

**ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS  
AND  
AUDITORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**ALINMA TOKIO MARINE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

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

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**Scope of audit:**

We have audited the accompanying statement of financial position of Alinma Tokio Marine Company (A Saudi Joint Stock Company) (the "Company") as at 31 December 2016 and the related statements of insurance operations, shareholders' operations and comprehensive income of shareholders' operations, statement of changes in shareholders' equity and statements of cash flows of insurance operations and shareholders' operations for the year then ended and the related notes (1 to 26) 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 and the provisions of Article 126 of the Regulations for Companies and 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.

**Unqualified opinion:**

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

**Emphasis of matters:**

We draw attention to the following:

1. These financial statements have been prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia as issued by the Saudi Organization for Certified Public Accountants.
2. Note 2 to the financial statements sets out the fact that the Board of Directors of the Company recommended to the shareholders of the Company not to pursue the transfer of insurance portfolios which were disclosed in the prospectus issued for the initial public offering by the Company. However, with active support from Tokio Marine Group, the Company has acquired other operating businesses. The Company is in the process of seeking the necessary approvals from the shareholders to complete the legal formalities.

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February 26, 2017 (G)  
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**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2016**

	<i>Notes</i>	<b>31 December 2016 SR' 000</b>	<b>31 December 2015 SR' 000</b>
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	5	4,308	11,852
Premiums and reinsurance receivables, net	6	193,920	105,710
Reinsurers' share of outstanding claims	11	137,378	61,656
Reinsurers' share of unearned premiums	13	40,429	52,279
Deferred policy acquisition costs		5,438	3,698
Prepayments and other assets	7	4,928	2,854
Investments		-	10,124
Fixed assets	9	6,590	7,804
Unit linked investments		3,471	1,234
Due from shareholders' operations		-	721
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>		<b>396,462</b>	<b>257,932</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	5	136,002	153,963
Investments	8	99,750	117,725
Statutory deposit	10	45,000	45,000
Prepayments and other assets	7	1,590	358
Due from insurance operations		17,331	-
Due from a related party	19	-	14
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>299,673</b>	<b>317,060</b>
<b>TOTAL ASSETS</b>		<b>696,135</b>	<b>574,992</b>

  
Director

  
Chief Financial Officer


  
Chief Executive Officer

The accompanying notes 1 to 26 form an integral part of these financial statements.

**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2016**

	Notes	31 December 2016 SR' 000	31 December 2015 SR' 000
<b>INSURANCE OPERATIONS' LIABILITIES</b>			
Gross outstanding claims	11	183,459	86,618
Reinsurance balances payable		82,618	59,628
Gross unearned premiums	13	75,403	75,941
Unearned reinsurance commission		7,003	8,247
Due to shareholders' operations		17,331	-
Accrued expenses and other liabilities	14	24,394	24,004
Employees' end of service benefits		2,783	1,987
Unit link liabilities		3,471	1,507
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>		<b>396,462</b>	<b>257,932</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>SHAREHOLDERS' LIABILITIES</b>			
Accrued expenses and other liabilities	14	3,819	2,344
Zakat and income tax payable	18	4,200	1,069
Due to insurance operations		-	721
<b>Total shareholders' liabilities</b>		<b>8,019</b>	<b>4,134</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	450,000	450,000
Accumulated losses		(158,346)	(137,074)
<b>Total shareholders' equity</b>		<b>291,654</b>	<b>312,926</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>299,673</b>	<b>317,060</b>
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES, SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>696,135</b>	<b>574,992</b>

  
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Chief Executive Officer

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**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF INSURANCE OPERATIONS**

For the year ended 31 December 2016

	Notes	For the year ended 31 December 2016 SR'000	For the year ended 31 December 2015 SR'000
<b>REVENUES</b>			
Gross written premiums	12	321,888	220,357
Reinsurance premiums ceded	12	(187,185)	(156,074)
Excess of loss expenses	12	(8,077)	(3,199)
<b>Net written premiums</b>		<b>126,626</b>	<b>61,084</b>
Changes in gross unearned premiums		538	(51,660)
Changes in reinsurance share of unearned premiums		(11,850)	36,772
Net change in unearned premiums		(11,312)	(14,888)
<b>Net earned premiums</b>	12	<b>115,314</b>	<b>46,196</b>
Reinsurance commission earned and other income		22,846	18,904
<b>Total insurance revenues</b>		<b>138,160</b>	<b>65,100</b>
<b>CLAIMS AND EXPENSES</b>			
Gross claims paid	11	(189,901)	(98,979)
Reinsurers' share of claims paid	11	120,660	69,509
<b>Net claims paid</b>		<b>(69,241)</b>	<b>(29,470)</b>
Changes in gross outstanding claims		(96,841)	(50,529)
Changes in reinsurers' share of outstanding claims		75,722	44,072
Net outstanding claims	11	(21,119)	(6,457)
<b>Net claims incurred</b>		<b>(90,360)</b>	<b>(35,927)</b>
Change in unit link reserves		(1,964)	(1,507)
Surrenders		(160)	-
Policy acquisition costs		(20,074)	(5,761)
Inspection and supervision fees		(1,657)	(634)
Other underwriting income		3,914	1,362
<b>Net underwriting loss</b>		<b>(110,301)</b>	<b>(42,467)</b>
Investment income		161	102
General and administrative expenses	16	(49,343)	(40,821)
<b>Total claims and expenses, net</b>		<b>(159,483)</b>	<b>(83,186)</b>
<b>Net deficit for the year from insurance operations</b>		<b>(21,323)</b>	<b>(18,086)</b>
Appropriation of net deficit transferred to the shareholders' operations		21,323	18,086
<b>Net result for the year from insurance operations</b>		<b>-</b>	<b>-</b>

  
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**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF SHAREHOLDERS' OPERATIONS**

For the year ended 31 December 2016

	<i>Notes</i>	<i>For the year ended 31 December 2016 SR'000</i>	<i>For the year ended 31 December 2015 SR'000</i>
Net deficit transferred from insurance operations	3	(21,323)	(18,086)
Investment income and other income / (loss)	17	7,130	(506)
		<u>(14,193)</u>	<u>(18,592)</u>
General and administrative expenses	16	(3,244)	(3,320)
<b>Net loss for the year</b>		<u><b>(17,437)</b></u>	<u><b>(21,912)</b></u>
<b>Basic and diluted loss per share for the year (SR)</b>	22	<u><b>(0.387)</b></u>	<u><b>(0.569)</b></u>
<b>Weighted average number of outstanding shares</b>	22	<u><b>45,000</b></u>	<u><b>38,540</b></u>

  
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**ALINMA TOKIO MARINE COMPANY**  
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**STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME**

For the year ended 31 December 2016

	<i>Notes</i>	<i>For the year ended 31 December 2016 SR'000</i>	<i>For the year ended 31 December 2015 SR'000</i>
Net loss for the year before zakat and income tax		(17,437)	(21,912)
<i>Items that may not be reclassified to statement of shareholders' operations in subsequent periods</i>			
Zakat and income tax for the year	18	(3,835)	(712)
<b>Total comprehensive loss for the year</b>		<b>(21,272)</b>	<b>(22,624)</b>

  
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Director

  
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Chief Financial Officer

  
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Chief Executive Officer

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**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended 31 December 2016

	Share capital SR '000	Accumulated losses SR '000	Total SR '000
<b>2016</b>			
Balance as at 1 January 2016	450,000	(137,074)	312,926
- Net loss for the year	-	(21,272)	(21,272)
<b>Balance as at 31 December 2016</b>	<b>450,000</b>	<b>(158,346)</b>	<b>291,654</b>
<b>2015</b>			
Balance as at 1 January 2015	200,000	(111,587)	88,413
Issue of additional share capital	250,000	-	250,000
Transaction cost relating to issue of additional share capital	-	(2,863)	(2,863)
- Net loss for the year	-	(22,624)	(22,624)
<b>Balance as at 31 December 2015</b>	<b>450,000</b>	<b>(137,074)</b>	<b>312,926</b>

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

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**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 SR'000	Year ended 31 December 2015 SR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net result for the year from insurance operations		-	-
Adjustments for non-cash items:			
Unrealized gain on FVTIS investments	8 (ii)	-	(124)
Realized gain on FVTIS investments	8 (ii)	(107)	-
Allowance / (reversal) for doubtful receivables	6	3,404	(488)
Depreciation	9	3,084	2,583
Employees' end of service benefits		1,109	980
Income before changes in operating assets and liabilities		7,490	2,951
<i>Changes in operating assets and liabilities:</i>			
<i>Operating assets:</i>			
Premiums and reinsurance receivables		(91,614)	(76,717)
Reinsurers' share of outstanding claims		(75,722)	(44,072)
Reinsurers' share of unearned premiums		11,850	(36,772)
Deferred policy acquisition costs		(1,740)	(2,585)
Due to / (from) shareholders' operations		18,052	(1,223)
Prepayments and other assets		(2,074)	(1,510)
<i>Operating liabilities:</i>			
Gross outstanding claims		96,841	50,529
Reinsurance balances payable		22,990	49,195
Gross unearned premiums		(538)	51,660
Unearned reinsurance commission		(1,244)	4,841
Accrued expenses and other liabilities		390	10,618
Unit linked liabilities		1,964	1,507
Cash from operations		(13,355)	8,422
Employees' end of service benefits paid		(313)	(563)
<b>Net cash (used in)/ generated from operating activities</b>		<b>(13,668)</b>	<b>7,859</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Unit linked investments		(2,237)	(1,234)
Purchase of investments		(35,000)	(10,000)
Proceeds from sale of investments		45,231	-
Purchase of property and equipment	9	(1,870)	(4,470)
<b>Net cash generated from / (used in) investing activities</b>		<b>6,124</b>	<b>(15,704)</b>
<b>Net change in cash and cash equivalents</b>		<b>(7,544)</b>	<b>(7,845)</b>
Cash and cash equivalents at the beginning of the year		11,852	19,697
<b>Cash and cash equivalents at the end of the year</b>	5	<b>4,308</b>	<b>11,852</b>

 <b>Director</b>	 <b>Chief Financial Officer</b>	 <b>Chief Executive Officer</b>
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The accompanying notes 1 to 26 form an integral part of these financial statements.

**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF SHAREHOLDERS' OPERATIONS CASH FLOWS**

For the year ended 31 December 2016

	<i>Notes</i>	<i>Year ended 31 December 2016</i>	<i>Year ended 31 December 2015</i>
		<i>SR'000</i>	<i>SR'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss for the year before zakat and income tax		(17,437)	(21,912)
Adjustments for non-cash items:			
Realized loss/ (gain) on FVTIS	8 (i)	12	(625)
Unrealized (gain)/ loss on FVTIS	8 (i)	(1,512)	1,743
Loss before changes in operating assets and liabilities		(18,937)	(20,794)
<i>Changes in operating assets and liabilities:</i>			
<i>Operating assets:</i>			
Due from related parties		14	41
Due from insurance operations		(18,052)	1,223
Prepayments and other assets		(1,232)	(346)
<i>Operating liabilities:</i>			
Accrued expenses and other liabilities		1,475	328
Cash from operations		(36,732)	(19,548)
Zakat and income tax paid	18	(704)	(1,140)
<b>Net cash used in operating activities</b>		<b>(37,436)</b>	<b>(20,688)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Murabaha deposit		-	(25,000)
Purchase of investments		(65,937)	(433,631)
Proceeds from sale of investments		85,412	348,998
<b>Net cash generated from / (used) in investing activities</b>		<b>19,475</b>	<b>(109,633)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of additional share capital		-	250,000
Transaction cost on issue of additional share capital		-	(2,863)
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>247,137</b>
<b>Net change in cash and cash equivalents</b>		<b>(17,961)</b>	<b>116,816</b>
Cash and cash equivalents at the beginning of the year		153,963	37,147
<b>Cash and cash equivalents at the end of the year</b>	5	<b>136,002</b>	<b>153,963</b>

Director

Chief Financial Officer

Chief Executive Officer

The accompanying notes 1 to 26 form an integral part of these financial statements.

**ALINMA TOKIO MARINE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

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**1 REPORTING ENTITY AND OPERATIONS**

Alinma Tokio Marine Company ("the Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per Ministry of Commerce and Industry's Resolution number 309/Q dated 19 Rajab 1433H (corresponding to 9 June 2012). The Commercial Registration number of the Company is 1010342527, dated 28 Rajab 1433H (corresponding to 18 June 2012). The Company is listed on the Saudi Arabian Stock Exchange ("Tadawul") since 24 June 2012. The Registered Office of the Company is situated at Al-Anoud Tower 2, P.O. Box 643, Riyadh 11421, Kingdom of Saudi Arabia.

The Company is licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree No. 25/M, dated 3 Jumada-Al Thani 1430H (corresponding to 27 June 2009), pursuant to the Council of Ministers' Resolution No. 140 dated 2 Jumada-Al Thani 1430H (corresponding to 26 June 2009).

The objective of the Company is to engage in cooperative insurance operations and related activities, including reinsurance, agencies, representation, correspondence and intermediary activities in the Kingdom of Saudi Arabia in accordance with its Articles of Association and applicable regulations in the Kingdom of Saudi Arabia.

**2 INSURANCE PORTFOLIOS TRANSFER AGREEMENTS**

In connection with the Board of Directors' recommendation to the Shareholders' of the Company on non transfer of the insurance portfolio transfer of Arab Eastern Insurance Company (AEIC) and Tokio Marine & Nichido Fire Insurance Co. Limited – branch operations (TMNF) which is collectively referred as "Old Operations". The Company got regulatory approval to administer an outstanding claim pertaining to the "Old Operations". These transfers were initially planned and disclosed in the prospectus issued for the initial public offering of the Company. There is no financial impact on the Company as the liability arising from the said claim is guaranteed by Tokio Marine & Nichido Fire Insurance Company Limited, Japan being the major shareholder of the "Old Operations." Consequent to the regulatory approval, the Company got the approval for non pursuance of transfer of insurance portfolio relating to AEIC in the General Assembly held on December 29, 2016, whereas further approval for non pursuance of transfer of insurance portfolio relating to TMNF shall be taken in the next General Assembly.

**3 BASIS OF PREPARATION**

These financial statements have been prepared for the year ended 31 December 2016. The comparative financial information presented in these financial statements relates to the year ended 31 December 2015.

**Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws.

**Basis of measurement**

These financial statements have been prepared under the historical cost convention except for investments classified as 'available for sale' and 'held for trading' which are being carried at fair value.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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**3 BASIS OF PREPARATION (continued)**

**Basis of presentation**

As required by the Saudi Arabian Insurance Regulations issued by SAMA, the Company maintains separate books of accounts for the insurance operations and shareholders' operations and presents the financial statements accordingly. 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 books of accounts. The basis of allocation of expenses from joint operations is determined by management and the Board of Directors.

In accordance with Article 70 of the SAMA Implementing Regulations, the Company must distribute, subject to the approval of SAMA, its annual net policyholders' surplus directly to policyholders at a time, and according to criteria, as set by its Board of Directors, provided the customer contract (policy) is active and paid-up to date at the time of settlement of the cooperative distribution amount. Losses incurred by insurance operations are absorbed by shareholders' operations.

***Functional and presentation currency***

The financial statements are expressed in Saudi Arabian Riyals (SR), which is the functional and presentation currency of the Company. All financial information presented in SR has been rounded off to the nearest thousand, unless otherwise stated.

***Critical accounting estimates and judgments***

**Estimation uncertainty**

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

**Impairment losses on receivables**

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

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

**Technical reserve for insurance activities**

The estimation of amounts due to policyholders and third parties arising from claims made under insurance contracts require judgment by management. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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### 3 BASIS OF PREPARATION (continued)

#### **Incurred but not reported claims**

The Company estimates claims based on its experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provision for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provision at the statement of financial position date and settlements and provisions in the following year is included in the statement of insurance operations for that year.

The provision for outstanding claims, as at 31 December, is also verified and certified by the Company's appointed external actuary. The actuary calculates the claims reserves using the methodology that involves blending of the following two reserving methods.

- The basic chain ladder method
- Ultimate loss ratio method

The claims reserves are calculated from the higher of the above two methods. The claims reserves are sensitive to the assumptions made about the number of months used to average the completion factors for the chain ladder method and the ultimate loss ratio assumption.

#### **Premium deficiency reserve**

Estimation of premium deficiency for insurance business is highly sensitive to a number of assumptions linked to future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the segment-wise actual claims experience of the Company.

#### **Useful lives of fixed assets**

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

#### **New standards and amendments to existing standards**

-IFRS 14 – "Regulatory Deferral Accounts", applicable for the annual periods beginning on or after 1 January 2016, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

-Amendments to IFRS 10 – "Consolidated Financial Statements", IFRS 12 – "Disclosure of Interests in Other Entities" and IAS 28 – "Investments in Associates", applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 3 BASIS OF PREPARATION (continued)

#### New standards and amendments to existing standards (continued)

-Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

Amendments in 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.

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 41 – “Agriculture”, applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – “Accounting for Government Grants and Disclosure of Government Assistance”, instead of IAS 41.

#### Standards issued but not yet effective

The following new or amended standards are not expected to have significant impact on the financial statements and the Company has chosen not to early adopt the following standards:

- IFRS 9 – Financial instruments (effective on or after January 1, 2018)
- IFRS 15 – Revenue from contracts with customers (effective on or after January 1, 2018)
- IFRS 16 – Leases (effective on or after January 1, 2019)

The significant accounting policies used in the preparation of these financial statements are set out below and have been applied consistently unless otherwise stated.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. This comprises of cash in hand, bank balances and Murabaha deposits with an original maturity of three months or less.

#### Murabaha deposits

Murabaha deposits with original maturity of more than three months, are initially recognized in the statement of financial position at fair value and are subsequently measured at amortised cost using effective yield method, less any impairment in value.

#### Impairment and un-collectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or a group of financial assets (including reinsurance receivables) may be impaired. If such evidence exists, an impairment loss is recognized in the statement of insurance operations or the statement of shareholders' operations. Impairment is determined as follows:

- For assets carried at fair value i.e. for investments classified as 'available for sale', impairment is the difference between cost and fair value, less any impairment loss recognized in the statement of insurance operations' or the statement of shareholders' operations;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

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.

#### Premiums receivable

Premiums receivable are recognized as a financial asset when the policies are issued and the consideration is receivable. The carrying amount of asset is reduced through the use of an allowance account, and the amount of loss is recognized in the statement of 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.



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

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**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Reinsurance**

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums receivable and claims are presented on a gross basis.

**Segment reporting**

A segment is a distinguishable component of the Company's portfolio that is engaged in providing products or services (a business segment), which is subject to risk and rewards that are different from those of other segments.

**Leases**

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of insurance operations on a straight-line basis over the term of the lease. Lease incentives are recognized as an integral part of the total lease expense over the term of the lease.

**Foreign currencies**

Transactions denominated in foreign currencies are recorded in Saudi Riyals (SR) at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to SR at the rate of exchange prevailing at the date of statement of financial position. All differences are taken to the statements of insurance operations and accumulated losses and shareholders' operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate at the date of initial transaction and are not subsequently restated. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

**Investments**

**Held for trading investments**

Held for trading investments represent investments in short term Murabaha funds which are readily marketable and initially recognised at cost being the fair value and subsequently remeasured at fair value. Fair value is determined by reference to the net asset value (NAV) quoted by the fund manager. The resultant realised and unrealised gains and losses are recognised in the statement of shareholders' operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Available-for-sale investments (AFS)**

Investments which are classified as available-for-sale are measured at fair value. Available-for-sale investments are those investments that are either designated in this category or not classified in any other category. For an available-for-sale investments, any gain or loss arising from a change in its fair value is recognized directly in other comprehensive income 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 other comprehensive income is transferred to and recognised in the statement of shareholders' operations for the year.

**Fixed assets**

Fixed assets are measured at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of assets. The estimated useful lives of assets for calculation of depreciation are as follows:

	Years
Leasehold improvements	5
Furniture and office equipment	5
Computer equipment	3-5

Residual values, useful lives and the method of calculating depreciation are reviewed annually and adjusted, if appropriate. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the year is recognised in the statement of insurance operations.

Any gain or loss on disposal of a fixed asset, (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in statement of insurance operations.

Expenditures for repair and maintenance is charged to the statement of insurance operations. Improvements that increase the value or materially extend the life of the related assets are capitalised.

**Employees' end of service benefits**

The Company provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employee's length of service and the completion of a minimum service period. Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the statement of financial position date. Charge for the year is transferred to the statement of insurance operations.

**Transaction costs**

Transaction costs to raise share capital are incremental costs that are directly attributable to the issuance of share capital and are accounted for as a deduction from equity.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

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**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Insurance contracts**

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 over time. The significance of insurance risk depends upon the probability of occurrence of an insurance 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 is significantly reduced subsequently.

**Liability adequacy test**

At each statement of financial position date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If such an assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and an unexpired risk provision is made.

The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

**Zakat and income tax**

Zakat and income tax are provided for in accordance with Saudi Arabian Fiscal Regulations. Zakat is computed on the zakat base of Saudi founding and general public shareholders' while income tax is computed on the non-Saudi founding shareholders share of net adjusted income.

Zakat and income taxes are accrued and charged to other comprehensive income.

**Revenue recognition**

Gross premiums and commissions are recognised as revenue when the insurance policy is issued. Premiums and commissions are taken into income over the terms of the policies to which they relate on a pro-rata basis.

Unearned premiums and commissions are those proportions of premiums and commissions written in a year that relate to periods of risk after the statement of financial position date. Unearned premiums are calculated on a daily pro-rata basis, except for marine cargo. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. The unearned portion for marine cargo shall be the premium written during the last three months of the financial year.

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into during the year and are recognized in statement of insurance operations from the policy inception date.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Investment income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable. Realized gains or losses on sale of available for sale investments are reported in the related statements of insurance operations or statement of shareholders' comprehensive income. Dividends, commission income and foreign currency gain / loss on AFS investments are recognized at the related statements of insurance operations or statement of shareholders' comprehensive income, as part of the net investment income / loss.

Insurance policyholders are charged for policy administration services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over future periods.

**Claims**

Claims, comprising amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to the statement of insurance operations as incurred. Total outstanding claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

A provision based on management's judgment is maintained for Incurred But Not Reported ("IBNR") claims at the statement of financial position date.

**Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of insurance operations or in the statement of shareholders' operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

**Trade date accounting**

All routine purchases and sales of financial assets are initially recognized / derecognized on the trade date (i.e. the date on which the Company becomes a party to the contractual provisions of the instrument). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

**Deferred acquisition costs**

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



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For the year ended 31 December 2016

<b>5 CASH AND CASH EQUIVALENTS</b>	<b>31 December 2016 SR' 000</b>	<b>31 December 2015 SR'000</b>
<i>Insurance operations</i>		
Cash in hand	45	40
Cash at banks – current accounts	4,263	11,812
	<b>4,308</b>	<b>11,852</b>

Cash at bank – Insurance Operations includes an amount of SR 4.26 million (2015: SR 11.81 million) held with Alinma Bank, a related party.

	<b>31 December 2016 SR' 000</b>	<b>31 December 2015 SR'000</b>
<i>Shareholders' operations</i>		
Cash at banks – current accounts	9,567	3,963
Short-term Murabaha deposits	126,435	150,000
	<b>136,002</b>	<b>153,963</b>

Cash at banks – Shareholders' Operations includes an amount of SR 9.56 Million (2015: SR 3.95 million) held with Alinma Bank, a related party.

Short term Murabaha deposits are placed with local banks denominated in Saudi Riyals and have original maturity not exceeding three months yielding an average profit rate of 2.61% (2015: 2.33%) per annum.

**6 PREMIUMS AND REINSURANCE RECEIVABLES, NET**

	<b>31 December 2016 SR' 000</b>	<b>31 December 2015 SR'000</b>
Premiums receivable	61,627	53,271
Premiums receivable from related party (note 19)	5,745	4,456
Reinsurance receivables	131,955	49,986
	<b>199,327</b>	<b>107,713</b>
Less: Provision for doubtful receivables	(5,407)	(2,003)
	<b>193,920</b>	<b>105,710</b>

These balances comprise amounts receivable from a number of individual and corporate customers as well as insurance companies and reinsurance companies mainly operating in the Kingdom of Saudi Arabia. Arrangements with reinsurers normally require settlement within a certain mutually agreed period.

The Company classifies balances as 'past due and impaired' on a case-to-case basis. An impairment adjustment is recorded in the statement of insurance operations. It is not the practice of the Company to obtain collateral over receivables.

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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

**6 PREMIUMS AND REINSURANCE RECEIVABLES, NET (Continued)**

Movement in the provision for impairment of receivables is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>SR'000</b>	<b>SR'000</b>
Balance at the beginning of the year	2,003	2,491
Provided / (reversed) during the year	3,404	(488)
Balance at the end of the year	<u>5,407</u>	<u>2,003</u>

The age analysis of premiums and reinsurance receivables arising from insurance contracts is as follows:

	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>				<b>Past due and impaired</b>	<b>Total</b>
	<b>Up to 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>Above 12 months</b>			
	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>
<b>2016</b>	15,185	61,178	104,405	14,928	3,631	(5,407)	<u>193,920</u>
<b>2015</b>	54,395	25,101	18,617	7,728	1,872	(2,003)	<u>105,710</u>

**7 PREPAYMENTS AND OTHER ASSETS**

*Insurance operations*

Prepayments	962	1,206
Margin deposits	1,244	884
Other receivables	2,722	764
	<u>4,928</u>	<u>2,854</u>

*Shareholders' operations*

Prepayments	55	86
Accrued income	1,535	272
	<u>1,590</u>	<u>358</u>

**8 INVESTMENTS**

**(i) Shareholders' operations**

This represents investment in Najam for Insurance Services Company (classified as available for sale), equity shares, Shari'ah compliant mutual funds, discretionary portfolios and real estate fund (classified as investment at fair value through income statement "FVTIS") and sukuk (classified as held to maturity investments).

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**NOTES TO THE FINANCIAL STATEMENTS**

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**8 INVESTMENTS (Continued)**

**(i) Shareholders' operations (continued)**

	<u>31 December 2016</u>	<u>31 December 2015</u>
	<u>SR' 000</u>	<u>SR'000</u>
<b>Investments</b>		
Available for sale investment	1,923	1,923
Investments at fair value through income statement (FVTIS)	83,379	115,802
Investments held to maturity	14,448	-
	<u>99,750</u>	<u>117,725</u>

The movement during the year is as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
	<u>SR' 000</u>	<u>SR'000</u>
<b>Available for sale investment</b>		
Balance at the beginning and end of the year	1,923	1,923

	<u>31 December 2016</u>	<u>31 December 2015</u>
	<u>SR' 000</u>	<u>SR'000</u>
<b>Investments at fair value through income statement</b>		
Balance at the beginning of the year	115,802	32,287
Purchased during the year	50,937	433,631
Sold during the year	(84,860)	(348,998)
Realised gain during the year (note 17)	(12)	625
Unrealised gain / (loss) during the year (note 17)	1,512	(1,743)
Balance at the end of the year	<u>83,379</u>	<u>115,802</u>

	<u>31 December 2016</u>	<u>31 December 2015</u>
	<u>SR' 000</u>	<u>SR'000</u>
<b>Investments held to maturity</b>		
Balance at the beginning of the year	-	-
Purchased during the year	15,000	-
Redeemed during the year	(552)	-
Balance at the end of the year	<u>14,448</u>	<u>-</u>

Investments held to maturity have a tenure of ten years with quarterly partial redemptions, yielding an average profit rate of SIBOR+ 2.125% (2015: Nil) per annum.

**(ii) Insurance operations**

The Insurance Operations' FVTIS investments have been invested inside the Kingdom of Saudi Arabia in a Trading Finance Fund:

	<u>31 December 2016</u>	<u>31 December 2015</u>
	<u>SR' 000</u>	<u>SR'000</u>
<b>Investments at fair value through income statement</b>		
Balance at the beginning of the year	10,124	-
Purchased during the year	35,000	10,000
Sold during the year	(45,231)	-
Realised gain during the year	107	-
Unrealised gain during the year	-	124
Balance at the end of the year	<u>-</u>	<u>10,124</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

**9 FIXED ASSETS**

*Insurance operations*

31 December 2016				
	Leasehold improvements	Furniture, fittings and office equipment	Computer equipment	Total
	SR'000	SR'000	SR'000	SR'000
<b>Cost</b>				
Balance at the beginning of the year	2,777	1,495	10,056	14,328
Purchased during the year	293	220	1,357	1,870
Balance at the end of the year	3,070	1,715	11,413	16,198
<b>Accumulated depreciation</b>				
Balance at the beginning of the year	549	497	5,478	6,524
Charge for the year	569	346	2,169	3,084
Balance at the end of the year	1,118	843	7,647	9,608
<b>Net book value</b>				
31 December 2016	<b>1,952</b>	<b>872</b>	<b>3,766</b>	<b>6,590</b>

31 December 2015				
	Leasehold improvements	Furniture, fittings and office equipment	Computer equipment	Total
	SR'000	SR'000	SR'000	SR'000
<b>Cost</b>				
Balance at the beginning of the year	1,847	534	7,477	9,858
Purchased during the year	930	961	2,579	4,470
Balance at the end of the year	2,777	1,495	10,056	14,328
<b>Accumulated depreciation</b>				
Balance at the beginning of the year	208	211	3,522	3,941
Charge for the year	341	286	1,956	2,583
Balance at the end of the year	549	497	5,478	6,524
<b>Net book value</b>				
31 December 2015	<b>2,228</b>	<b>998</b>	<b>4,578</b>	<b>7,804</b>

**10 STATUTORY DEPOSIT**

	31 December 2016	31 December 2015
	SR' 000	SR' 000
<i>Shareholders' operations</i>		
Statutory deposit	45,000	45,000

In accordance with the Saudi Arabian Implementing Regulations issued by SAMA, the Company has deposited an amount equivalent to 10% of its paid up share capital in a bank account designated by SAMA.

This is a restricted deposit and cannot be utilized in the operations of the Company.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11 OUTSTANDING CLAIMS

a) Incurred claims

<i>Insurance operations</i>	For the year ended 31 December 2016			
	Motor	General	Protection and savings	Total
	SR'000	SR'000	SR'000	SR'000
Claims paid	118,566	57,762	13,573	189,901
Reinsurers' share of claims paid	(56,451)	(53,323)	(10,886)	(120,660)
Net claims paid	62,115	4,439	2,687	69,241
Changes in outstanding claims, IBNR and other reserves	31,542	59,311	5,988	96,841
Changes in reinsurers' share of outstanding claims, IBNR and other reserves	(13,427)	(57,339)	(4,956)	(75,722)
Changes in net outstanding claims, IBNR and other reserves	18,115	1,972	1,032	21,119
<b>Total incurred claims</b>	<b>80,230</b>	<b>6,411</b>	<b>3,719</b>	<b>90,360</b>
<i>Insurance operations</i>	For the year ended 31 December 2015			
	Motor	General	Protection and savings	Total
	SR'000	SR'000	SR'000	SR'000
Claims paid	45,013	45,415	8,551	98,979
Reinsurers' share of claims paid	(20,673)	(41,902)	(6,934)	(69,509)
Net claims paid	24,340	3,513	1,617	29,470
Changes in outstanding claims, IBNR and other reserves	15,147	33,287	2,095	50,529
Changes in reinsurers' share of outstanding claims, IBNR and other reserves	(8,910)	(33,560)	(1,602)	(44,072)
Changes in net outstanding claims, IBNR and other reserves	6,237	(273)	493	6,457
<b>Total incurred claims</b>	<b>30,577</b>	<b>3,240</b>	<b>2,110</b>	<b>35,927</b>

General segment includes marine, fire, engineering and general accident.

NOTES TO THE FINANCIAL STATEMENTS

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11 OUTSTANDING CLAIMS (continued)

b) Outstanding claims

<i>Insurance operations</i>	<i>31 December 2016</i>		
	Gross	Reinsurers share	Net
	SR'000	SR'000	SR'000
Motor			
- Outstanding claims reserve	28,297	(11,902)	16,395
- Incurred but not reported reserve	24,427	(10,434)	13,993
- Other reserves	4,320	-	4,320
General			
- Outstanding claims reserve	73,622	(71,133)	2,489
- Incurred but not reported reserves	37,969	(32,252)	5,717
- Other reserves	513		513
Protection and savings			
- Outstanding claims reserve	10,079	(8,271)	1,808
- Incurred but not reported reserve	4,232	(3,386)	846
- Other reserves			-
<b>Total outstanding claims</b>	<b>183,459</b>	<b>(137,378)</b>	<b>46,081</b>

During the current year, the Company created a provision in respect of premium deficiency, amounting to SR 3.5 million (2015: SR 3.1 million) for all lines of businesses, catastrophic reserve amounting to SR 0.3 million (2015: SR 0.3 million) for fire and engineering lines of businesses and data deficiency reserve SR 1 million (2015: SR 0.04 million) for motor business. The Company created these provisions based on the assumption that the unearned premiums for these business lines will not be sufficient to cover the expected claims and other attributable expenses related to the unexpired years of the policies in force at the statement of financial position date.

<i>Insurance operations</i>	<i>31 December 2015</i>		
	Gross	Reinsurers share	Net
	SR'000	SR'000	SR'000
Motor			
- Outstanding claims reserve	6,886	(2,390)	4,496
- Incurred but not reported reserve	14,963	(6,520)	8,443
- Other reserves	3,653	-	3,653
General			
- Outstanding claims reserve	34,825	(31,107)	3,718
- Incurred but not reported reserves	17,571	(14,938)	2,633
- Other reserves	397	-	397
Protection and savings			
- Outstanding claims reserve	2,024	(1,620)	404
- Incurred but not reported reserve	6,263	(5,081)	1,182
- Other reserves	36	-	36
<b>Total outstanding claims</b>	<b>86,618</b>	<b>(61,656)</b>	<b>24,962</b>

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For the year ended 31 December 2016

**12 NET EARNED PREMIUMS**

	For the year ended 31 December 2016 SR'000	For the year ended 31 December 2015 SR'000
<i>Insurance operations</i>		
Gross written premiums	321,888	220,357
Gross unearned premiums at the beginning of the year	75,941	24,281
Gross unearned premiums at the end of the year	(75,403)	(75,941)
Gross earned premiums	322,426	168,697
Reinsurance premiums ceded	(187,185)	(156,074)
Excess of loss premiums	(8,077)	(3,199)
	(195,262)	(159,273)
Reinsurers' share of unearned premiums at the beginning of the year	(52,279)	(15,507)
Reinsurers' share of unearned premiums at the end of the year	40,429	52,279
	(207,112)	(122,501)
Net earned premiums	115,314	46,196

**13 MOVEMENT IN UNEARNED PREMIUM RESERVE**

	31 December 2016		
<i>Insurance operations</i>	Gross	Reinsurers' share	Net
	SR'000	SR'000	SR'000
Balance at the beginning of the year	75,941	(52,279)	23,662
Premium written during the year	321,888	(187,185)	134,703
Premium earned during the year	(322,426)	199,035	(123,391)
Balance at the end of the year	75,403	(40,429)	34,974

	31 December 2015		
<i>Insurance operations</i>	Gross	Reinsurers' share	Net
	SR'000	SR'000	SR'000
Balance at the beginning of the year	24,281	(15,507)	8,774
Premium written during the year	220,357	(159,273)	61,084
Premium earned during the year	(168,697)	122,501	(46,196)
Balance at the end of the year	75,941	(52,279)	23,662

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

14 ACCRUED EXPENSES AND OTHER LIABILITIES

<i>Insurance operations</i>	31 December 2016 SR'000	31 December 2015 SR'000
Accrued expenses	3,937	2,914
Brokers commission	7,640	4,524
Coinurance commission	-	5,444
Payable to policyholders	6,441	7,630
Payable to local and regulatory authorities	3,139	2,768
Other payables	3,237	724
	<u>24,394</u>	<u>24,004</u>
<i>Shareholders' operations</i>		
Accrued expenses	<u>3,819</u>	<u>2,344</u>

15 SHARE CAPITAL

The authorised, issued and paid-up share capital of the Company is SR 450 million as at 31 December 2016 (2015: SR 450 million) consisting of 45 million shares (2015: 45 million shares) of SR 10 each.

Post reporting date event:

On 15th February, 2017, the board of directors have recommended to the shareholders to reduce the Company's share capital from SR 450,000,000 to SR 300,000,000 through writing off accumulated losses of SR 150,000,000. Due to the capital reduction there is no effect on the Company's financial obligations. The proposed capital reduction is subject to regulatory and shareholders' approval.

16 GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2016 SR'000	For the year ended 31 December 2015 SR'000
<i>Insurance operations</i>		
Employees costs	34,721	30,567
Depreciation (note 9)	3,083	2,583
Maintenance	3,514	2,800
Allowance / (reversal) for doubtful receivables (note 6)	3,404	(488)
Bad debts written off	18	104
Rental	1,350	1,212
Legal and professional fees	331	510
Others	2,922	3,533
	<u>49,343</u>	<u>40,821</u>
<i>Shareholders' operations</i>		
Legal and professional fees	1,201	1,679
Directors' remuneration (note 19)	1,020	1,020
Board and sub-committee attendance fee (note 19)	305	396
Others	718	225
	<u>3,244</u>	<u>3,320</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

17 INVESTMENT AND OTHER INCOME, NET

*Shareholders' operations*

		For the year ended 31 December 2016 SR'000	For the year ended 31 December 2015 SR'000
<b>Investments at fair value through income statement</b>			
- Realized (loss) / gain during the year	8(i)	(12)	625
- Unrealized gain / (loss) during the year	8(i)	1,512	(1,743)
- Dividend income for the year		19	-
		<u>1,519</u>	<u>(1,118)</u>
<b>Investments held to maturity</b>			
- Income from Sukuks		447	-
<b>Available for sale investments</b>			
- Dividend income		385	339
<b>Other income</b>			
- Income on Murabaha Deposit		4,779	273
<b>Shareholders' investment and other income</b>		<u>7,130</u>	<u>(506)</u>

18 ZAKAT AND INCOME TAX

Zakat

The Company's zakat liability for the year is calculated in accordance with the provisions of Zakat regulations applicable in the Kingdom of Saudi Arabia.

As the zakat base for the year is higher than the adjusted net income / (loss), the zakat for the year is calculated at the rate of 2.5% of the zakat base for the year.

The difference between the accounting income and the adjusted net income / (loss) is mainly due to provisions which are not allowed in the calculation of adjustable net income.

The movement in the Zakat provision for the year is as follows:

	For the year ended 31 December 2016 SR'000	For the year ended 31 December 2015 SR'000
Balance at the beginning of the year	1,069	1,497
Zakat charge for the year	3,835	712
Zakat payment made during the year	(687)	(1,140)
Advance tax paid during the year	(17)	-
<b>Balance at the end of the year</b>	<u>4,200</u>	<u>1,069</u>

The Company has filed its Zakat returns with the General Authority for Zakat and Tax ("GAZT") for the period from 9 June 2012 to 31 December 2013, for the year 2014 and for the year 2015 and has obtained limited certificates. However, final assessments have not yet been made by the GAZT.

Income tax

The Company has incurred a taxable loss during the year, therefore, no income tax is charged to the statement of shareholders' comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

19 TRANSACTIONS WITH RELATED PARTIES

19.1 In the ordinary course of business, the Company transacts with related parties. Transactions with related parties are carried out on an arm's length basis.

19.2 In addition to the notes 5 and 6, following are the details of major related party transactions during the year and the related balances at the end of the year:

Nature of Transaction	Related party	Transactions		Balances	
		For the year ended 31 December 2016 SR'000	For the year ended 31 December 2015 SR'000	As at 31 December 2016 SR'000	As at 31 December 2015 SR'000
Insurance premiums received / receivable	Shareholder	33,357	23,986	5,745	4,456
Reinsurance premiums paid / payable	Shareholder	4,770	5,699	3,294	4,118
Claims paid net of recoveries	Shareholder	15,930	11,585	(70)	-
Reinsurance Commission	Shareholder	1,121	1,226	-	-
Agency Commission	Other related party	656	212	139	126
Investments	Other related party	70,363	700,227	48,860	115,805
General and administrative expenses	Share holder / Other related party	3,595	2,830	-	14
Bank balances	Shareholder	-	-	13,820	15,766

19.3 Information relating to key management personnel

	For the year ended 31 December 2016 SR'000	For the year ended 31 December 2015 SR'000
Short-term benefits	6,013	4,091
Long-term benefits	377	204

Short-term benefits include salaries and allowances whilst long-term benefits include employees' end of service benefits.



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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

**19 TRANSACTIONS WITH RELATED PARTIES (Continued)**

	For the year ended 31 December 2016 <i>SR'000</i>	For the year ended 31 December 2015 <i>SR'000</i>
19.4 Board and sub-committee related expenses:		
Board of director's remuneration	<u>1,020</u>	<u>1,020</u>
Board and sub-committees attendance fee	<u>305</u>	<u>396</u>

Board and sub-committees attendance fees represent allowances for attending board and sub-committee meetings.

**20 RISK MANAGEMENT**

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

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its commitment associated with financial liabilities when they fall due. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

**Maturity profile**

	<b>31 December 2016</b>		
	Less than one year <i>SR '000</i>	More than one year <i>SR '000</i>	Total <i>SR '000</i>
<b>Insurance operations' assets</b>			
Cash and cash equivalents	4,308	-	4,308
Premiums and reinsurance receivables, net	193,920	-	193,920
Reinsurers' share of outstanding claims	137,378	-	137,378
Reinsurers' share of unearned premiums	40,429	-	40,429
Deferred policy acquisition costs	5,438	-	5,438
Prepayments and other assets	4,928	-	4,928
Investments	-	-	-
Unit linked investments	3,471	-	3,471
Due from shareholders' operations	-	-	-
	<u>389,872</u>	<u>-</u>	<u>389,872</u>
	<b>31 December 2016</b>		
	Less than one year <i>SR '000</i>	More than one year <i>SR '000</i>	Total <i>SR '000</i>
<b>Shareholders' assets</b>			
Cash and cash equivalents	136,002	-	136,002
Investments	99,750	-	99,750
Prepayments and other assets	1,590	-	1,590
Due from a related party	-	-	-
	<u>237,342</u>	<u>-</u>	<u>237,342</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20 RISK MANAGEMENT (continued)

Maturity profile (continued)

	31 December 2015		
	Less than one year	More than one year	Total
	SR '000	SR '000	SR '000
Insurance operations' assets			
Cash and cash equivalents	11,852	-	11,852
Premiums and reinsurance receivables, net	105,710	-	105,710
Reinsurers' share of outstanding claims	61,656	-	61,656
Reinsurers' share of unearned premiums	52,279	-	52,279
Deferred policy acquisition costs	3,698	-	3,698
Prepayments and other assets	2,854	-	2,854
Investments	10,124	-	10,124
Unit linked investments	1,234	-	1,234
Due from shareholders' operations	721	-	721
	250,128	-	250,128

	31 December 2015		
	Less than one year	More than one year	Total
	SR '000	SR '000	SR '000
Shareholders' assets			
Cash and cash equivalents	153,963	-	153,963
Investments	117,725	-	117,725
Prepayments and other assets	358	-	358
Due from insurance operations	-	-	-
Due from a related party	14	-	14
	272,060	-	272,060

	31 December 2016		
	Less than one year	More than one year	Total
	SR '000	SR '000	SR '000
Insurance operations' liabilities			
Gross outstanding claims	183,459	-	183,459
Reinsurance balances payable	82,618	-	82,618
Accrued expenses and other liabilities	24,394	-	24,394
Unit linked liabilities	3,471	-	3,471
	293,942	-	293,942

	31 December 2016		
	Less than one year	More than one year	Total
	SR '000	SR '000	SR '000
Shareholders' liabilities			
Accrued expenses and other liabilities	3,819	-	3,819



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

**20 RISK MANAGEMENT (continued)**

	31 December 2015		
	Less than one year	No term	Total
	SR '000	SR '000	SR '000
Insurance operations' liabilities			
Gross outstanding claims	86,618	-	86,618
Reinsurance balances payable	59,628	-	59,628
Accrued expenses and other liabilities	24,004	-	24,004
Unit linked liabilities	1,507	-	1,507
	<u>171,757</u>	<u>-</u>	<u>171,757</u>

**Maturity profile (continued)**

	31 December 2015		
	Less than one year	No term	Total
	SR '000	SR '000	SR '000
Shareholders' liabilities			
Accrued expenses and other liabilities	2,344	-	2,344

To manage the liquidity risk arising from above financial liabilities, the Company holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active market except for unquoted equity instruments. These assets can be readily sold to provide additional liquidity when needed.

**Credit risk**

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

The Company seeks to limit its credit risk with respect to customers by following the Company's credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case to case basis. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks. The Company enters into reinsurance contracts with reinsurers having minimum acceptable credit rating by recognized rating agencies that is not lower than BBB (with Standard and Poor's) and AA- (with AM Best).

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

	31 December 2016 SR '000	31 December 2015 SR '000
<b>Insurance operations' assets</b>		
Cash and cash equivalents	4,308	11,852
Premiums and reinsurance receivables, net	193,920	105,710
Reinsurers' share of outstanding claims	137,378	61,656
	<u>335,606</u>	<u>179,218</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20 RISK MANAGEMENT (continued)

	31 December 2016 SR'000	31 December 2015 SR'000
<b>Shareholders' assets</b>		
Cash and cash equivalents	136,002	153,963
Statutory deposit	45,000	45,000
	<b>181,002</b>	<b>198,963</b>

*Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is not broadly diversified however, transactions are entered into with credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

**Market risk and asset liability management**

Market risk is the risk that the value of a 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 Board of Directors of the Company ensures that the overall market risk exposure is maintained at prudent levels and is consistent with the available capital. While the Board gives a strategic direction and goals, risk management function related to market risk is mainly the responsibility of the Investment Committee. The Committee prepares forecast showing the effects of various possible changes in market conditions related to risk exposures. This risk is being mitigated through proper selection of securities. The Company maintains a diversified portfolio and performs regular monitoring of developments in related markets. In addition, the key factors that affect shares and bond market movements are monitored, including analysis of the operational and financial performance of investees.

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

**Commission rate risk**

Commission rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the commission rates.

The Company places deposits which are realisable within three months and more than three months, with the exception of restricted deposits which are required to be maintained in accordance with SAMA regulations on which the Company does not earn any commission. Management limits commission rate risk by monitoring changes in commission rates in the currencies in which its deposits are denominated.

	Less than 1 year SR'000	1 to 5 years SR'000	Over 5 years SR'000	Non- commission bearing SR'000	Total SR'000
<b>Shareholders' operations</b>					
2016	-	14,448	-	83,379	97,827
2015	-	-	-	115,802	115,802

There is no significant difference between contractual re-pricing and maturity dates.

*Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20 RISK MANAGEMENT (continued)

Management believes that there is a minimal risk of significant losses due to exchange rate fluctuations, as the Company primarily deals in Saudi Riyals

*Market Price Risk*

Market 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 SR 97.8 million (2015: SR 115.8 million) representing investments in trade finance fund, multi asset fund, discretionary portfolios and equity stocks, are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits this nature of market risk by diversifying its investment portfolio and by actively monitoring the developments in markets.

Had all investments, other than commission bearing, been measured at fair values as required by IAS 39, Financial Instruments: Recognition and Measurement, the impact of hypothetical change of a +/-10% in the Net Asset Value of the funds, with all other variables held constant, would impact the shareholders' operations by +/- SR 9.7 million (2015: SR 11.58 million).

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.

*Sensitivity analysis*

The Company believes that the claim liabilities under insurance contracts outstanding at the year end 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 various assumptions. It is not possible to quantify sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. However, the sensitivity to changes in claim liabilities net of reinsurance by 10 percent is analyzed separately for each class of business while keeping all other assumptions constant.

**2016**

*Impact of change in claim liabilities by + / - 10%*

	<i>Net loss</i>	<i>Shareholders' equity</i>
	<i>SR'000</i>	<i>SR'000</i>
Motor	3,471	3,471
General	872	872
Protection and savings	265	265

**2015**

*Impact of change in claim liabilities by + / - 10%*

	<i>Net loss</i>	<i>Shareholders' equity</i>
	<i>SR'000</i>	<i>SR'000</i>
Motor	1,659	1,659
General	675	675
Protection and savings	162	162

NOTES TO THE FINANCIAL STATEMENTS

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20 RISK MANAGEMENT (continued)

*Sensitivity analysis (continued)*

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

*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 that 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 being greater than original estimates 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.

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 any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

*Re-insurance risk*

Similar to other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes.

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 summarized as follows:

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

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 regulators.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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20 RISK MANAGEMENT (continued)

*Re-insurance risk (continued)*

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

*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 major concentration lies in Motor and Group credit businesses.

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 neighboring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

Since the Company operates majorly in Saudi Arabia only, most of the insurance risks relate to policies written in Saudi Arabia.

*Sources of uncertainty in estimation of future claim payments*

The key source of estimation uncertainty at the statement of financial position 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 balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of outstanding claims and technical reserves are given under note 11.

NOTES TO THE FINANCIAL STATEMENTS

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20 RISK MANAGEMENT (continued)

*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 in 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 balance sheet date. The expected future liability is determined using estimates and assumptions based on the experience during the expired year of the contracts and expectations of future events that are believed to be reasonable.

*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 behavior. Operational risks arise from all of the Company's activities.

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**20 RISK MANAGEMENT (continued)**

*Regulatory framework risk*

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

*Capital management risk*

The Company manages its capital to ensure that it is able to continue as a going concern and comply with the regulator's capital requirements of the markets in which the Company operates while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid up share capital, reserves and accumulated losses.

The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Regulations detailing the solvency margin required to be maintained. The Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

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

The Company is in compliance with the regulatory requirements and no change has been made to the capital base or to the objectives, policies and processes for managing capital.

**21 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value there is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of operations or undertake a transaction on adverse terms. The Company's financial assets consist of cash and cash equivalents, premiums and reinsurance receivables, Murabaha deposit, reinsurance share of outstanding claims, investments and accrued income and its financial liabilities consist of reinsurance balance payables, accrued expenses and gross outstanding claims. The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position date.

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

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21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The table below presents the financial instruments at their fair values based on their fair value hierarchy.

*Shareholders' operations*

As at 31 December 2016	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
<b>Available for sale investment</b>				
- Investment in unquoted equity*	-	-	1,923	1,923
<b>Fair value through income statements</b>				
- Investment in multi assets mutual funds, equity shares and discretionary portfolios	83,379	-	-	83,379
<b>Investments held to maturity</b>				
Sukuk	-	14,448	-	14,448
<b>Total</b>	<b>83,379</b>	<b>14,448</b>	<b>1,923</b>	<b>99,750</b>
As at 31 December 2015	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
<b>Fair value through income statements</b>				
- Investment in multi assets mutual funds, equity shares and discretionary portfolios	115,802	-	-	115,802
<b>Available for sale investment</b>				
- Investment in equity shares	-	-	1,923	1,923
<b>Total</b>	<b>115,802</b>	<b>-</b>	<b>1,923</b>	<b>117,725</b>

\*As the fair value of the available for sale unquoted investment is not readily available, this investment is carried at cost and reviewed annually by the management for impairment.

*Insurance operations*

As at 31 December 2016	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
<b>Fair value through income statements</b>				
- Investment in Trade Finance Fund	-	-	-	-
As at 31 December 2015	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
<b>Fair value through income statements</b>				
- Investment in Trade Finance Fund	10,124	-	-	10,124

There were no transfers between the levels of fair value hierarchies during the period.

22 BASIC AND DILUTED LOSS PER SHARE FOR THE YEAR

Basic and diluted loss per share for the year has been calculated by dividing the net loss for the year by the weighted average number of outstanding shares at the year end.

The weighted average number of shares have been retrospectively adjusted for all prior periods to reflect the bonus element of the rights issue as required by IAS 33, "Earnings per share" as follows:



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**22 BASIC AND DILUTED LOSS PER SHARE FOR THE YEAR (continued)**

	<i>Year ended 31 December 2016</i>	<i>Year ended 31 December 2015</i>
	<i>'000</i>	<i>'000</i>
Issues ordinary shares as at 1 January	45,000	20,000
Adjusted rights issue	-	18,540
Effect of rights issue of shares	-	-
Weighted average number of shares	45,000	38,540

The weighted average number of ordinary shares for prior year is computed using an adjustment factor of 1.70, which is a ratio of the theoretical ex-right price of SR . 22.9 and the closing price per share of SR 39.03 per share on 4th of August , 2015, the last day on which the shares were traded before the rights issue.

The basic and diluted loss per share are as follows:

	<i>Year ended 31 December 2016</i>	<i>Year ended 31 December 2015</i>
	<i>SR'000</i>	<i>SR'000</i>
Net loss for the year	(17,437)	(21,912)
Weighted average number of ordinary shares (restated)	45,000	38,540
Basic and diluted loss per share (restated)	(0.387)	(0.569)

**23 CLAIMS DEVELOPMENT TABLE**

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

Claims triangulation analysis by accident years for the last four years is set out below;

<b>2016</b>					
Accident year	2013	2014	2015	2016	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Estimate of ultimate claims cost					
At the end of accident year	6,496	24,167	30,918	95,700	157,281
One year later	1,887	4,795	5,699	-	12,381
Two years later	62	641	-	-	703
Three years later	34	-	-	-	34
Current estimate of cumulative net claims	8,479	29,603	36,617	95,700	170,399
Cumulative payments to date	(8,439)	(29,440)	(33,194)	(53,245)	(124,318)
Net liability recognised in the statement of financial position	40	163	3,423	42,455	46,081

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**24 CONTINGENT LIABILITIES AND COMMITMENTS**

As at 31 December 2016 the Company's banker has issued letters of guarantee of SR 1.24 million (2015: SR 0.88 million) to various customers, motor agencies and workshops as per the terms of their respective agreements which have been classified under prepayments and other assets in the statement of financial position. The Company has no capital commitments in 2016 and 2015.

**25 SEGMENT REPORTING**

Segment information is presented in respect of the Company's business segments which are fire, marine, general accident, engineering, motor and protection and saving based on the Company's management and internal reporting structure.

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

Segment assets do not include cash and bank balances, premiums and reinsurance receivables, due from shareholders' operations, prepayments and other assets and fixed assets.

Segment liabilities do not include reinsurance balance payable, accrued expenses and other liabilities and employees' end of service benefits.

Segment results do not include general and administrative expenses.

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premium receivable and depreciation on the property and equipment) are monitored on a

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the Chief Executive Officer.

The segment results for the year ended 31 December 2016 and 2015 are as follows:

	For the year ended 31 December 2016							Total
	Fire	Marine	General accident	Engineering	Motor	Protection and savings	Medical	
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
<b>REVENUES</b>								
Gross written premiums	53,677	38,481	17,421	5,513	172,893	26,758	7,145	321,888
Reinsurance premiums ceded	(52,682)	(36,746)	(13,764)	(4,930)	(64,407)	(14,656)	-	(187,185)
Excess of loss expenses	(169)	(918)	(496)	(120)	(6,374)	-	-	(8,077)
Net written premiums	826	817	3,161	463	102,112	12,102	7,145	126,626
Net change in unearned premiums	(177)	560	471	(153)	(9,891)	227	(2,349)	(11,312)
Net earned premiums	649	1,377	3,632	310	92,221	12,329	4,796	115,314
Reinsurance commission earned and other income	9,343	8,055	3,487	1,428	533	-	-	22,846
Total insurance revenues	9,992	9,432	7,119	1,738	92,754	12,329	4,796	138,160
<b>CLAIMS AND EXPENSES</b>								
Net claims incurred	(221)	(3,154)	999	(342)	(80,231)	(3,718)	(3,693)	(90,360)
Policy acquisition costs	(3,938)	(1,872)	(1,197)	(585)	(11,764)	(517)	(201)	(20,074)
Inspection and supervision fees	(258)	(184)	(80)	(22)	(864)	(142)	(107)	(1,657)
Change in unit linked reserves	-	-	-	-	-	(1,964)	-	(1,964)
Surrenders	-	-	-	-	-	(160)	-	(160)
Other underwriting income	-	-	-	-	3,914	-	-	3,914
Net underwriting results	5,575	4,222	6,841	789	3,809	5,828	795	27,859
Investment income								161
General and administrative expenses								(49,343)
Net deficit from insurance operations								(21,323)

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**25 SEGMENT REPORTING (Continued)**

	For the year ended 31 December 2015							
	Fire	Marine	General accident	Engineering	Motor	Protection and savings	Medical	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
REVENUES								
Gross written premiums	57,517	36,298	13,270	7,826	82,754	22,692	-	220,357
Reinsurance premiums ceded	(57,123)	(32,680)	(8,235)	(7,546)	(38,046)	(12,444)	-	(156,074)
Excess of loss expenses	(73)	(681)	(556)	(61)	(1,828)	-	-	(3,199)
Net written premiums	321	2,937	4,479	219	42,880	10,248	-	61,084
Net change in unearned premiums	54	(777)	(1,049)	(95)	(12,763)	(258)	-	(14,888)
Net earned premiums	375	2,160	3,430	124	30,117	9,990	-	46,196
Reinsurance commission earned and other income	6,966	6,616	2,012	562	2,748	-	-	18,904
Total insurance revenues	7,341	8,776	5,442	686	32,865	9,990	-	65,100
CLAIMS AND EXPENSES								
Net claims incurred	(963)	(3,132)	870	(15)	(30,577)	(2,110)	-	(35,927)
Policy acquisition costs	(1,553)	(753)	(401)	(192)	(2,700)	(162)	-	(5,761)
Inspection and supervision fees	(115)	(90)	(47)	(27)	(248)	(107)	-	(634)
Change in unit link reserve	-	-	-	-	-	(1,507)	-	(1,507)
Other underwriting income	-	-	-	-	1,362	-	-	1,362
Net underwriting results	4,710	4,801	5,864	452	702	6,104	-	22,633
Investment income								102
General and administrative expenses								(40,821)
Net deficit from insurance operations								(18,086)

The segment information relating to the statement of financial position as at 31 December 2016 and 2015 is as follows:

	As at 31 December 2016							
	Fire	Marine	General accident	Engineering	Motor	Protection and saving	Medical	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000		SR'000
<b>ASSETS</b>								
Reinsurers' share of outstanding claims	66,834	25,753	6,148	4,650	22,336	11,657	-	137,378
Reinsurers' share of unearned premiums	12,078	11,095	2,944	4,527	9,734	51	-	40,429
Deferred policy acquisition costs	1,268	710	419	334	2,602	6	99	5,438
Unit link investments	-	-	-	-	-	3,471	-	3,471
Unallocated assets								209,746
<b>Total assets</b>								<b>396,462</b>
<b>LIABILITIES</b>								
Gross outstanding claims	68,556	27,305	7,511	5,039	57,044	14,618	3,386	183,459
Gross unearned premiums	12,527	11,727	4,509	4,927	39,282	82	2,349	75,403
Unearned reinsurance commission	2,572	2,390	1,069	835	137	-	-	7,003
Unit link liabilities	-	-	-	-	-	3,471	-	3,471
Unallocated liabilities								127,126
<b>Total liabilities</b>								<b>396,462</b>

	As at 31 December 2015							
	Fire	Marine	General accident	Engineering	Motor	Protection and saving	Medical	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000		SR'000
ASSETS								
Reinsurers' share of outstanding claims	27,607	10,113	6,520	1,805	8,910	6,701	-	61,656
Reinsurers' share of unearned premiums	27,967	8,885	2,714	7,196	5,253	264	-	52,279
Deferred policy acquisition costs	969	568	322	392	1,383	64	-	3,698
Unit linked investments	-	-	-	-	-	1,234	-	1,234
Unallocated assets								139,065
Total assets								257,932

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**25 SEGMENT REPORTING (Continued)**

	As at 31 December 2015						
	Fire	Marine	General accident	Engineering	Motor	Protection and saving	Medical
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
<b>LIABILITIES</b>							
Gross outstanding claims	29,871	11,421	9,589	1,912	25,502	8,323	-
Gross unearned premiums	28,239	10,078	4,750	7,443	24,909	522	-
Unearned insurance commission	3,636	2,225	760	1,181	445	-	-
Unit linked liabilities	-	-	-	-	-	1,507	-
Unallocated liabilities							85,619
<b>Total liabilities</b>							<b>257,932</b>

**26 APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements have been approved by the Board of Directors of the Company on Jumada I 18, 1438H corresponding to February 15, 2017G.