions:

- Growth rate of premiums
- Discount rates
- Market share during the forecast period
- Growth rates used to extrapolate cash flows beyond the forecast period

With regard to the assessment of value in use, the management believes that no reasonably possible change in any of the above assumptions would cause the carrying value to materially exceed its recoverable amount at the reporting date.

26. RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board. The Company is exposed to insurance, reinsurance, regulatory framework, 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 Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior management

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

Audit Committee and Internal Audit Function

Risk management processes throughout the Company are audited annually by the Internal Audit function which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Auditor 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 and financial 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 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 and 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 market are closely observed, reacting were 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.

26. RISK MANAGEMENT – (continued)

Insurance risk management – (continued)

Independent actuarial review of claims and claims reserves

In further mitigation of the insurance risk, the Company utilises an independent actuary who performs periodical reviews of the Company's claims modelling and claims projections as well as verifying the closing position claims reserves are adequate.

Key assumptions

The principal assumption underlying the estimates is the Company's estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods as far as applicable.

Sensitivities

The Company believes that claim liabilities under insurance contract (Gross outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions. Sensitivity of loss for the year to change in claim liabilities and IBNR based on an increase / decrease of 10% in outstanding claim reserve and increase / decrease of 15 % in IBNR is given below

	2016 SR'000		2015 SR'000	
Outstanding claims net of reinsurance	Effect of 10% increase	Effect of 10% decrease	Effect of 10% increase	Effect of 10% decrease
	(6,433)	6,433	(10,515)	10,515

	2016 SR'000		2015 SR'000	
Incurred but not reported (IBNR) reserve net of reinsurance	Effect of 15% increase	Effect of 15% decrease	Effect of 15% increase	Effect of 15% decrease
	(26,269)	26,269	(27,201)	27,201
TOTAL	(32,702)	32,702	(37,716)	37,716

26. RISK MANAGEMENT – (continued)

Frequency and Severity of Claims

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly medical, motor, fire and burglary, general accident and marine classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Fire and Burglary

Fire and burglary insurance contracts, with the main peril being fire damage and other allied perils resulting there from, are underwritten either on replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, 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 treaties.

Motor

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 50% of gross written premium.

The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims. This risk is covered by per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

General Accident and Workmen's Compensation

For miscellaneous accident classes 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 and the potential court awards for liability classes are the main factors that influence the level of claims.

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.

The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

Concentration of insurance risk

The Company does not have insurance contract covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation. The Company does not have any material claims where the amount and timing of payment is not resolved within one year of the reporting date.

Medical

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. This risk is covered by per occurrence excess of loss treaty as well as quota share treaty.

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.

26. RISK MANAGEMENT – (continued)

Credit risk

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

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

The Company only enters into insurance and reinsurance contracts with recognised, 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 seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

The Company 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.

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

As at 31 December 2016

	Insurance operations SR '000	Shareholders operations SR '000
Cash and cash equivalents	61,736	1,268
Time deposit	136,070	74,600
Available-for-sale investments	109,469	35,355
Held to maturity investments	119,855	96,198
Premiums and reinsurance balances receivable	213,844	-
Reinsurers' share of unearned premium	184,906	-
Reinsurers' share of outstanding claims	321,697	-
Prepayments and other assets	30,814	1,305
	1,178,391	208,726

As at 31 December 2015

	Insurance operations SR '000	Shareholders operations SR '000
Cash and cash equivalents	281,546	19,409
Time deposits	114,300	145,800
Available-for-sale investments	185,072	85,888
Premiums and insurance balances receivable	290,439	-
Reinsurers' share of unearned premium	174,250	-
Reinsurers' share of outstanding claims	305,769	-
Prepayments and other assets	40,643	1,451
	1,392,019	252,548

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a 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 with local banks.

26. RISK MANAGEMENT – (continued)

Maturity profiles

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

As at 31 December 2016

	Up to one year SR '000	More than one year but less than 5 years SR' 000	Total SR' 000
Insurance Operations' Financial Liabilities			
Reinsurance payables	97,306	29,758	127,064
Accrued expenses and other liabilities	53,204	-	53,204
Outstanding claims	561,152	-	561,152
	711,662	29,758	741,420
Shareholders' Financial Liabilities			
Accrued expenses and other liabilities	387	-	387
Accrued commission on statutory deposit payable to SAMA	-	1,242	1,242
Due to a related party	-	270	270
	387	1,512	1,899
Total Financial Liabilities	712,049	31,270	743,319

As at 31 December 2015

	Up to one year SR '000	More than one year but less than 5 years SR' 000	Total SR' 000
Insurance Operations' Financial Liabilities			
Reinsurance payables	134,177	17,106	151,283
Accrued expenses and other liabilities	37,596	-	37,596
Outstanding claims	592,263	-	592,263
	764,036	17,106	781,142
Shareholders' Financial Liabilities			
Accrued expenses and other liabilities	391	-	391
Accrued commission on statutory deposit payable to SAMA	-	457	457
Due to a related party	-	270	270
	391	727	1,118
Total Financial Liabilities	764,427	17,833	782,260

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.

26. RISK MANAGEMENT – (continued)

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company principal transactions are carried out in Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

As at 31 December 2016

	Saudi Riyal SR '000	US Dollar SR' 000	Total SR '000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	54,474	7,262	61,736
Time deposit	136,070	-	136,070
Available-for-sale investments	100,313	9,156	109,469
Held to maturity investments	-	119,855	119,855
Premiums receivable, net	193,240	-	193,240
Reinsurance receivables, net	20,604	-	20,604
Reinsurers' share of unearned premium	184,906	-	184,906
Reinsurers' share of outstanding claims	321,697	-	321,697
Prepayments and other assets	30,814	-	30,814
TOTAL INSURANCE OPERATIONS' ASSETS	1,042,118	136,273	1,178,391
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	1,132	136	1,268
Time deposit	74,600	-	74,600
Available-for-sale investments	20,659	14,696	35,355
Held to maturity investments	-	96,198	96,198
TOTAL SHAREHOLDERS ASSETS	96,391	111,030	207,421
TOTAL ASSETS	1,138,509	247,303	1,385,812

As at 31 December 2015

	Saudi Riyal SR '000	US Dollar SR' 000	Total SR '000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	252,581	28,965	281,546
Time deposit	114,300	-	114,300
Available-for-sale investments	180,026	5,046	185,072
Premiums receivable, net	266,929	-	266,929
Reinsurance receivables, net	23,510	-	23,510
Reinsurers' share of unearned premium	174,250	-	174,250
Reinsurers' share of outstanding claims	305,769	-	305,769
Prepayments and other assets	40,643	-	40,643
TOTAL INSURANCE OPERATIONS' ASSETS	1,358,008	34,011	1,392,019
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	11,753	7,656	19,409
Time deposit	145,800	-	145,800
Available-for-sale investments	79,962	5,926	85,888
TOTAL SHAREHOLDERS ASSETS	237,515	13,582	251,097
TOTAL ASSETS	1,595,523	47,593	1,643,116

26. RISK MANAGEMENT – (continued)

Foreign currency risk – (continued)

As at 31 December 2016

	Saudi Riyal SR '000	US Dollar SR '000	Total SR '000
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payables	127,064	-	127,064
Accrued expenses and other liabilities	53,204	-	53,204
Outstanding claims	561,152	-	561,152
TOTAL INSURANCE OPERATIONS' LIABILITIES	741,420	-	741,420
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	387	-	387
Accrued commission on statutory deposit payable to SAMA	1,242	-	1,242
Due to a related party	270	-	270
TOTAL SHAREHOLDERS' LIABILITIES	1,899	-	1,899
TOTAL LIABILITIES	743,319	-	743,319

As at 31 December 2015

	Saudi Riyal SR '000	US Dollar SR '000	Total SR '000
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payables	151,283	-	151,283
Accrued expenses and other liabilities	37,596	-	37,596
Outstanding claims	592,263	-	592,263
TOTAL INSURANCE OPERATIONS' LIABILITIES	781,142	-	781,142
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	391	-	391
Accrued commission on statutory deposit payable to SAMA	457	-	457
Due to a related party	270	-	270
TOTAL SHAREHOLDERS' LIABILITIES	1,118	-	1,118
TOTAL LIABILITIES	782,260	-	782,260

26. RISK MANAGEMENT – (continued)

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 investments, cash and cash equivalents, and time deposits. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated.

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 December 31:

	Change in basis points	Effect on income / (loss) for the year SR'000
2016	50	2,134
2015	50	1,300

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 interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

These investments are managed by a professional fund manager in accordance with the guidelines approved by the Board of Directors.

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

As at 31 December 2016

	Level 1	Level 2	Level 3	Total
Available for sale Investments				
Equity securities:				
Insurance operations	4,601	-	-	4,601
Shareholders' operations	8,045	7,694	1,923	17,662
Debt securities:				
Insurance operations	4,868	100,000	-	104,868
Shareholders' operations	17,693	-	-	17,693
	35,207	107,694	1,923	144,824

26. RISK MANAGEMENT – (continued)

Market price risk – (continued)

As at 31 December 2015

	Level 1	Level 2	Level 3	Total
Available for sale Investments				
Equity securities:				
Insurance operations	29,877	-	-	29,877
Shareholders' operations	11,444	18,429	1,923	31,796
Debt securities:				
Insurance operations	55,195	100,000	-	155,195
Shareholders' operations	56,015	-	-	56,015
	152,531	118,429	1,923	272,883

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' comprehensive income will be impacted. There was no transfer between level 1, 2 and 3 during the year ended 31 December 2016 and 2015.

Capital management

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

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

As required by Saudi Arabian Insurance Regulations (Article 66 of Implementation Regulations issued by SAMA), the Company is required to maintain minimum Solvency Margin equivalent to the highest of minimum capital requirement, premium solvency margin or claims solvency margin. As at 31 December 2016, the Company's solvency level is more than the minimum solvency margin required by the Implementation Regulations.

27 COMPARATIVE FIGURES

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

28. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the board of directors on 23 February 2016 corresponding to 26 Jamaad Al-Awwal 1438H.