UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

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PKF Al-Bassam & Al-Nemer
Allied Accountants

Building a better working world

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Saudi Arabia
Registration Number: 45

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 2015 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 Article 123 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:

1. Present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and the results of its operations and its cash flows for the year then ended in accordance with IFRSs; and
2. 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").

For PKF Al-Bassam & Al-Nemer Allied Accountants

Abdul Mohsen M. Al Nemer
Certified Public Accountant
Registration No. 399

المحاسبون المتحالفون
ترخيص رقم
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Allied Accountants

For Ernst & Young

Husam Faisal Bawared
Certified Public Accountant
License No. 393

إرنست ويونغ
ERNST & YOUNG

22 February 2016
13 Jamad Al-Awwal 1437H
Jeddah, Kingdom of Saudi Arabia

STATEMENT OF FINANCIAL POSITION
At 31 December 2015

	Note	*2015 SR'000*	*2014 SR'000*
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	5	281,546	73,642
Time deposit		114,300	-
Available-for-sale investments	6	185,072	56,276
Premiums receivable, net	7	266,929	354,777
Reinsurance receivables, net	8	23,510	5,459
Reinsurers' share of unearned premiums	13	174,250	165,936
Reinsurers' share of outstanding claims	14	305,769	100,845
Deferred policy acquisition costs	9	24,550	13,985
Prepayments and other assets	10	40,643	87,468
Due from shareholders' operations		69,895	164,499
Furniture, fittings and office equipment	11	3,200	4,468
Total insurance operations' assets		1,489,664	1,027,355
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	19,409	58,056
Time deposit		145,800	-
Available-for-sale investments	6	85,888	182,204
Prepayments and other assets		1,908	2,798
Goodwill	25	78,400	78,400
Statutory deposit	20	49,000	28,000
Total shareholders' assets		380,405	349,458
TOTAL ASSETS		1,870,069	1,376,813

STATEMENT OF FINANCIAL POSITION – (continued)
At 31 December 2015

	Note	2015 SR'000	2014 SR'000
INSURANCE LIABILITIES AND SURPLUS			
Insurance operations' liabilities			
Due to reinsurers		151,283	128,588
Unearned commission income	12	35,160	29,443
Unearned premiums	13	591,791	431,188
Unexpired risk reserve		6,486	3,282
Claims handling provision		4,779	2,405
Catastrophe reserve		1,772	500
Other technical reserves		1,401	-
Outstanding claims	14	592,263	350,692
Due to policyholders		29,851	20,853
Accrued expenses and other liabilities	15	37,596	27,051
Employees' terminal benefits		16,069	11,974
Total insurance operations' liabilities		1,468,451	1,005,976
Insurance operations' surplus			
Accumulated surplus from insurance operations		21,258	21,258
Available-for-sale investments reserve	6	(45)	121
Total insurance operations' liabilities and surplus		1,489,664	1,027,355
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accrued expense and other liabilities		848	1,400
Due to a financial institution	16	-	18,750
Due to a related party	24	270	270
Due to insurance operations		69,895	164,499
Provision for zakat and income tax	17	14,681	11,176
Total shareholders' liabilities		85,694	196,095
Shareholders' equity			
Share capital	18	490,000	280,000
Statutory reserve	19	31,944	31,944
Accumulated losses		(221,888)	(160,460)
Available-for-sale investments reserve	6	(5,345)	1,879
Total shareholders' equity		294,711	153,363
Total shareholders' liabilities and equity		380,405	349,458
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		1,870,069	1,376,813

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 2015

	Note	*2015* *SR'000*	*2014* *SR'000*
Revenue			
Gross written premiums		1,271,736	1,165,152
Less: Reinsurance premiums ceded		(371,973)	(361,618)
Excess of loss premiums		(8,132)	(7,424)
Net written premiums		891,631	796,110
Change in net unearned premiums	13	(152,289)	(13,703)
Net premiums earned		739,342	782,407
Reinsurance commission earned	12	44,715	42,825
Net revenue		784,057	825,232
Cost and expenses			
Gross claims paid	14	755,014	822,594
Less: Reinsurers' share of claims paid	14	(103,462)	(96,508)
Net claims paid		651,552	726,086
Change in net outstanding claims		36,647	67,901
Net claims incurred	14	688,199	793,987
Policy acquisition costs	9	28,633	21,299
Premium deficiency reserve		-	(13,727)
Unexpired risk reserve		3,203	3,282
Claims handling provision		2,374	2,405
Catastrophe reserve		1,272	-
Other technical reserves		1,401	-
Net cost and expenses		725,082	807,246
Net underwriting result		58,975	17,986
General and administration expenses	22	(117,884)	(102,020)
Supervision and inspection fee		(4,661)	(5,828)
Council of Cooperative Health Insurance (CCHI) fee		(1,336)	(1,758)
Investment income		4,777	7,368
Deficit from insurance operations		(60,129)	(84,252)
Shareholders' share of insurance operations deficit		60,129	84,252
Surplus for the year		-	-
Accumulated surplus at the beginning of the year		21,258	21,258
Accumulated surplus at the end of the year		21,258	21,258

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

STATEMENT OF SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	*2015 SR'000*	*2014 SR'000*
REVENUE			
Shareholders' share of insurance operations deficit		(60,129)	(84,252)
Commission income		3,906	3,409
Dividend income		935	98
Realised gain on sale of available-for-sale investments		4,693	2,978
		(50,595)	(77,767)
EXPENSES			
General and administration expenses	22	1,257	1,362
Board remunerations	24	1,123	1,169
Total expenses		2,380	2,531
NET LOSS FOR THE YEAR		(52,975)	(80,298)
Weighted average number of ordinary shares outstanding ('000)	21	46,238	36,400
Basic and diluted loss per share for the year – (SR) – restated	21	(1.15)	(2.21)

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

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	*2015* *SR'000*	*2014* *SR'000*
Net loss for the year		(52,975)	(80,298)
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	(2,531)	4,011
Net gain on sale of available-for-sale investments		(4,693)	(2,978)
Other expense			
Zakat and income tax	17	(3,505)	(3,535)
Total comprehensive loss for the year		(63,704)	(82,800)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

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

For the year ended 31 December 2014	*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 2013	280,000	31,944	(76,627)	846	236,163
Net loss for the year	-	-	(80,298)	-	(80,298)
Change in fair value of available-for-sale-investments	-	-	-	4,011	4,011
Net gain on sale of available-for-sale investments	-	-	-	(2,978)	(2,978)
Zakat and income tax for the year (note 17)	-	-	(3,535)	-	(3,535)
Balance as at 31 December 2014	280,000	31,944	(160,460)	1,879	153,363

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

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 *SR'000*	*2014* *SR'000*
OPERATING ACTIVITIES		
Surplus for the year from insurance operations	-	-
Adjustment for:		
Depreciation	2,668	3,679
Employees' terminal benefits, net	4,095	2,889
Realised gain on available-for-sale investments	(2)	-
Movement in allowance for doubtful premiums receivables	14,245	2,323
Movement in allowance for doubtful reinsurance receivables	(110)	(237)
Reinsurers' share of unearned premiums	(8,314)	(42,035)
Unearned premiums	160,603	55,738
Premium deficiency reserve	-	(13,727)
Unexpired risk reserve	3,204	3,282
Claims handling provision	2,374	2,405
Catastrophe reserve	1,272	-
Other technical reserves	1,401	-
	181,436	14,317
Changes in operating assets and liabilities:		
Premiums receivable	73,603	53,924
Reinsurance receivables	(17,941)	3,608
Reinsurers' share of outstanding claims	(204,924)	13,871
Deferred policy acquisition cost	(10,565)	(6,868)
Prepayments and other assets	46,825	(2,657)
Due from shareholders' operations	94,604	(77,889)
Due to reinsurers	22,695	(62,404)
Unearned commission income	5,717	4,006
Outstanding claims	241,571	54,030
Due to policyholders	8,998	(8,572)
Accrued expenses and other liabilities	10,546	4,612
Net cash from / (used in) operating activities	452,565	(10,022)
INVESTING ACTIVITIES		
Time deposits	(114,300)	-
Purchase of furniture, fittings and office equipment	(1,400)	(1,298)
Purchase of available-for-sale investments	(177,990)	(10,812)
Proceeds from sale of available-for-sale investments	49,029	9,756
Net cash used in investing activities	(244,661)	(2,354)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	207,904	(12,376)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	73,642	86,018
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	281,546	73,642
Non-cash transactions		
Change in fair value of available-for-sale investments	(166)	362

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 2015

	2015 SR'000	2014 SR'000
OPERATING ACTIVITIES		
Net loss for the year	(52,975)	(80,298)
Adjustment for:		
Realised gain on available-for-sale investments	(4,693)	(2,978)
	(57,668)	(83,276)
Changes in operating assets and liabilities:		
Prepayments and other assets	890	(1,920)
Due to insurance operations	(94,604)	77,889
Accrued expenses and other liabilities	(552)	341
Cash used in operations	(151,934)	(6,966)
Zakat and income tax paid	-	(14,288)
Net cash used in operating activities	(151,934)	(21,254)
INVESTING ACTIVITIES		
Time deposits	(145,800)	-
Purchase of available-for-sale investments	(54,570)	(79,074)
Proceeds from sale of available-for-sale investments	148,355	65,898
Net cash used in investing activities	(52,015)	(13,176)
FINANCING ACTIVITIES		
Issuance of right shares	210,000	-
Issuance cost	(4,948)	-
Statutory deposit	(21,000)	-
Due to a financial institution	(18,750)	-
Net cash from financing activities	165,302	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(38,647)	(34,430)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	58,056	92,486
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	19,409	58,056
Non-cash transactions		
Change in fair value of available-for-sale investments	(2,531)	4,011

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) Al Rawdah 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 uncollectibility 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:
  - adverse changes in the payment status of issuers or debtors in the Company; or
  - national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

Impairment of non-financial assets

Assets that have an indefinite useful life 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 derecognition 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 Department of Zakat and Income Tax ("DZIT"), 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 of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or based on the expected discounted cash flows.

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 three 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 / Interpretation	***Description***
IAS 19	Amendments to IAS 19 Defined Benefit Plans – Employee Contributions
IFRS 2	Share Based Payment
IFRS 3	Business Combination
IFRS 8	Operating Segments
IFRS 13	Fair Value Measurement
IAS 16 & 36	Property, plant and equipment and intangible assets
IAS 24	Related Party Transaction
IAS 40	Investment Property

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/ Interpretation	***Description***	***Effective date***
IFRS 9	Financial Instruments	1 January 2018
IFRS 11	Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IAS 1	Amendment to IAS 1 Disclosure initiative	1 January 2016
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27	Amendment to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
IFRS 5, IFRS 7, IAS 19 and IAS 34	Annual improvements to IFRS 2012 – 2014 cycle that includes amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Inventor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
IAS 16 and IAS 41	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	1 January 2016

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

	2015	*2014*
	SR'000	*SR'000*
Insurance operations		
Cash at banks	**281,546**	73,642
Shareholders' operations		
Cash at banks	**19,409**	58,056

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 0.045 million as at 31 December 2015 (31 December 2014: SR 0.121 million) and was credited to the surplus from insurance operations.

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

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**

As at 31 December 2014	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	4,016	-	266	4,282
Investment in sukuk	50,842	(9,756)	16	41,102
Investment in equity shares	-	812	80	892
Investment in mutual funds	-	10,000	-	10,000
	54,858	1,056	362	56,276

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

Shareholders' operations

	2015 *SR'000*	*2014* *SR'000*
Quoted securities	**83,965**	60,560
Unquoted securities	**1,923**	121,644
	85,888	182,204

i) Available-for-sale – quoted securities

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**

As at 31 December 2014	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	-	15,921	(1,769)	14,152
Investment in bonds	21,738	-	571	22,309
Investment in sukuk	23,840	(9,767)	24	14,097
Investment in mutual funds	-	10,000	2	10,002
	45,578	16,154	(1,172)	60,560

ii) Available-for-sale – unquoted securities

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**

As at 31 December 2014	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	57,516	-	2,205	59,721
	119,439	-	2,205	121,644

The unrealized loss of SR 2.531 million for the year ended 31 December 2015 (2014: Unrealized gain SR 4.011 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 2015 is SR 5.345 million (2014: SR 1.879 million).

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

7. PREMIUMS RECEIVABLE

	2015	2014
	SR'000	*SR'000*
Premiums receivable	**159,003**	218,342
Premiums receivable – related parties (note 24)	**144,265**	158,529
Provision for doubtful debt	**(36,339)**	(22,094)
	266,929	354,777

Movement in provision for doubtful debts is as follows:

	2015	2014
	SR'000	*SR'000*
Balance at the beginning of the year	**22,094**	19,778
Provision for the year	**14,245**	2,323
Utilisation during the year	**-**	(7)
Balance at the end of the year	**36,339**	22,094

As at 31 December 2015	**Less than 90 days**	***Past due but not impaired*** **91 to 180 days**	**More than 180 days**	**Total**
Amount in SR '000				
Premiums receivable	**87,478**	**41,395**	**30,130**	**159,003**
Premiums receivable – related parties	**75,871**	**58,791**	**9,603**	**144,265**
Provision for doubtful debts	**-**	**(15,028)**	**(21,311)**	**(36,339)**
Premiums receivable, net	**163,349**	**85,158**	**18,422**	**266,929**

As at 31 December 2014	Less than 90 days	*Past due but not impaired* 91 to 180 days	More than 180 days	Total
Amount in SR '000				
Premiums receivable	121,157	64,171	33,014	218,342
Premiums receivable – related parties	158,529	-	-	158,529
Provision for doubtful debts	-	(9,626)	(12,468)	(22,094)
Premiums receivable, net	279,686	54,545	20,546	354,777

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 2015 (2014: 72%).

8. REINSURANCE RECEIVABLES, NET

	2015 **SR'000**	2014 SR'000
Reinsurance receivables	**25,862**	7,921
Provision for doubtful debt	**(2,352)**	(2,462)
	23,510	5,459

Movement in provision for doubtful debts is as follows:

	2015 **SR'000**	2014 SR'000
Balance at the beginning of the year	**2,462**	2,699
Provision for the year	**-**	-
Release of provision during the year	**(110)**	(237)
Balance at the end of the year	**2,352**	2,462

31 December 2015		***Past due but not impaired***		
	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**

31 December 2014		*Past due but not impaired*		
	Less than 90 days	91 to 180 days	More than 180 days	Total
Amount in SR '000				
Reinsurance receivables	1,297	619	6,005	7,921
Provision for doubtful debts	-	-	(2,462)	(2,462)
Reinsurance receivables, net	1,297	619	3,543	5,459

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.

9. DEFERRED POLICY ACQUISITION COSTS

	2015 **SR'000**	2014 SR'000
As at 1 January	**13,985**	7,117
Cost incurred during the year	**39,198**	28,167
Charge for the year	**(28,633)**	(21,299)
As at 31 December	**24,550**	13,985

10. PREPAYMENTS AND OTHER ASSETS

	2015 *SR'000*	2014 *SR'000*
Deferred third party administrator (TPA) fee	**1,508**	2,610
Prepaid expenses	**4,614**	4,477
Accrued interest	**1,217**	335
Advances to hospitals	**-**	48,936
Claim recoveries	**17,015**	13,311
Advances to staff	**2,207**	2,965
Others	**14,082**	14,834
	40,643	87,468

11. FURNITURE, FITTINGS AND OFFICE EQUIPMENT

Insurance Operations

	Motor vehicles SR'000	*Furniture & fittings SR'000*	*Computers & office equipment SR'000*	*Leasehold improvements SR'000*	***2015 Total SR'000***	*2014 Total SR'000*
Cost:						
At the beginning of the year	431	8,048	8,222	4,292	**20,993**	19,695
Additions	-	199	953	248	**1,400**	1,298
Closing balance	**431**	**8,247**	**9,175**	**4,540**	**22,393**	20,993
Depreciation:						
At the beginning of the year	240	6,071	6,606	3,608	**16,525**	12,846
Charge for the year	90	1,096	984	498	**2,668**	3,679
Closing balance	**330**	**7,167**	**7,590**	**4,106**	**19,193**	16,525
Net book value:						
At 31 December 2015	**101**	**1,080**	**1,585**	**434**	**3,200**	
At 31 December 2014	191	1,977	1,616	684		4,468

12. UNEARNED COMMISSION INCOME

	2015 *SR'000*	2014 *SR'000*
As at 1 January	**29,443**	25,437
Commission received during the year	**50,432**	46,831
Commission earned during the year	**(44,715)**	(42,825)
As at 31 December	**35,160**	29,443

13. MOVEMENT IN UNEARNED PREMIUMS

	2015 *SR'000*	2014 *SR'000*
Gross unearned premiums as at 1 January	**431,188**	375,450
Gross unearned premiums as at 31 December	**(591,791)**	(431,188)
Movement in gross unearned premiums	**(160,603)**	(55,738)
Reinsurers' share of unearned premiums as at 1 January	**(165,936)**	(123,901)
Reinsurers' share of unearned premiums as at 31 December	**174,250**	165,936
Movement in reinsurers' share of unearned premiums	**8,314**	42,035
Movement in unearned premiums, net	**(152,289)**	(13,703)

14. CLAIMS

	2015 *SR'000*	2014 *SR'000*
Gross claims paid	**755,014**	822,594
Gross outstanding claims at the end of the year (see note (i) below)	**592,263**	350,692
	1,347,277	1,173,286
Gross outstanding claims at the beginning of the year	**(350,692)**	(296,662)
Gross claims incurred	**996,585**	876,624
Reinsurance recoveries	**(103,462)**	(96,508)
Reinsurers' share of outstanding claims at the end of the year (see note (ii & iii) below)	**(305,769)**	(100,845)
	(409,231)	(197,353)
Reinsurers' share of outstanding claims at the beginning of the year	**100,845**	114,716
Reinsurers' share of claims	**(308,386)**	(82,637)
Net claims incurred	**688,199**	793,987

i. Gross outstanding claims as at 31 December 2015 include provision for claims incurred but not reported – (IBNR) amounting to SR 244.88 million (2014: SR 186.28 million).

ii. Reinsurers' share of outstanding claims as at 31 December 2015 include provision for claims incurred but not reported – (IBNR) – amounting to SR 63.53 million (2014: SR 16.74 million)

iii. 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.

14. 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 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**

As at 31 December 2014

Accident year	2010 & earlier	2011	2012	2013	2014	Total
			SR'000			
Estimate of ultimate claims cost:						
At the end of accident year	1,161,681	723,478	795,389	915,814	705,178	
One year later	1,068,892	625,231	826,300	970,795	-	
Two years later	1,062,719	680,641	852,094	-	-	
Three years later	1,060,519	698,131	-	-	-	
Four years later	1,069,719	-	-	-	-	
Current estimate of cumulative claims	1,069,719	698,131	852,094	970,795	705,178	4,295,917
Cumulative payments to date	(1,063,728)	(690,453)	(833,383)	(878,386)	(479,275)	(3,945,225)
Liability recognised in statement of financial position	5,991	7,678	18,711	92,409	225,903	350,692

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	2015 SR'000	2014 SR'000
Insurance Operations		
Accrued expenses	**248**	438
Garages	**2,183**	644
Third party administrator (TPA) fees	**782**	889
Payables to hospitals	**8,341**	-
Insurance brokers	**5,133**	3,324
Surveyor	**-**	1,309
Commission and incentives payable	**2,665**	1,665
CCHI fees payable	**1,252**	1,680
Supervision and inspection fee payable	**1,845**	1,694
Withholding tax payable	**5,829**	7,239
Others	**9,318**	8,169
	37,596	27,051

16. DUE TO A FINANCIAL INSTITUTION

During the year, the SA Murabaha certificates were matured and the Company did not roll forward the facility. This overdraft facility of USD 5,000,000 was obtained from BSI SA bank for the purpose of additional investment in BSI, SA Murabaha certificates. The overdraft was for a period of three (3) months and carried at market prevailing commission rate on a rolling basis.

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:

	2015 SR'000	2014 SR'000
Share capital	**280,000**	280,000
Statutory deposit	**(28,000)**	(28,000)
Statutory reserves	**31,944**	31,944
Accumulated losses	**(160,460)**	(76,627)
End of services benefits	**11,974**	9,085
Other opening provisions	**35,732**	7,641
Furniture, fittings and office equipment, net	**(3,200)**	(4,468)
	167,990	219,575
Loss for the year	**(52,975)**	(80,298)
Provision for doubtful debts	**14,245**	2,086
End of services benefits	**4,095**	2,889
Other technical provisions	**8,250**	-
Adjusted loss for the year	**(26,385)**	(75,323)
Zakat base	**141,605**	144,252
Attributable to Saudi Shareholders @ 99% (2014: 98%)	**140,189**	141,367
Zakat @ 2.5%	**3,505**	3,535
Income tax		
Attributable income to Non Saudi Shareholder @ 1% (2014: 2%)	**-**	-
Income tax @ 20%	**-**	-
Zakat and income tax	**3,505**	3,535

17. ZAKAT AND INCOME TAX – (continued)

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

	2015	2014
	SR'000	*SR'000*
Balance at the beginning of the year	**11,176**	21,929
Charge for the year	**3,505**	3,535
Paid during the year	**-**	(14,288)
Balance at the end of the year	**14,681**	11,176

As the Company has incurred losses during the year, no provision has been provided for income tax.

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 DZIT 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 2014 and obtained restricted zakat certificates.

During 2013, the Company received the final zakat assessments for the years 2009 to 2011 from the Department of Zakat and Income Tax (DZIT) 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. DZIT has not yet raised assessments for the years from 2012 to 2014.

18. SHARE CAPITAL

The authorised and issued share capital of the Company is SR 490 million divided into 49 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 have been completed and the share capital has been increased from SR 280 Million to SR 490 Million. The Company incurred a sum of SR 4.95 million as issuance cost to raise additional capital of SR 210 million through rights issue which has been 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. The reserve is not available for distribution. As the Company has accumulated losses, as at year end, no transfer to statutory reserve has been made during the year.

20. STATUTORY DEPOSIT

	2015	2014
	SR'000	*SR'000*
Shareholders' Operations		
Statutory deposit	**49,000**	28,000

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 49 million (2014: SR 28 million) in a bank designated by the Saudi Arabian Monetary Agency (SAMA). The Company cannot withdraw this deposit without SAMA's approval and commission accruing on this deposit is payable to SAMA.

21. BASIC AND DILUTED LOSS PER SHARE

Loss per share for the year have been calculated by dividing the net loss for the year by the weighted average number of issued and outstanding shares for the year. Diluted loss per share is not applicable on the Company.

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

	2015	*2014*
Issued ordinary shares as at 1 January ('000')	**28,000**	28,000
Effect of bonus element of right share issue ('000')	**-**	8,400
Effect of right share issue	**18,238**	-
Weighted average number of ordinary shares ('000')	**46,238**	36,400

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:

	2015	*2014*
Net loss for the year (SR '000')	**(52,975)**	(80,298)
Weighted average number of ordinary shares ('000') – (Note 21. a)	**46,238**	36,400
Basic and diluted loss per share (SR) – restated	**(1.15)**	(2.21)

22. GENERAL AND ADMINISTRATION EXPENSES

	2015	2014
	SR'000	*SR'000*
Insurance operations		
Employee costs (note 24)	**74,308**	72,079
Legal and professional fees	**1,518**	1,291
Office rent	**9,132**	8,994
Provision for doubtful receivables (note 7 & 8)	**14,135**	2,086
Depreciation	**2,668**	3,679
Office expenses	**1,590**	1,805
Communication expenses	**3,979**	4,015
Vehicle expenses	**116**	94
Withholding tax	**2,000**	2,250
Printing & stationery	**2,610**	1,707
Courier and postage	**560**	555
Electricity	**298**	283
Others	**4,970**	3,182
	117,884	102,020

	2015	2014
	SR'000	*SR'000*
Shareholders' operations		
Professional fees	**699**	463
Others	**558**	899
	1,257	1,362

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 administration 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), prepayments and other assets, due from shareholders' operations and furniture, fittings and office equipment.

Segment liabilities do not include due to reinsurers, due to policyholders, accrued expenses and other liabilities 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 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)					**(117,884)**
Supervision and inspection fee	(626)	(2,408)	(781)	(846)	**(4,661)**
CCHI fee	(1,336)	-	-	-	**(1,336)**
Investment income (unallocated)					**4,777**
Deficit from insurance operations					**(60,129)**

23. SEGMENTAL INFORMATION – (continued)

As at 31 December 2015	*Medical SR'000*	*Motor SR'000*	*Energy SR'000*	*Others SR'000*	*Total SR'000*
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**

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 2014					
Gross written premiums	166,416	585,131	140,475	273,130	1,165,152
Less: Reinsurance premiums ceded	(22)	(1,139)	(138,057)	(222,400)	(361,618)
Excess of loss premiums	(534)	(2,286)	-	(4,604)	(7,424)
Net written premiums	165,860	581,706	2,418	46,126	796,110
Change in net unearned premiums	249	(16,993)	-	3,041	(13,703)
Net premiums earned	166,109	564,713	2,418	49,167	782,407
Reinsurance commission earned	1	932	2,620	39,272	42,825
Net revenue	166,110	565,645	5,038	88,439	825,232
Gross claims paid	156,432	563,678	7,480	95,004	822,594
Less: Reinsurers' share of claims paid	(3,235)	(591)	(7,388)	(85,294)	(96,508)
Net claims paid	153,197	563,087	92	9,710	726,086
Change in net outstanding claims	(3,564)	66,773	(1)	4,693	67,901
Net claims incurred	149,633	629,860	91	14,403	793,987
Policy acquisition costs	4,326	8,775	-	8,198	21,299
Premium deficiency reserve	(5,726)	(8,001)	-	-	(13,727)
Unexpired risk reserve	-	-	-	3,282	3,282
Claims handling provision	-	2,405	-	-	2,405
Net cost and expenses	148,233	633,039	91	25,883	807,246
Net underwriting result	17,877	(67,394)	4,947	62,556	17,986
Supervision and inspection fee	(828)	(2,831)	(702)	(1,467)	(5,828)
CCHI fee	(1,758)	-	-	-	(1,758)
Unallocated general and administration expenses					(102,020)
Investment income					7,368
Deficit from insurance operations					(84,252)

	Medical SR'000	*Motor SR'000*	*Energy SR'000*	*Others SR'000*	*Total SR'000*
As at 31 December 2014					
Insurance operations' assets					
Reinsurers' share of unearned premiums	-	664	-	165,272	165,936
Reinsurers' share of outstanding claims	1,314	3,574	-	95,957	100,845
Deferred policy acquisition costs	1,161	6,495	-	6,329	13,985
Unallocated assets					746,589
Total insurance operations' assets					1,027,355
Insurance operations' liabilities and surplus					
Unearned commission income	-	160	-	29,283	29,443
Unearned premiums	54,316	193,139	-	183,733	431,188
Unexpired risk reserve	-	-	-	3,282	3,282
Claims handling provision	-	2,405	-	-	2,405
Catastrophe reserve	-	-	-	500	500
Outstanding claims	50,431	185,266	-	114,995	350,692
Unallocated liabilities					209,845
Total insurance operations' liabilities and accumulated surplus					1,027,355

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*	
		2015 SR'000	*2014 SR'000*	***2015 SR'000***	*2014 SR'000*
Insurance Operations					
Shareholders:					
Saudi Bin Laden – Group	Premiums underwritten	**93,409**	224,341		
	Payments and claims	**(107,426)**	(301,066)	**144,283**	158,300
Board member:					
Claim and risk services (CARS)	Claim handling fee	**(1,426)**	(7,861)		
	Payment made	**2,803**	7,802	**(488)**	(889)
Claim and risk services (CARS)	Premiums underwritten	**376**	621		
	Payments and claims	**(642)**	(1,009)	**(109)**	157
Law Office of Hassan Mahassni	Premiums underwritten	**515**	372		
	Payments and claims	**(496)**	(371)	**91**	72
Key management personnel	Remuneration and related expenses	**4,856**	4,702	**-**	-
Shareholders' Operations					
Najm for insurance services	Payment received	**-**	-	**(270)**	(270)
Board members	Board of directors remunerations	**1,123**	1,169	**-**	(40)

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 9.2% to 15%. The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 3% (2014: 3%). The discount rate applied to the cash flow projections is 11.1% (2014: 11%). 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

	2015 SR'000		*2014 SR'000*	
Outstanding claims net of reinsurance	**Effect of 10% increase**	**Effect of 10% decrease**	Effect of 10% increase	Effect of 10% decrease
	(10,515)	**10,515**	(8,031)	8,031
	2015 SR'000		*2014 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
	(27,201)	**27,201**	(25,431)	25,431
TOTAL	**(37,716)**	**37,716**	(33,462)	33,462

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.

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 2015

	Insurance operations SR '000	Shareholders operations SR '000
Cash and cash equivalents	**281,546**	**19,409**
Time deposit	**114,300**	**145,800**
Available-for-sale investments	**185,072**	**85,888**
Premiums and reinsurance balances receivable	**290,439**	-
Reinsurers' share of unearned premium	**174,250**	-
Reinsurers' share of outstanding claims	**305,769**	-
Prepayments and other assets	**40,643**	**1,908**
	1,392,019	**253,005**

As at 31 December 2014

	Insurance operations SR '000	Shareholders operations SR '000
Cash and cash equivalents	73,642	58,056
Available-for-sale investments	56,276	182,204
Premiums and insurance balances receivable	360,236	-
Reinsurers' share of unearned premium	165,936	-
Reinsurers' share of outstanding claims	100,845	-
Prepayments and other assets	87,468	2,798
	844,403	243,058

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 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	848	-	**848**
Due to a related party	-	270	**270**
	848	270	**1,118**
Total Financial Liabilities	764,884	17,376	**782,260**

As at 31 December 2014

	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	104,076	24,512	128,588
Accrued expenses and other liabilities	27,051	-	27,051
Outstanding claims	225,903	124,789	350,692
	357,030	149,301	506,331
Shareholders' Financial Liabilities			
Accrued expenses and other liabilities	1,400	-	1,400
Due from financial institution	18,750	-	18,750
Due to a related party	-	270	270
	20,150	270	20,420
Total Financial Liabilities	377,180	149,571	526,751

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 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**

As at 31 December 2014

	Saudi Riyal SR '000	US Dollar SR' 000	Total SR '000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	61,653	11,989	73,642
Available-for-sale investments	51,395	4,881	56,276
Premiums receivable, net	354,777	-	354,777
Reinsurance receivables, net	5,459	-	5,459
Reinsurers' share of unearned premium	165,936	-	165,936
Reinsurers' share of outstanding claims	100,845	-	100,845
Prepayments and other assets	87,468	-	87,468
TOTAL INSURANCE OPERATIONS' ASSETS	827,533	16,870	844,403
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	57,737	319	58,056
Available-for-sale investments	105,176	77,028	182,204
TOTAL SHAREHOLDERS ASSETS	162,913	77,347	240,260
TOTAL ASSETS	990,446	94,217	1,084,663

26. RISK MANAGEMENT – (continued)

Foreign currency risk – (continued)

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**
	781,142	-	**781,142**
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	848	-	**848**
Due to a related party	270	-	**270**
TOTAL SHAREHOLDERS' LIABILITIES	1,118	-	**1,118**
TOTAL LIABILITIES	782,260	-	**782,260**

As at 31 December 2014

	Saudi Riyal SR '000	US Dollar SR '000	Total SR '000
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payables	128,588	-	128,588
Accrued expenses and other liabilities	27,051	-	27,051
Outstanding claims	350,692	-	350,692
	506,331	-	506,331
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	1,400	-	1,400
Due from financial institution	-	18,750	18,750
Due to a related party	270	-	270
TOTAL SHAREHOLDERS' LIABILITIES	1,670	18,750	20,420
TOTAL LIABILITIES	508,001	18,750	526,751

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 (loss) / income for the year SR'000
2015	**50**	**1,300**
2014	50	-

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 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**

26. RISK MANAGEMENT – (continued)

Market price risk – (continued)

As at 31 December 2014

	Level 1	Level 2	Level 3	Total
Available for sale Investments				
Equity securities:				
Insurance operations	10,895	-	-	10,895
Shareholders' operations	24,154	-	1,923	26,077
Debt securities:				
Insurance operations	5,381	40,000	-	45,381
Shareholders' operations	26,406	70,000	-	96,406
Deposit certificates:				
Shareholders' operations	-	59,721	-	59,721
	66,836	169,721	1,923	238,480

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 2015 and 2014.

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 2015, the Company's solvency level is less than the minimum solvency margin required by the Implementation Regulations and is in the purview of the above-mentioned article of the Implementation Regulations.

27 COMPARATIVE FIGURES

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

28. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the board of directors on 17 February 2016 corresponding to 8 Jamad Al-Awwal 1437H.