SANAD COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

Financial Statements
For the year ended 31 December 2016
together with the Independent auditors' report

INDEPENDENT AUDITORS' REPORT
SANAD COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of Sanad Cooperative insurance company (A Saudi Joint Stock Company) (the "Company") as at 31 December 2016 and the related statements of comprehensive income of insurance and shareholders' operations, statement of changes in shareholders' equity, statement of cash flows of insurance and shareholders' operations for the year then ended and the notes 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, the Regulations for Companies and the Company's By-laws and submitted 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 our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

BASIS FOR DISCLAIMER OF OPINION

As at 31 December 2016, the Company has accumulated losses amounting to SR 176.96 million reaching to 88.48% of its capital. Moreover, the Company does not maintain the minimum regulatory solvency requirement. On the other hand, the Company is being banned from issuing new insurance policies since 12 DhulQadah 1435 (corresponding to 7 September 2014). The continuation of the Company is mainly dependent on its shareholders' financing support and related financial restructuring to meet the requirements set forth by the insurance industry regulator in order to obtain the regulatory release with regard to the ban for issuing new insurance policies and accordingly on acquiring profitable business. In the above connection, there is a doubt about the Company's ability to continue as a going concern, yet the intention of Company's Board of Directors is to continue its operations and accordingly these financial statements are prepared on a going concern basis as described in note 2.2. As at 9 DhulQadah 1435 (corresponding to 4 September 2014), the Company's Board has recommended a capital increase and the calling for an Extraordinary General Assembly is pending subject to meeting certain regulatory requirements and securing certain regulatory approvals before calling for the same as per the requirement of the Regulations for Companies.

During the third quarter of 2015, the Company obtained a conditional approval from SAMA for increasing the share capital. The Company has fulfilled all the requirements contained in the conditional approval within the prescribed time limit; this was announced on Saudi Arabian Stock Exchange's website ("Tadawul") on January 3, 2016. On 28 January 2016, the Company obtained the related final capital increase approval from the Saudi Arabian Monetary Agency. On 15 May 2016 the Company requested from SAMA to reduce its Capital by 10 million shares (i.e. SR 100 million) and received their approval on 2 June 2016. Both files, related to Capital increase and decrease, were presented to CMA on 15 June 2016. On 28 November 2016, Saudi Kuwaiti Finance House withdrew themselves from underwriting the capital increase and as a result they withdrew the file from CMA till the Company gets a quotation from another underwriter. On 6 December 2016 the Company withdrew the capital reduction file from CMA in order to be submitted with the capital increase file after securing another underwriter.

PKF
Audit - Consultants - Zakat & Tax

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

Crowe Horwath

AlAzem & AlSudairy Co.
CPA's & Consultants
Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT (Continued)
SANAD COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

BASIS FOR DISCLAIMER OF OPINION (Continued)

On 2 February 2017, the company has received a letter form SAMA instructing them for rectifying the related financial situation by 5 March 2017 at the latest; otherwise SAMA shall undertake the related necessary corrective actions as required by Cooperative insurance law and related implementing regulations. As of 8 March 2017, none of the SAMA's requirements as mentioned above has been carried out by the company and accordingly the deadline of SAMA being 5 March 2017 has not been met.

The Company's Board of Directors recommended at its meeting held on 9 Jumada Al Thani 1438H, corresponding to 8 March 2017 for voluntary liquidation of the company and called for the Extraordinary General Assembly, which will be announced in due course after obtaining approvals from related official bodies, for voting regarding the above recommendation.

The above significant matters evidently indicate the existence of material certainty on the Company's inability to continue as a going concern. These financial statements did not include any adjustment that might be necessary had they been prepared on non-going concern basis.

DISCLAIMER OF OPINION

Due to the possible material adjustment that might affect these financial statements as described in the basis for disclaimer of opinion paragraph above relating to the significant doubt about the Company's ability to continue as a going concern, we do not express an opinion on these financial statements.

EMPHASIS OF A MATTER

These financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants.

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(16 March 2017)

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SANAD COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(Amount in Saudi Riyals)

	Notes	31 December 2016	31 December 2015
ASSETS			
ASSETS – INSURANCE OPERATIONS			
Cash and cash equivalents	4	**10,339,071**	32,508,394
Premiums receivable, net	11	**9,213,670**	10,528,378
Reinsurers' balance receivable, net		**-**	3,555,647
Reinsurers' share of outstanding claims and other technical reserves	9(ii)	**4,502,187**	4,833,801
Reinsurers' share of unearned premium	10	**175,321**	839,809
Deferred policy acquisition cost	12	**32,978**	150,047
Due from shareholders' operations		**18,914,632**	11,338,874
Prepayments and other assets		**5,496,446**	5,103,750
Property and equipment, net	7	**1,097,814**	2,165,304
TOTAL ASSETS – INSURANCE OPERATIONS		**49,772,119**	71,024,004
ASSETS – SHAREHOLDERS' OPERATIONS			
Cash and cash equivalents	4	**1,154,257**	1,174,812
Statutory deposit	15	**20,000,000**	20,000,000
Accrued income from Statutory deposit		**1,310,418**	1,310,418
Investments - available for sale	6	**32,636,679**	32,572,273
Prepayments and other assets		**-**	3,051,040
TOTAL ASSETS – SHAREHOLDERS' OPERATIONS		**55,101,354**	58,108,543
TOTAL ASSETS		**104,873,473**	129,132,547
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES – INSURANCE OPERATIONS			
Unearned premium reserve	10	**232,604**	1,041,117
Reinsurers' balances payable		**1,837,504**	2,760,142
Accrued expenses and other liabilities	14	**30,893,077**	40,515,889
Outstanding claims and other technical reserves	9	**14,830,861**	24,141,478
Unearned commission income		**49,328**	235,625
End-of-service indemnities		**1,244,768**	1,645,776
Surplus payable to Policy Holders		**683,977**	683,977
TOTAL LIABILITIES – INSURANCE OPERATIONS		**49,772,119**	71,024,004
LIABILITIES – SHAREHOLDERS' OPERATIONS			
Accrued expenses and other liabilities	14	**10,008**	-
Income payable from Statutory deposit		**1,310,418**	1,310,418
Provision for zakat	8	**13,508,619**	13,119,849
Due to insurance operations		**18,914,632**	11,338,874
TOTAL LIABILITIES – SHAREHOLDERS' OPERATIONS		**33,743,677**	25,769,141
TOTAL LIABILITIES		**83,515,796**	96,793,145
SHAREHOLDERS' EQUITY			
Share capital	16	**200,000,000**	200,000,000
Accumulated deficit		**(176,963,318)**	(165,917,170)
Investment revaluation reserve	6	**(1,679,005)**	(1,743,428)
TOTAL SHAREHOLDERS' EQUITY		**21,357,677**	32,339,402
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**104,873,473**	129,132,547

The accompanying notes 1 to 23 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amount in Saudi Riyals)

	Notes	2016	2015
INCOME			
Gross insurance premiums written	10 (i)	47,958	125,993
Gross inward reinsurance premiums written		-	6,890
TOTAL GROSS WRITTEN PREMIUMS		47,958	132,883
Reinsurance premiums ceded	10 (i)	(896,456)	(2,685,107)
NET WRITTEN PREMIUMS		(848,498)	(2,552,224)
Changes in unearned premiums	10 (i)	808,513	22,076,844
Changes in reinsurance unearned premiums	10 (i)	(664,489)	(6,098,887)
NET EARNED PREMIUMS		(704,474)	13,425,733
Reinsurance commission		(276,564)	1,764,173
Policy fee and other underwriting income, net		4,086,586	3,514,800
UNDERWRITING REVENUE		3,105,548	18,704,706
EXPENSES			
Gross claims paid	9	(3,511,536)	(49,685,218)
Reinsurance share of claims paid	9	480,941	12,445,111
NET CLAIMS PAID		(3,030,595)	(37,240,107)
Net changes in outstanding claim reserve	9	3,194,822	35,078,748
Net changes in other technical reserve	9	5,894,323	19,063,804
NET CLAIMS INCURRED		6,058,550	16,902,445
Policy acquisition costs	12	(126,721)	(4,164,567)
Other underwriting expenses, net		(260,905)	(10,574,608)
Impairment against doubtful Receivables		2,516,259	5,455,413
UNDERWRITING EXPENSES		8,187,183	7,618,683
UNDERWRITING SURPLUS		11,292,731	26,323,389
General and administration expenses	13	(18,851,217)	(19,557,593)
(LOSS) / PROFIT FROM INSURANCE OPERATIONS		(7,558,486)	6,765,796
Other income		250	73,975
COMPREHESIVE (LOSS) / PROFIT FROM INSURANCE OPERATIONS		(7,558,236)	6,839,771
Transfer of comprehensive loss / (profit) to shareholders operations		7,558,236	(6,155,794)
NET RESULTS FOR THE YEAR		-	683,977

The accompanying notes 1 to 23 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amount in Saudi Riyals)

	Note	2016	2015
INCOME			
Commission income		-	381,075
Dividend income from investments		**768,750**	1,436,219
		768,750	1,817,294
EXPENSES			
Transfer of (loss) / profit from insurance operations		**(7,558,236)**	6,155,794
General and administration expenses	*13*	**(3,867,892)**	(2,948,297)
NET (LOSS) /PROFIT FOR THE YEAR		**(10,657,378)**	5,024,791
OTHER COMPREHENSIVE (LOSS) / PROFIT :			
Net changes in fair value of available for sale investments		**64,423**	(5,592,942)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(10,592,955)**	(568,151)
BASIC AND DILUTED LOSS PER SHARE FOR THE YEAR		**(0.53)**	0.25
WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE		**20,000,000**	20,000,000

The accompanying notes 1 to 23 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amount in Saudi Riyals)

	Share Capital	Accumulated deficit	Investment revaluation reserve	Total
2016				
Balance at 1 January 2016	**200,000,000**	**(165,917,170)**	**(1,743,428)**	**32,339,402**
Net loss for the year	**--**	**(10,657,378)**	**--**	**(10,657,378)**
Other comprehensive loss for the year	**--**	**--**	**64,423**	**64,423**
Zakat and Income Tax	**--**	**(388,770)**	**--**	**(388,770)**
Balance at 31 December 2016	**200,000,000**	**(176,963,318)**	**(1,679,005)**	**21,357,677**
2015				
Balance at 1 January 2015	200,000,000	(168,233,675)	3,849,514	35,615,839
Net Profit for the year	--	5,024,791	--	5,024,791
Other comprehensive loss for the year	--	--	(5,592,942)	(5,592,942)
Zakat and Income Tax	--	(2,708,286)	--	(2,708,286)
Balance at 31 December 2015	200,000,000	(165,917,170)	(1,743,428)	32,339,402

The accompanying notes 1 to 23 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amount in Saudi Riyals)

	2016	2015
OPERATING ACTIVITIES		
Surplus for the year	-	683,977
Adjustments for non-cash items:		
Transfer of (deficit) / surplus to shareholders' operations	(7,558,236)	6,155,794
Impairment allowance against salvage recoveries	(658,351)	2,350,499
Depreciation	1,080,236	1,442,769
Provision for end-of-service indemnities	1,258,545	332,960
Impairment allowance against doubtful receivables, net	(1,857,908)	(4,378,521)
	(7,735,714)	6,587,478
Changes in operating assets and liabilities:		
Premiums receivable	3,172,616	18,856,298
Deferred policy acquisition costs	117,069	4,218,576
Prepayments and other assets	265,655	(738,068)
Unearned premium reserves, net	(144,025)	(15,977,957)
Unearned commission income	(186,297)	(2,551,601)
Reinsurers' balances payable	(922,638)	(3,531,116)
Accrued expenses and other liabilities	(9,622,812)	(759,898)
Outstanding claims and other technical reserves, net	(8,979,003)	(54,142,552)
Reinsurance balance receivable	3,555,647	(308,494)
Cash used in operating activities	(20,479,502)	(48,347,334)
End-of-service indemnities paid	(1,659,553)	(2,566,655)
Net cash used in operating activities	(22,139,055)	(50,913,989)
INVESTING ACTIVITIES		
Additions to property and equipment	(12,746)	(2,015)
Proceeds from sale of property and equipment	-	1,767
Net cash used in investing activities	(12,746)	(248)
FINANCING ACTIVITIES		
Due to shareholders' operations	(17,522)	8,085,779
Net cash (used in) / from financing activities	(17,522)	8,085,779
DECREASE IN CASH AND CASH EQUIVALENTS	(22,169,323)	(42,828,458)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	32,508,394	75,336,852
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10,339,071	32,508,394

The accompanying notes 1 to 23 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amount in Saudi Riyals)

	2016	2015
OPERATING ACTIVITIES		
Net (loss) / profit for the year before zakat	**(10,657,378)**	5,024,791
Adjustments for non-cash items:		
Transfer of loss /(profit) from insurance operations	**7,558,236**	(6,155,794)
Changes in operating assets and liabilities:		
Accrued expenses and other liabilities	**10,008**	36,853
Income payable from Statutory deposit	**-**	(67,596)
Prepayments and other assets	**3,051,057**	(2,055,188)
Cash used in operations	**(38,077)**	(3,216,934)
Zakat paid	**-**	(649,926)
Net cash used in operating activities	**(38,077)**	(3,866,860)
FINANCING ACTIVITIES		
Due from / (used in) insurance Operations	**17,522**	(8,085,779)
Net cash from / (used in) operating activities	**17,522**	(8,085,779)
DECREASE IN CASH AND CASH EQUIVALENTS	**(20,555)**	(11,952,639)
Cash and cash equivalents at the beginning of the year	**1,174,812**	13,127,451
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,154,257**	1,174,812
Non – cash supplemental information:		
Change in fair value of investments – available for sale	**64,423**	(5,592,942)

The accompanying notes 1 to 23 form an integral part of these financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Sanad Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company incorporated under Ministerial Resolution dated 15 Jumada Al Thani, 1428 H, (corresponding to 30 June 2007). The Company is registered in the Kingdom of Saudi Arabia under commercial registration number 1010235409 dated 23 Jumad Al Thani, 1428 H (corresponding to 8 July 2007). The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Stock Exchange on 21 July 2007.

The Registered Office address of the Company is located at Dareen Center, Al Ahsa Street, Riyadh, 11417, Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

2.1 Basis of measurement

The interim condensed financial statements have been prepared under the historical cost convention, except for the measurement at fair value of available for sale investments.

2.2 Going concern

As at 31 December 2016, the Company's solvency margin is below the limit prescribed by Saudi Arabian Monetary Agency (SAMA).

The accumulated losses amounted to SR 176.96 million that represents approximately 88.48% of the Share Capital , the Company's Board of Directors must call for an extraordinary general meeting to consider this situation. As of the date of the approval of these interim condensed financial statements, the extraordinary general meeting has not been called and the Board is in the process of calling the extraordinary general assembly.

The Board of Directors has announced a restructuring plan to the shareholders which has been approved by the Board on 9 Dhul Qadah 1435 (corresponding to 4 September 2014). The restructuring plan would include the following:

a) Increasing the capital
b) Cancellation of the reinsurance license
c) Administrative restructuring including the appointment of Chief Executive Officer and all the vacant leadership positions in the Company.
d) Financial restructuring including the establishment of collection Department to collect the company's debts and reduce the accumulated losses of the Company.

Due to the restructuring plan, the Board was expected that there will be improvements in the net results of the Company and it will be able to continue its operations for the foreseeable future.

SAMA has restrained the Company from accepting new subscribers to any of its insurance activities, thus, banning it from issuing or renewing any insurance policy whatsoever as of 12 Dhul Qadah 1435 (corresponding to 7 September 2014) until a decision is issued by SAMA that the Company has rectified its status. SAMA has also directed the Company to settle and pay out all due claims and compensations arising from insurance policies issued before 12 Dhul Qadah 1435 (corresponding to 7 September 2014).

2. BASIS OF PREPARATION (Continued)

2.2 Going concern (continued)

Furthermore, the Capital Market Authority's (CMA) Board has issued its decision on 12 Dhul Qadah 1435 corresponding to (7 September 2014) to suspend trading the shares of the Company in the Saudi Stock Exchange (Tadawul) starting from 12 Dhul Qadah 1435 (corresponding to 7 September 2014) until the company discloses the financial impact of prohibiting it from issuing or renewing any kind of insurance policies. Also the Company has to correct its position in regard to the decision received from SAMA as required by the related rules and regulations. Based on that the CMA will look into whether to continue or discontinue suspending the trading of the shares. During the third quarter of 2015, the Company obtained a conditional approval from SAMA for increasing the share capital whereby the Company's' management believes that it would be able to meet the requirements for the conditional approval within the stated deadlines i.e. 31 December 2015. The Company as per its point of view has fulfiled all the requirements contained in the conditional approval within the prescribed time limit; and the same was announced on Saudi Arabian Stock Exchange's website ('Tadawul') on January 3, 2016, and the Company has received the final approval from the Saudi Arabian Monetary Agency to increase the capital by 200 million at 18 Rabi'a Al Akhir 1437 (corresponding to 28 January 2015) and the same was announced on Saudi Arabian Stock Exchange's website ('Tadawul') at the same date. The Company cancelled the contract with the Financial Advisor handling the capital increase file and requested a time extension from SAMA in order to appoint another financial advisor and handling the file to CMA and a letter was received from SAMA extending the deadline to handle the file to CMA on 15 June 2016. The company appointed Saudi Kuwaiti Finance House as the new Financial Advisor on 10 April 2016 .The company requested from SAMA to reduce its Capital by 10 million shares (i.e. SR 100 million) an received their approval on 2 June 2016, both files related to Capital increase and decrease were submitted to CMA on 15 June 2016. On 28 November 2016, the Saudi Kuwaiti Finance House withdrew themselves from underwriting the capital increase and as a result they withdrew the file from CMA till the company gets a quotation from another underwriter. On 6 December 2016 the Company withdrew the capital reduction file from CMA, in order to be submitted with the capital increase file after securing another underwriter.

On 2 February 2017, the company has received a letter form SAMA instructing them for rectifying the related financial situation by 5 March 2017 at the latest; otherwise SAMA shall undertake the related necessary corrective actions as required by Cooperative insurance law and related implementing regulations. As of 8 March 2017, none of the SAMA's requirements as mentioned above has been carried out by the company and accordingly the deadline of SAMA being 5 March 2017 has not been met.

The Company's Board of Directors recommended at its meeting held on 9 Jumada Al Thani 1438H, corresponding to 8 March 2017 for voluntary liquidation of the company and called for the Extraordinary General Assembly, which will be announced in due course after obtaining approvals from related official bodies, for voting regarding the above recommendation.

The above significant matters evidently indicate the existence of material certainty on the Company's inability to continue as a going concern. These financial statements did not include any adjustment that might be necessary had they been prepared on non-going concern basis

2.3 Statement of compliance

The financial statements of the Company for the year ended 31 December 2016 have been prepared by the management in accordance with International Financial Reporting Standards (IFRS). Accordingly these financial statements are not intended to be a presentation in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia, as issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

2. BASIS OF PREPARATION (Continued)

2.3 Statement of compliance (continued)

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

2.4 Functional and presentation currency

The financial statements have been presented in Saudi Riyals, which is the functional and presentation currency of the Company.

2.5 Use of estimates and judgements

The preparation of annual financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the annual 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. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Details of the key estimates and judgments made by management pertain to:

- Impairment and uncollectibility of financial assets (note 3.10)
- Outstanding claims and other technical reserves (note 3.3)
- Fair value of investments (note 3.11)
- Unearned premium reserve (note 3.1)
- End of service indemnities (note 3.17)
- Useful life of property and equipment (note 3.14)
- Deferred policy acquisition costs (note 3.4)
- Going concern (note 2.2)

2.6 Standards and amendments issued

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements as of and for the year ended 31 December 2015, except for

a) The adoption of new standards, amendments and revisions to existing standards, as mentioned below, which had no significant financial impact on the interim condensed financial statements of the Company:

Annual Improvements 2010-2012 and 2011-2013 Cycles - Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014. The IASB made amendments to a total of nine standards, which included an amendment to IFRS 13 Fair Value Measurement. It clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

2. BASIS OF PREPARATION (Continued)

2.7 Standards and amendments issued (Continued)

Amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendments, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.

b) New and amended standards issued and adopted

Annual improvements to IFRSs 2012 – 2014

Annual improvements to IFRSs 2012 – 2014 cycle applicable to annual period beginning on or after 1 January 2016.

Disclosure initiative (Amendments to IAS 1)

Amends IAS 1 Presentation of Financial Statements to address perceived impediments to preparers exercising their judgments in presenting the financial reports. It is effective for annual periods beginning on or after 1 January 2016.

c) Standards issued but not yet effective

In addition to the above-mentioned standards, the following standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Further, the Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards, which have been published and are mandatory for compliance for the Company with effect from future dates.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.
However, on 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9) amending IFRS 9 to include the new general hedge accounting model. In its February 2014 meeting, the IASB tentatively decided that IFRS 9 would be mandatorily effective for years ending on or after 31 December 2018.

Disclosure initiative (Amendments to IAS 7)

IAS 7 Statement of Cash flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. It is effective for annual periods beginning on or after 1 January 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Revenue Recognition

Recognition of premium and commission revenue
Premiums and commission are taken into "statement of comprehensive income - insurance operations" over the terms of the policies to which they relate on a pro-rata basis, so that the revenue is recognized over the period of the risk. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the "statement of comprehensive income - insurance operations", over the period of risk.

Retained 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:

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

The underwriting results represents premiums earned, fee and commission income earned less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts subject to reinsurance, less provision for any anticipated future losses on continuing policies.

Investment income
Return on investments, profit and loss sharing accounts and bank deposits are recognised using effective interest rate method.

Profit or loss on sale of investments is recognised at the time of sale.

Dividend income is recognised when right to receive such dividend is established

3.2 Insurance contract

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of 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 period.

3.3 Claims

Claims consist of amounts payable to policy holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of comprehensive income-insurance operations. Gross outstanding claims comprise gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as of the financial reporting date are made on the basis of individual case estimates. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the financial reporting date.

Outstanding claims and other technical reserves
The Company generally estimates its claims based on previous experience. In addition a provision based on management's judgment is maintained for the cost of settling claims "incurred but not reported" and "unallocated loss adjustment expense reserve" at the reporting date. Any difference between the provisions at the balance sheet date and settlements and provisions for the following period is included in the

underwriting account for that period. The Company acquires services of an independent actuary to determine such claims.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Claims (Continued)

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

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 need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported is an estimation of claims which are expected to be reported subsequent to the end of financial reporting period, for which the insured event has occurred prior to the end of the financial reporting period.

3.4 Deferred policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate as premiums are earned. Amortisation is recorded in the "statement of comprehensive income - insurance operations".

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

An impairment review is performed at each financial reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value, an impairment loss is recognised in the statement of insurance comprehensive operations. Deferred policy acquisition cost is also considered in the liability adequacy test for each financial reporting period.

3.5 Reinsurance

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the "statement of comprehensive income - insurance operations".

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.6 Liability adequacy test

At each reporting date the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in statement of comprehensive income- insurance operations and an unexpired risk provision is created. The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Investments

All investments are initially recognised at fair value, including acquisition charges associated with the investment. Premiums are amortised and discounts accrued using the effective yield method and are taken to the "statement of comprehensive income – shareholders' operations".

Following initial recognition of investment securities, the subsequent period-end reporting values are determined on the basis as set out in the following paragraph:

Available for sale

Investments which are classified as "available for sale" are initially recorded at cost including transaction cost and are subsequently measured at fair value. Available for sale investments are those investments that are not held-to-maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in shareholders' equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognised in the shareholders' equity should be included in the "statement of comprehensive income – shareholders' operations" for the period. For securities that are traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without deduction for transaction costs. Fair value of investment in mutual funds is determined by reference to declared net asset values.

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

3.8 Receivables

Accounts receivable are non-derivative financial assets with fixed or determinable payments. These are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of "statement of comprehensive income – insurance operations". 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. Receivables arising from administrative service plan are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.

3.9 Provisions

A provision for incurred liabilities is recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

3.10 Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognised in the "statement of comprehensive income - shareholders' operations". Impairment is determined as follows:

- For assets carried at fair value, impairment is the significant or prolonged decline in the fair value from the cost.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Impairment and uncollectibility of financial assets (Continued)

- 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.

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 becoming 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.

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.

3.11 Fair values

The Company measures financial instruments, such as, derivatives, and non-financial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 17. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Fair values (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement, such as assets held for distribution in any discontinued operation. External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the valuation committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

3.12 Offsetting

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 is not offset in the statements of comprehensive income unless required or permitted by any accounting standard or interpretation.

3.13 Derecognition 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.

3.14 Property and equipment

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Expenditure for repair and maintenance is charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised. Depreciation is charged to the "statement of comprehensive income – insurance operations" on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets are:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Property and equipment (Continued)

	Years
Furniture	10
Computers and office equipment	4
Motor vehicles	4
Leasehold improvements	3
Intangible – Software	4

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

3.15 Leases

Operating lease payments are recognised as an expense in the statements of comprehensive income on a straight-line basis over the lease term.

3.16 Zakat and income tax

Zakat is computed on the Saudi shareholders' share of equity or net adjusted income using the basis defined under the Zakat regulations in the Kingdom of Saudi Arabia. Income taxes are computed on the foreign shareholders' share of net adjusted income.

Zakat and income tax is accrued and charged to the statement of comprehensive income – shareholders' operations.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

3.17 End-of-service indemnities

End-of-service indemnities, required by Saudi Arabian Labour Law, are provided in the financial statements based on the employees' length of service.

3.18 Statutory reserve

In accordance with its Articles of Association, the Company shall allocate 20% of its net income each year to the statutory reserve until it has built up a reserve equal to the share capital. In view of the accumulated losses, no such transfer has been made.

3.19 Segment reporting

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

- The health care products provide medical cover to policyholders.
- Motor Insurance provides coverage against losses and liability related to motor vehicles, excluding transport insurance.

(Amounts in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Segment reporting (continued)

- Marine insurance, which is made up of marine cargo, including inland transit, open cover and marine hull products.
- Engineering insurance, which is made up of erection all risk, machinery breakdown, contractors' all risk, contractors' plant and equipment and other product lines.
- Others, which are made up of property insurance, general accident insurance and casualty insurance, which includes an array of products ranging from fire to fidelity guarantee to public liability coverage.

Operating segments do not include shareholders' operations of the Company.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

3.20 Earning per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.21 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents include cash in current account and murabaha deposits with an original maturity of three months or less.

4. CASH AND CASH EQUIVALENTS

	2016	
	Insurance Operations	**Shareholders' Operations**
Cash in hand	**14,622**	**-**
Bank balances	**10,324,449**	**1,154,257**
	10,339,071	**1,154,257**

	2015	
	Insurance Operations	Shareholders' Operations
Cash in hand	24,810	-
Bank balances	32,483,584	1,174,812
	32,508,394	1,174,812

(Amounts in Saudi Riyals)

5. RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are mutually agreed and are approved by the Company's management. The related parties of the Company are as follows:

Nature of relationship	**Name of related party**
10% founding shareholder and common directorship	- Saudi Continental Insurance Company
90% shareholder in Saudi Continental Insurance Company and have a common directorship	- Aggad Investment Company
Common directorship and control	- Arabian Tiles Company - Medical Supplies and Services Company Limited (MEDISERV) - National Advanced Systems Company Limited (NASCO) - United Motors Company

a) a) ***Transactions with related parties:***

Details of significant transactions carried out during the year with related parties are as follows:

	2016		2015	
	Gross written premium	**Gross claims paid**	Gross written premium	Gross claims paid
Aggad Investment Company	**--**	**--**	--	89,974
Arabian Tiles Company	**--**	**61,436**	--	402,862
Medical Supplies and Services Company Limited (MEDISERV)	**--**	**--**	--	165,884
National Advanced Systems Company Limited (NASCO)	**--**	**--**	235,701	3,391,805
United Motors Company	**--**	**1,200**	--	1,753,110

b) Balances with related parties:

Details of significant receivables from and payables to the related parties are as follows:

	31 December 2016		31 December 2015	
	Premiums receivable	**Outstanding claims**	Premiums receivable	Outstanding claims
Aggad Investment Company	**--**	**28,560**	--	30,915
Arabian Tiles Company	**314,686**	**--**	375,951	23,455
Medical Supplies and Services Company Limited (MEDISERV)	**269,021**	**330,232**	269,021	330,232
National Advanced Systems Company Limited (NASCO)	**--**	**3,087,838**	--	4,088,140
United Motors Company	**--**	**--**	--	325,226

(Amounts in Saudi Riyals)

5. RELATED PARTY TRANSACTIONS (Continued)

c) Compensation of key management personnel:

Key management personnel of the Company include all directors, executive and non-executive, and senior management. The summary of compensation of key management personnel for the year is as follows:

	2016	2015
Salaries and other short term benefits	**5,579,157**	3,853,842
End of service benefit	**285,698**	116,890
Board of Directors & Executive Committee	**-**	1,174,175
	5,864,855	5,144,907

6. INVESTMENTS

a) Investments - available for sale

Investment in available for sale securities comprise of the following:

	31 December 2016		
	Cost	***Unrealised gain***	***Market value***
Quoted/Published prices			
Mutual Funds	**6,625,998**	**602,253**	**7,228,251**
Global Sukuk Fund deposits	**9,450,000**	**2,452,006**	**11,902,006**
Equities	**16,316,608**	**(4,733,264)**	**11,583,344**
	32,392,606	**(1,679,005)**	**30,713,601**
Unquoted			
Equities	**1,923,078**	**--**	**1,923,078**
Total investments in available for sale	**34,315,684**	**(1,679,005)**	**32,636,679**

	31 December 2015		
	Cost	*Unrealised gain*	*Market value*
Quoted/Published prices			
Mutual Funds	6,625,998	459,477	7,085,475
Global Sukuk Fund deposits	9,450,000	2,197,502	11,647,502
Equities	16,316,600	(4,400,407)	11,916,218
	32,392,598	(1,743,428)	30,649,195
Unquoted			
Equities	1,923,078	--	1,923,078
Total investments in available for sale	34,315,676	(1,743,428)	32,572,273

(Amounts in Saudi Riyals)

6. INVESTMENTS (Continued)

b) Movements in available for sale investments are as follows:

	2016	2015
At beginning of the year	**32,572,273**	38,165,215
Change in fair value	**64,423**	(5,592,942)
At end of the year	**32,636,679**	32,572,273

c) Investment in Najm Insurance Services Company

This investment in equity holding in the unquoted share capital of "Najm Insurance Services Company" As the fair value is not readily available, this investment has been carried at cost and reviewed by management for impairment.

d) The sector wise analysis of available for sale investments by counter-party is as follows:

	2016	2015
Financial institutions	**19,130,257**	18,732,977
Telecommunication	**3,204,368**	3,778,718
Cement	**8,378,976**	8,137,500
Services	**1,923,078**	1,923,078
	32,636,679	32,572,273

7. PROPERTY AND EQUIPMENT, NET

	2016					
	Software	**Computers**	**Furniture**	**Leasehold improvements**	**Motor vehicles**	**Total**
Cost:						
Balance at beginning of the year	**2,842,664**	**3,361,327**	**2,594,358**	**5,708,934**	**557,800**	**15,065,083**
Additions during the year	**-**	**8,502**	**4,244**	**-**	**-**	**12,746**
Balance at end of the year	**2,842,664**	**3,369,829**	**2,598,602**	**5,708,934**	**557,800**	**15,077,829**
Accumulated depreciation:						
Balance at beginning of the year	**2,491,485**	**3,158,535**	**1,521,487**	**5,252,568**	**475,704**	**12,899,779**
Charge during the year	**203,361**	**147,161**	**259,472**	**412,292**	**57,950**	**1,080,236**
Balance at end of the year	**2,694,846**	**3,305,696**	**1,780,959**	**5,664,860**	**533,654**	**13,980,015**
Net book value at 31 December 2016	**147,818**	**64,133**	**817,643**	**44,074**	**24,146**	**1,097,814**

(Amounts in Saudi Riyals)

7. PROPERTY AND EQUIPMENT, NET (Continued)

	2015					
	Software	Computers	Furniture	Leasehold improvements	Motor vehicles	Total
Cost:						
Balance at beginning of the year	2,842,664	3,428,320	2,594,358	5,714,234	557,800	15,137,376
Additions during the year	-	2,015	-	-	-	2,015
Disposals during the year	-	(69,008)	-	(5,300)	-	(74,308)
Balance at end of the year	2,842,664	3,361,327	2,594,358	5,708,934	557,800	15,065,083
Accumulated depreciation:						
Balance at beginning of the year	2,254,218	2,982,125	1,262,055	4,613,397	417,756	11,529,551
Charge during the year	237,267	245,418	259,432	642,704	57,948	1,442,769
Elimination on disposal	-	(69,008)	-	(3,533)	-	(72,541)
Balance at end of the year	2,491,485	3,158,535	1,521,487	5,252,568	475,704	12,899,779
Net book value at 31 December 2015	351,179	202,792	1,072,871	456,366	82,096	2,165,304

8. ZAKAT AND INCOME TAX

(a) Zakat

The provision for zakat of SR 388,770 (31 December 2015: SR 2,708,286) has been made for the year ended 31 December 2016.

(b) Movements in zakat provision

	2016	2015
Balance at beginning of the year	**13,119,849**	11,061,489
Zakat charge for the year	**388,770**	2,708,286
Payments made during the year	**-**	(649,926)
Balance at end of the year	**13,508,619**	13,119,849

(c) Income Tax

No income tax has been provided due to negative tax base. For the year ended 31 December 2016, the Company has incurred adjusted tax losses which may be carried forward to future years without limitation of time.

(d) Status of assessments

The Company has filed tax and zakat declaration for the years ended up to 31 December 2015. The Company has filed an appeal against General Authority of Zakat and Tax (GAZT) assessment of additional zakat, arising from disallowance of certain investments from zakat base. The Company has recorded the additional zakat provision in the financial statements.

(Amounts in Saudi Riyals)

9. CLAIMS AND TECHNICAL RESERVES

9. (i) Incurred claims

	2016		
	Gross	**Reinsurers' Share**	**Net**
Claims paid during the year	**(3,511,536)**	**480,941**	**(3,030,595)**
Changes in outstanding claims reserves	**1,822,922**	**1,371,900**	**3,194,822**
Changes in other technical reserves	**7,487,695**	**(1,593,372)**	**5,894,323**
	5,799,081	**259,469**	**6,058,550**

	2015		
	Gross	Reinsurers' Share	Net
Claims paid during the year	(49,685,218)	12,445,111	(37,240,107)
Changes in outstanding claims reserves	46,870,032	(11,791,284)	35,078,748
Changes in other technical reserves	23,368,690	(4,304,886)	19,063,804
	20,553,504	(3,651,059)	16,902,445

9. (ii) Outstanding claims and other technical reserves

	31 December 2016		
	Gross	*Reinsurers' Share*	*Net*
Outstanding claim reserves	**11,881,299**	**(3,639,800)**	**8,241,499**
Incurred but not reported reserve ("IBNR")	**2,949,562**	**(862,387)**	**2,087,175**
Outstanding claims and other technical reserves	**14,830,861**	**(4,502,187)**	**10,328,674**

	31 December 2015		
	Gross	*Reinsurers' Share*	*Net*
Outstanding claim reserves	13,704,221	(2,378,042)	11,326,179
Incurred but not reported reserve ("IBNR")	10,437,257	(2,455,759)	7,981,498
Outstanding claims and other technical reserves	24,141,478	(4,833,801)	19,307,677

10. PREMIUMS

10.(i) Earned premium

	2016		
	Gross	**Reinsurers' Share**	**Net**
Total gross written premium	**47,958**	**(896,456)**	**(848,498)**
Changes in unearned premium	**808,513**	**(664,489)**	**144,024**
	856,471	**(1,560,945)**	**(704,474)**

(Amounts in Saudi Riyals)

10. PREMIUMS (Continued)

10.(i) Earned premium(Continued)

	2015		
	Gross	Reinsurers' Share	Net
Total gross written premium	132,883	(2,685,107)	(2,552,224)
Changes in unearned premium	22,076,844	(6,098,887)	15,977,957
	22,209,727	(8,783,994)	13,425,733

10. (ii) Unearned premium reserves (UPR)

	2016		
	Gross	**Reinsurers' Share**	**Net**
Balance as at beginning of the year	**1,041,117**	**(839,809)**	**201,308**
Total gross written premium	**47,958**	**(896,456)**	**(848,498)**
Earned premiums	**(856,471)**	**1,560,944**	**704,473**
Balance as at end of the year	**232,604**	**(175,321)**	**57,283**

	2015		
	Gross	Reinsurers' Share	Net
Balance as at beginning of the year	23,117,961	(6,938,696)	16,179,265
Total gross written premium	132,883	(2,685,107)	(2,552,224)
Earned premiums	(22,209,727)	8,783,994	(13,425,733)
Balance as at end of the year	1,041,117	(839,809)	201,308

11. PREMIUM RECEIVABLES, NET

	2016	2015
Premiums receivable	**35,392,356**	38,564,972
Less : Impairment against doubtful receivables	**(26,178,686)**	(28,036,594)
	9,213,670	10,528,378

	Total	*Neither past due nor impaired*	*Past due but not impaired*	*Past due and impaired*
31 December 2016	**35,392,356**	**-**	**9,213,670**	**26,178,686**
31 December 2015	38,564,972	-	10,528,378	28,036,594

The Company classifies receivable balances as 'past due and impaired' on a case to case basis, impairment against which is recorded in the statement of comprehensive results for insurance operations. The Company does not obtain collateral against premium receivables. Amounts which are neither past due nor considered impaired by management, in respect of premium receivables, are from individuals and unrated corporate policy holders.

(Amounts in Saudi Riyals)

12. DEFERRED POLICY ACQUISITION COSTS

	2016	2015
Balance as at beginning of the year	**150,047**	4,368,623
Incurred during the year	**(126,721)**	(54,000)
Amortised during the year	**9,652**	(4,164,576)
Balance as at end of the year	**32,978**	150,047

13. GENERAL AND ADMINISTRATION EXPENSES

Insurance Operations

	2016	2015
Employee costs	**13,507,867**	12,541,070
Office rent	**1,795,535**	2,271,578
Legal and professional fees	**1,252,589**	1,421,555
Depreciation	**1,080,236**	1,442,774
Information technology and communications	**603,712**	1,040,598
Travel and lodging	**106,297**	206,150
Office supplies, printing and stationery	**53,920**	144,424
Marketing, advertising and promotions	**37,440**	11,190
Others	**413,621**	478,254
	18,851,217	19,557,593

Shareholders' Operations

	2016	2015
Employee cost	**-**	368,010
Executive committee expenses	**-**	174,000
Directors' Remunerations	**746,500**	1,000,175
Regulatory and other fees	**450,000**	220,000
Legal and professional fees	**2,480,261**	87,170
Travel and lodging	**139,782**	189,145
Penalties and Fines	**-**	820,000
Others	**51,349**	89,797
	3,867,892	2,948,297

(Amounts in Saudi Riyals)

14. ACCRUED EXPENSES AND OTHER LIABILITIES

Insurance Operations	2016	2015
Account Payables	**20,727,486**	30,096,530
GOSI	**48,903**	66,361
Provision for Staff Leave	**293,498**	299,295
Provision for Staff Travel	**72,306**	154,000
Accrued Expenses	**165,000**	--
Withholding Tax Dues	**9,585,884**	9,548,973
Provision for Staff Bonus	**-**	350,730
	30,893,077	40,515,889

Shareholders' Operations	2016	2015
Accrued expenses	**10,008**	--
	10,008	--

15. STATUTORY DEPOSIT

As required by Saudi Arabian Insurance Regulations, the Company is required to deposit 10% of its paid up capital, amounting to SR 20 million (31 December 2015: SR 20 million), within three months from the date of the issuance of the license in a bank designated by SAMA. The statutory deposit is maintained with a local bank and can be withdrawn only with the consent of SAMA.

16. SHARE CAPITAL

The authorised and issued capital of the Company as at 31 December 2016 is SAR 200 million (31 December 2015: SR 200 million) consisting of 20 million shares of SAR 10 each.

17. OPERATING SEGMENTS

Consistent with the Company's internal reporting process, business 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 other income.

Segment assets do not include property and equipment, prepayments and other assets, premiums receivable, reinsurances' balance receivables and cash and cash equivalents. Accordingly, they are included in unallocated assets.

Segment liabilities do not include due to shareholders operations, end-of-service indemnities, reinsurers' balances payable, accrued expenses and other liabilities.

All unallocated assets and liabilities are reported to chief operating decision maker as unallocated assets and liabilities and are monitored on a centralised basis.

All of the Company's operating assets and principal activities are located in the Kingdom of Saudi Arabia.

(Amounts in Saudi Riyals)

17. SEGMENTAL INFORMATION (Continued)

a) Statement of results for insurance operations

	For the Year ended 31 December 2016					
	Medical	**Motor**	**Marine**	**Engineering**	**Others**	**Total**
Gross written premiums	**(36,986)**	**-**	**-**	**84,944**	**-**	**47,958**
Reinsurance premiums ceded	**-**	**(392,913)**	**(284,874)**	**(122,669)**	**(96,000)**	**(896,456)**
Net written premiums	**(36,986)**	**(392,913)**	**(284,874)**	**(37,725)**	**(96,000)**	**(848,498)**
Net changes in unearned premiums	**-**	**-**	**-**	**32,050**	**111,974**	**144,024**
Net earned premiums	**(36,986)**	**(392,913)**	**(284,874)**	**(5,675)**	**15,974**	**(704,474)**
Reinsurance commission earned	**(484,917)**	**-**	**-**	**187,527**	**20,826**	**(276,564)**
Other underwriting income	**1,319,237**	**2,455,511**	**178,465**	**75,256**	**58,117**	**4,086,586**
Underwriting revenue	**797,334**	**2,062,598**	**(106,409)**	**257,108**	**94,917**	**3,105,548**
EXPENSES						
Gross claims paid	**(8,320)**	**(2,953,397)**	**(1,550)**	**(394,948)**	**(153,321)**	**(3,511,536)**
Reinsurance share of claims paid	**-**	**-**	**1,008**	**375,003**	**104,930**	**480,941**
Net claims paid	**(8,320)**	**(2,953,397)**	**(542)**	**(19,945)**	**(48,391)**	**(3,030,595)**
Net changes in outstanding claims and other technical reserves	**407,797**	**8,721,369**	**47,657**	**87,673**	**(175,351)**	**9,089,145**
Net claims incurred	**399,477**	**5,767,972**	**47,115**	**67,728**	**(223,742)**	**6,058,550**
Policy acquisition costs	**3,089**	**-**	**-**	**(104,077)**	**(25,733)**	**(126,721)**
Other underwriting expenses, net	**(125,400)**	**(134,356)**	**-**	**(1,149)**	**-**	**(260,905)**
Impairment allowance against doubtful receivables	**408,246**	**2,108,013**	**-**	**-**	**-**	**2,516,259**
Underwriting expenses	**685,412**	**7,741,629**	**47,115**	**(37,498)**	**(249,475)**	**8,187,183**
Underwriting surplus / (deficit) before administration expenses and other income	**1,482,746**	**9,804,227**	**(59,294)**	**219,610**	**(154,558)**	**11,292,731**
Unallocated income						**250**
Unallocated expenses						**(18,851,217)**
Net deficit from insurance operations						**(7,558,236)**

(Amounts in Saudi Riyals)

17. SEGMENTAL INFORMATION (Continued)

a) Statement of results for insurance operations (continued)

	For the year ended 31 December 2015					
	Medical	*Motor*	*Marine*	*Engineering*	*Others*	*Total*
Gross written premiums	(592,877)	220,467	40,837	500,611	(36,155)	132,883
Reinsurance premiums ceded	249,605	(1,373,821)	(674,167)	(588,673)	(298,051)	(2,685,107)
Net written premiums	(343,272)	(1,153,354)	(633,330)	(88,062)	(334,206)	(2,552,224)
Net changes in unearned premiums	1,011,222	13,954,198	69,303	137,679	805,555	15,977,957
Net earned premiums	667,950	12,800,844	(564,027)	49,617	471,349	13,425,733
Reinsurance commission earned	(288,193)	--	941,508	671,771	439,087	1,764,173
Other underwriting income	417,887	1,550,310	2,269,051	73,552	(796,000)	3,514,800
Total underwriting revenue	797,644	14,351,154	2,646,532	794,940	114,436	18,704,706
EXPENSES						
Gross claims paid	(11,972,231)	(28,436,813)	(1,524,065)	(3,424,144)	(4,327,965)	(49,685,218)
Reinsurance share of claims paid	6,922,099	660,225	1,256,589	3,335,602	270,596	12,445,111
Net claims paid	(5,050,132)	(27,776,588)	(267,476)	(88,542)	(4,057,369)	(37,240,107)
Net changes in outstanding claims and other technical reserves	15,401,236	30,653,839	1,213,480	693,588	6,180,409	54,142,552
Net claims incurred	10,351,104	2,877,251	946,004	605,046	2,123,040	16,902,445
Policy acquisition costs	(222,524)	(2,502,643)	(529,646)	(501,089)	(408,665)	(4,164,567)
Other underwriting expenses, net	(487,691)	(483,360)	(2,602,290)	(3,233,209)	(3,768,058)	(10,574,608)
Impairment allowance against doubtful and salvage receivables	2,058,443	3,396,970	--	--	--	5,455,413
Underwriting expenses	11,699,332	3,288,218	(2,185,932)	(3,129,252)	(2,053,683)	7,618,683
Underwriting surplus / (deficit) before administration expenses and other income	12,496,976	17,639,372	460,600	(2,334,312)	(1,939,247)	26,323,389
Unallocated income						73,975
Unallocated expenses						(19,557,593)
Net surplus from insurance operations						6,839,771

(Amounts in Saudi Riyals)

17 SEGMENTAL INFORMATION (Continued)

b) Insurance operation assets and liabilities

	At 31 December 2016					
	Medical	***Motor***	***Marine***	***Engineering***	***Others***	***Total***
Insurance operations assets						
Reinsurers' share of unearned premiums	**-**	**-**	**-**	**153,368**	**21,953**	**175,321**
Reinsurers' share of outstanding claims and other technical reserves	**3,068**	**28,580**	**225,066**	**3,368,638**	**876,835**	**4,502,187**
Deferred policy acquisition cost	**-**	**-**	**-**	**22,954**	**10,024**	**32,978**
Allocated assets	**3,068**	**28,580**	**225,066**	**3,544,960**	**908,812**	**4,710,486**
Unallocated assets						**44,657,883**
Total insurance operations assets						**49,368,369**
Insurance operations liabilities						
Unearned premiums reserves	**-**	**-**	**-**	**160,527**	**72,077**	**232,604**
Outstanding claims and other technical reserves	**5,388**	**9,565,566**	**369,519**	**3,683,891**	**1,206,497**	**14,830,861**
Unearned commission income	**-**	**-**	**-**	**43,291**	**6,037**	**49,328**
Allocated liabilities	**5,388**	**9,565,566**	**369,519**	**3,887,709**	**1,284,611**	**15,112,793**
Unallocated liabilities						**34,255,576**
Total insurance operations liabilities						**49,368,369**

	At 31 December 2015					
	Medical	*Motor*	*Marine*	*Engineering*	*Others*	*Total*
Insurance operations assets						
Reinsurers' share of unearned premiums	-	-	-	742,127	97,682	839,809
Reinsurers' share of outstanding claims and other technical reserves	714,386	919,354	293,420	2,596,767	309,874	4,833,801
Deferred policy acquisition cost	-	-	-	114,290	35,757	150,047
Allocated assets	714,386	919,354	293,420	3,453,184	443,313	5,823,657
Unallocated assets						65,200,347
Total insurance operations assets						71,024,004
Insurance operations liabilities						
Unearned premiums reserves	-	-	-	781,337	259,780	1,041,117
Outstanding claims and other technical reserves	1,124,503	19,177,709	485,530	2,889,551	464,185	24,141,478
Unearned commission income	-	-	-	208,762	26,863	235,625
Allocated liabilities	1,124,503	19,177,709	485,530	3,879,650	750,828	25,418,220
Unallocated liabilities						45,605,784
Total insurance operations liabilities						71,024,004

(Amounts in Saudi Riyals)

18. FAIR VALUES OF FINANCIAL INSTRUMENTS

The table below analyses financial instruments measured at the end of the reporting year by the level in the fair value hierarchy into which the fair value measurement is categorised:

	31 December 2016			
	Level 1	***Level 2***	***Level 3***	***Total***
Quoted investments				
Equities	**11,583,344**	--	--	**11,583,344**
Other quoted investments	--	**19,130,257**	--	**19,130,257**
Unquoted equities	--	--	**1,923,078**	**1,923,078**
	11,583,344	**19,130,257**	**1,923,078**	**32,636,679**

	31 December 2015			
	Level 1	*Level 2*	*Level 3*	*Total*
Quoted investments				
Equities	11,916,218	--	--	11,916,218
Other quoted investments	--	18,732,977	--	18,732,977
Unquoted equities	--	--	1,923,078	1,923,078
	11,916,218	18,732,977	1,923,078	32,572,273

The fair values of other financial instruments are not significantly different from the carrying values included in the financial statements. During the year, there have been no transfers within the levels of fair value hierarchy. Further, there were no movements in the unquoted equities categorised under level 3 of fair value hierarchy.

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Risk governance

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

Risk management structure

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

Board of directors

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

Senior management

Senior management is responsible for the day to day operations towards achieving the strategic goals within pre-determined parameters approved by the Board of Directors.

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

The risks faced by the Company and the way these risks are mitigated by the management are summarised below.

a. Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.
A significant portion of reinsurance business ceded is placed on a quota share basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the Statement of Financial Position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

A key feature of the liability adequacy testing is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognized, while significant enough deterioration in estimates is immediately recognized to make the liabilities adequate.

b. Reinsurance risk

In order to minimize financial exposure arising from large claims, the Company, in the normal course of business, has entered into agreements for reinsurance purposes. Engineering and other policies have been reinsured on a quota share, surplus and facultative basis.

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

Reinsurers are selected using the following parameters and guidelines set by the Company's Board of Directors and Reinsurance Committee. The criteria may be summarised as follows:

a. Minimum acceptable credit rating by recognised rating agencies (e.g. S&P) that is not lower than BBB.
b. Reputation of particular reinsurance companies.
c. Existing or past business relationship with the reinsurer.

(Amounts in Saudi Riyals)

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

b. Reinsurance risk (continued)

The exception to this rule is in respect of local companies who do not carry any such credit rating. This, however, is limited to those companies registered and approved by the local Insurance Regulator.

Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and compared against a list of requirements pre-set by the Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. As shown in Note 9(ii) the Company has reduced its outstanding claims and other technical reserves by the expected recoveries from reinsurers as of 31 December 2016 by SR 4,502,187 (31 December 2015: SR 4,833,801 million).

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its exposure to catastrophic and riot events by use of reinsurance arrangements.

Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The table below sets out the concentration of the claims and premium liabilities (in percentage terms) by class of business at balance sheet date:

Class	**2016**				2015			
	Outstanding claims and other technical reserves		**Unearned premium reserves**		Outstanding claims and other technical reserves		Unearned premium reserves	
	Gross (%)	***Net (%)***	***Gross (%)***	***Net (%)***	*Gross (%)*	*Net (%)*	*Gross (%)*	*Net (%)*
Medical	**-**	**-**	**-**	**-**	5	2	-	-
Motor	**64**	**93**	**-**	**-**	79	95	-	-
Marine	**2**	**1**	**-**	**-**	2	1	-	-
Engineering	**26**	**3**	**69**	**12**	12	1	75	19
Others	**8**	**3**	**31**	**88**	2	1	25	81

The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

Since the Company operates in Saudi Arabia only, hence, all the insurance risks relate to policies written in Saudi Arabia.

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the reporting date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims Incurred But Not Reported (IBNR) at the reporting date.

Process used to decide on assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve as a result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of reporting date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

(Amounts in Saudi Riyals)

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the yearend are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. However, a hypothetical 10 per cent change in net outstanding claims and other technical reserves would impact the net results as follows:

	Net results	
Impact of + 10 percent	**2016**	2015
Medical	**232**	41,012
Motor	**953,699**	1,825,836
Marine	**14,445**	19,211
Engineering	**31,525**	29,278
Others	**32,966**	15,431
	1,032,867	1,930,768
Impact of - 10 percent		
Medical	**(232)**	(41,012)
Motor	**(953,699)**	(1,825,836)
Marine	**(14,445)**	(19,211)
Engineering	**(31,525)**	(29,278)
Others	**(32,966)**	(15,431)
	(1,032,867)	(1,930,768)

(Amounts in Saudi Riyals)

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Claim development

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against future claims experience and developments. As claims develop and actual cost becomes more certain, adverse claims experience will become more certain. Adverse claims experience will be eliminated which results in release of reserves from earlier accident years. In order to maintain adequate reserves, the Company will transfer much of this release to the current accident year reserves when the development of claims are less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Accident year	2012 and earlier	2013	2014	2015	2016	Total
Estimate of ultimate claim loss						
- At end of accident year	626,461,252	154,829,225	128,698,385	16,670,957	169,306	
- One year later	139,399,599	159,928,286	102,608,519	882,653		
- Two year later	138,951,335	149,796,892	8,095,557			
- Three year later	136,076,088	22,333,861				
- Four year later	20,095,705					
Current estimate of cumulative claims	**89,818,901**	**22,333,861**	**8,095,557**	**882,653**	**169,306**	**121,300,279**
Cumulative payments to date	88,252,773	21,614,756	6,133,199	192,475	-	**116,193,203**
Liability recognised in the statement of financial position	**1,566,128**	**719,105**	**1,962,358**	**690,178**	**169,306**	**5,107,076**

c. Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market commission rates or the market price of securities or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

The Company is exposed to market risk with respect to its available for sale investments. These investments are sensitive to the various factors that affect market movements. As part of Company's investment strategy and to reduce market risk, the Company maintains diversified portfolio and performs regular monitoring of developments in related markets.

In addition, the key factors that affect market movements are monitored, including analysis of the operational and financial performance of investees.

Market risk comprises of three types of risk: currency risk, commission rate risk and price risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Management assesses that there is minimal risk of significant losses due to exchange risk fluctuations and consequently the Company does not hedge its foreign currency exposure

(Amounts in Saudi Riyals)

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Commission rate risk

The Company invests in securities and has deposits that are subject to commission rate risk. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates in the currencies in which its cash and cash equivalents and investments are denominated.

At the reporting date, the commission rate profile of Company's commission-bearing financial instruments is as follows:

	Carrying Amount	
	2016	2015
Fixed rate instruments		
Financial assets	**20,000,000**	20,000,000
Interest on statutory deposit	**1,310,418**	1,310,418

Presently, the Company does not hold any variable SIBOR based return bearing instruments that expose the Company to commission rate risk.

The Company does not have any commission based financial liabilities as at 31 December 2016.

The information about Company's exposure to commission rate risk is based on contractual re-pricing or maturity dates whichever is earlier is as follows:

	2016				
Financial assets - Insurance Operations	**Commission bearing**			**Non-Commission bearing**	**Total**
	< 1 Year	**1-5 Years**	**> 5 Years**		
Cash and Bank balance	**--**	**--**	**--**	**10,339,071**	**10,339,071**
Premiums receivable, net	**--**	**--**	**--**	**9,213,670**	**9,213,670**
Reinsurers' balance receivable	**--**	**--**	**--**	**--**	**--**
Reinsurers' share of technical reserves	**--**	**--**	**--**	**4,502,187**	**4,502,187**
Other assets	**--**	**--**	**--**	**5,496,446**	**5,496,446**
	-	**--**	**--**	**29,551,374**	**29,551,374**

	2016				
Financial assets – Shareholders' Operations	**Commission bearing**			**Non-Commission bearing**	**Total**
	< 1 Year	**1-5 Years**	**> 5 Years**		
Cash and Bank balance	**--**	**--**	**--**	**1,154,257**	**1,154,257**
Statutory deposit	**20,000,000**	**--**	**--**	**--**	**20,000,000**
Investments – available for sale	**--**	**--**	**--**	**32,636,679**	**32,636,679**
Other Assets	--	--	--	--	--
	20,000,000	**--**	**--**	**33,790,936**	**53,790,936**

(Amounts in Saudi Riyals)

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Commission rate risk (Continued)

2015					
Financial assets - Insurance Operations	Commission bearing			Non-Commission bearing	Total
	< 1 Year	1-5 Years	> 5 Years		
Cash and Bank balance	--	--	--	32,508,394	32,508,394
Premiums receivable, net	--	--	--	10,528,378	10,528,378
Reinsurers' balance receivable	--	--	--	3,555,647	3,555,647
Reinsurers' share of technical reserves	--	--	--	4,833,801	4,833,801
Other assets	--	--	--	6,084,790	6,084,790
	--	--	--	57,511,010	57,511,010

2015					
Financial assets – Shareholders' Operations	Commission bearing			Non-Commission bearing	Total
	< 1 Year	1-5 Years	> 5 Years		
Cash and Bank balance	--	--	--	1,174,812	1,174,812
Statutory deposit	20,000,000	--	--	--	20,000,000
Investments – available for sale	--	--	--	32,572,273	32,572,273
Other Assets	--	--	--	--	--
	20,000,000	--	--	33,747,085	53,747,085

Other Price Risk

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

The Company's investments amounting to SAR 32.6 million are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its investment portfolio and by actively monitoring the developments in markets.

Had all investments, other than unquoted, been measured at fair values as required by IAS 39, Financial Instruments: Recognition and Measurement, the impact of hypothetical change of a 10% increase and 10% decrease in the market prices of investments on Company's profit and equity would be as follows:

	Fair value	**Price change**	**Effect on profit and loss**	**Effect on Shareholders' equity**
31 December 2016	10% increase	**3,071,360**	**--**	**3,071,360**
	10% decrease	**(3,071,360)**	**--**	**(3,071,360)**
31 December 2015	10% increase	3,064,920	--	3,064,920
	10% decrease	(3,064,920)	--	(3,064,920)

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2016. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

(Amounts in Saudi Riyals)

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

d. 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.

The Company's underwriting activities are all carried out in Saudi Arabia.

For all classes of financial assets held by the Company, other than those relating to reinsurance contracts as described in (b) above, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the balance sheet date.

The company seeks to limit its credit risk with respect to customers by setting credit limit for individual customers and monitoring outstanding receivables.

The table below shows the maximum exposure to credit risk for the components of the balance sheet:

	2016	2015
Assets - Insurance Operations		
Bank balances	**10,339,071**	32,508,394
Premiums receivables, net	**9,213,670**	10,528,378
Reinsurers' balance receivable	**--**	3,555,647
Reinsurers' share of technical reserves	**4,502,187**	4,833,801
Other assets	**5,496,446**	6,084,790
	29,551,374	57,511,010
Assets - Shareholders' Operations		
Bank balances	**1,154,257**	1,174,812
Statutory deposit	**20,000,000**	20,000,000
Investments	**32,636,679**	32,572,273
Other assets	**--**	--
	53,790,936	53,747,085

The credit quality of Company's bank balances and deposits can be assessed with reference to external credit rating as follows:

Rating

	2016	2015
AA-	**10,339,071**	33,683,206
A+	**20,000,000**	20,000,000
	30, 339,071	53,683,206

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

d. Credit risk (Continued)

The credit quality of Company's investment can be assessed with reference to external credit ratings as follows:

Rating	**2016**	2015
AA+	**7,228,251**	7,085,475
A or A above	**11,902,006**	11,647,502
	19,130,257	18,732,977

e. Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet its obligations and commitments associated with financial instruments. The Company has a proper cash management system, where daily cash collection and redemption is strictly monitored and reconciled at the end of the day. At the time of investment, particular emphasis is focused on the selection of those companies which are actively traded. The Company manages this risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Company’s assets in highly liquid financial assets.

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

(Amounts in Saudi Riyals)

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

e. Liquidity risk (Continued)

Maturity Profile

2016

Financial assets - Insurance Operations	**Less than one year**	**1 to 5 Years**	**No fixed maturity**	**Total**
Cash and Bank balance	**10,339,071**	**--**	**--**	**10,339,071**
Premiums receivable, net	**9,213,670**	**--**	**--**	**9,213,670**
Reinsurers’ balance receivable	**--**	**--**	**--**	**--**
Reinsurers' share of technical reserves	**4,502,187**	**--**	**--**	**4,502,187**
Other assets	**5,496,446**	**--**	**--**	**5,496,446**
	29,551,374	**--**	**--**	**29,551,374**

Financial assets – Shareholders’ Operations	**Less than one year**	**1 to 5 Years**	**No fixed maturity**	**Total**
Cash and Bank balance	**1,154,257**	**--**	**--**	**1,154,257**
Statutory deposit	**--**	**--**	**20,000,000**	**20,000,000**
Investments – available for sale	**32,636,679**	**--**	**--**	**32,636,679**
Other Assets	**--**	**--**	**1,310,418**	**1,310,418**
	33,790,936	**--**	**21,310,418**	**55,101,354**

2015

Financial assets - Insurance Operations	Less than one year	1 to 5 Years	No fixed maturity	Total
Cash and Bank balance	32,508,394	--	--	32,508,394
Premiums receivable, net	10,528,378	--	--	10,528,378
Reinsurers’ balance receivable	3,555,647	--	--	3,555,647
Reinsurers' share of technical reserves	4,833,801	--	--	4,833,801
Other assets	5,400,499	--	--	5,400,499
	56,826,719	--	--	56,826,719

Financial assets – Shareholders’ Operations	Less than one year	1 to 5 years	No fixed maturity	Total
Cash and Bank balance	1,174,812	--	--	1,174,812
Statutory deposit	--	--	20,000,000	20,000,000
Investments – available for sale	32,572,273	--	--	32,572,273
Other Assets	--	--	1,310,418	1,310,418
	33,747,085	--	21,310,418	55,057,503

(Amounts in Saudi Riyals)

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

e. Liquidity risk (Continued)
Maturity profile (Continued)

	2016			
Financial liabilities - Insurance Operations	**Less than one year**	**1 to 5 years**	**No fixed maturity**	**Total**
Reinsurer balances payable	**1,837,504**	**--**	**--**	**1,837,504**
Accrued expenses and other liabilities	**30,893,077**	**--**	**--**	**30,893,077**
Outstanding claims and other technical reserves	**14,830,861**	**--**	**--**	**14,830,861**
End-of-service Indemnities	**--**	**--**	**12,447,686**	**12,447,686**
	47,561,442	**--**	**12,447,686**	**60,009,128**
Financial liabilities - Shareholders' Operations				
Accrued expenses and other liabilities	**10,008**	**--**	**--**	**10,008**
Income payable from statutory deposit	**1,310,418**	--	--	**1,310,418**
	1,320,426			**1,320,426**

	2015			
Financial liabilities - Insurance Operations	Less than one year	1 to 5 years	No fixed maturity	Total
Reinsurer balances payable	2,760,142	**--**	**--**	2,760,142
Accrued expenses and other liabilities	41,496,665	**--**	**--**	41,496,665
Outstanding claims and other technical reserves	24,141,478	--	--	24,141,478
End-of-service Indemnities	--	--	1,645,776	1,645,776
	68,398,285	--	1,645,776	70,044,061
Financial liabilities - Shareholders' Operations				
Accrued expenses and other liabilities	327,002	**--**	**--**	327,002
Income payable from statutory deposit	1,310,418	--	--	1,310,418
	1,637,420	--	--	1,637,420

f. Operational risk

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

The Company’s objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors.

19. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

f. Operational risk (continued)

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- Risk mitigation, including insurance where this is effective.

Senior Management ensures that the Company's staff has adequate training and experience and fosters effective communication related to operational risk management.

g. Regulatory framework risk

The operations of the Company are subject to local regulatory requirements within the jurisdictions where it is incorporated. 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.

20. CAPITAL MANAGEMENT

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value. The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure and comply with regulatory requirements, the Company may issue shares or take other appropriate measures.

As per relevant regulatory requirements, the Company need to maintain solvency margins equal to its share capital after the end of its third year of operations. As at 31 December 2016 the Company's solvency margin is below the limit prescribed by SAMA. The Board of Directors and management is in the process of taking necessary steps to ensure that solvency requirements are complied with.

Furthermore, the Capital Market Authority's (CMA) Board has issued its decision on 12 Dhul Qadah 1435 corresponding to (7 September 2014) to suspend trading the shares of the Company in the Saudi Stock Exchange (Tadawul) starting from 12 Dhul Qadah 1435 (corresponding to 7 September 2014) until the company discloses the financial impact of prohibiting it from issuing or renewing any kind of insurance policies. Also the Company has to correct its position in regard to the decision received from SAMA as required by the related rules and regulations. Based on that the CMA will look into whether to continue or discontinue suspending the trading of the shares.

21. COMMITMENTS AND CONTINGENCIES

a. Legal proceedings and regulations

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position.

b. Contingent liabilities

As at 31 December 2016, the Company has contingently liable for the CEO amounting to SR 3.84 million occurring even in case of liquidation of the company or termination of the employee without prejudice to Saudi Arabian Labour Law.

22. RECLASSIFICATION

Comparatives figures for certain account heads have been re-classified to confirm with the current year's presentation.

23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 8 March 2017.