ALAHLI TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

ALAHLI TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

INDEX	PAGE

Building a better working world

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALAHLI TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

SCOPE OF AUDIT

We have audited the accompanying statement of financial position of AlAhli Takaful Company – A Saudi Joint Stock Company ("the Company") as at 31 December 2016 and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and notes 1 to 30 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards ("IFRS"), the requirements of the Regulations for Companies and the Company's by-laws and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis of our opinion.

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 IFRS; 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 MATTER

We draw attention to the fact that these financial statements are prepared in accordance with IFRS and not in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

for Ernst & Young

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Certified Public Accountant
Registration No. 356

for Moore Stephens
El Sayed El Ayouty & Co.

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Corresponding to 28 February 2017

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 SR'000	2015 SR'000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	18,907	38,821
Unit-linked investments	5	749,771	778,665
FVIS investments	6	122,156	70,034
Contribution receivable – net	8	1,489	3,024
Accrued income	20(b)	362	487
Reinsurance share of outstanding claims	16(b)	39,801	12,120
Reinsurance balance receivable		3,393	176
Reinsurance share of unearned contribution	16(a)	158	100
Prepayments and other receivables	9	732	605
Furniture, fittings and office equipment	10	6,782	7,447
Total Insurance Operations' Assets		943,551	911,479
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	126	1,308
FVIS investments	6	172,146	164,450
Available-for-sale investments	7	10,149	14,144
Due from Insurance Operations		36,928	13,006
Prepayments and other receivables	9	4,032	4,066
Return on investment of statutory deposit		775	411
Statutory deposit	15	16,667	16,667
Total Shareholders' Assets		240,823	214,052
TOTAL ASSETS		1,184,374	1,125,531

Director

Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 30 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2016

	Notes	2016 SR'000	2015 SR'000
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Insurance Operations' Liabilities			
Technical Reserve for Insurance Operations	22	767,611	798,125
Unearned contribution – gross	16(a)	285	174
Outstanding claims – gross	16(b) & 23	44,968	14,417
Reinsurance balances payable		55,593	55,033
Due to related parties	20(b)	1,164	2,061
Due to Shareholders' Operations		36,928	13,006
Contributions received in advance		9,046	656
Accruals and other payables	11	12,976	17,422
Employees' end of service benefits		1,584	1,280
Total Insurance Operations' Liabilities		930,155	902,174
Insurance Operations' Surplus			
Surplus from Insurance Operations		13,396	9,305
Total Insurance Operations' Liabilities and Surplus		943,551	911,479
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' Liabilities			
Accruals and other payables	11	4,271	3,677
Dividends payable		690	-
Accrued Zakat and income tax	12	19,380	15,799
Accrued return on investment of statutory deposit		775	411
Total Shareholders' Liabilities		25,116	19,887
Shareholders' Equity			
Share capital	13	166,667	166,667
Statutory reserve	14	18,637	11,970
Retained earnings		29,248	16,384
Cumulative changes in fair value of available-for-sale investments		1,155	(856)
Total Shareholders' Equity		215,707	194,165
Total Shareholders' Liabilities and Equity		240,823	214,052
TOTAL INSURANCE OPERATIONS' LIABILITIES, SURPLUS, SHAREHOLDERS' LIABILITIES AND EQUITY		1,184,374	1,125,531

Director

Chief Financial Officer

Chief Executive Officer

The accompanying notes 1 to 30 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For the year ended 31 December 2016

	Notes	2016 SR'000	2015 SR'000
INSURANCE REVENUE			
Gross contributions	16	356,279	361,048
Investible contributions		(201,282)	(208,303)
Net insurance contributions		154,997	152,745
Reinsurance ceded	16	(74,627)	(78,345)
Net written contributions		80,370	74,400
Change in net unearned contributions		(53)	(66)
Net insurance revenue		80,317	74,334
CLAIMS AND EXPENSES			
Gross claims paid	16	(91,072)	(66,303)
Reinsurance share of claims paid	16	77,069	56,747
Net claims paid		(14,003)	(9,556)
Change in net outstanding claims and technical reserve	17	(5,056)	(5,471)
Net claims incurred		(19,059)	(15,027)
Policy related fees and other expenses		(7,872)	(11,219)
Supervision and inspection fee		(1,784)	(1,794)
Total claims and expenses		(28,715)	(28,040)
Underwriting surplus for the year		51,602	46,294
Investment fund fee	20(a)	5,007	5,644
General and administration expenses	19	(20,466)	(16,840)
Other income	18	4,772	8,356
Surplus for the year from Insurance Operations		40,915	43,454
Shareholders' share of surplus from Insurance Operations	2(b)	(36,824)	(39,109)
Policyholders' share of surplus for the year		4,091	4,345
Accumulated policyholders' surplus at the beginning of the year		9,305	4,960
ACCUMULATED POLICYHOLDERS' SURPLUS AT THE END OF THE YEAR		13,396	9,305

Director

Chief Financial Officer

Chief Executive Officer

The accompanying notes 1 to 30 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2016

	Notes	2016 SR'000	2015 SR'000
Shareholders' share of surplus from Insurance Operations	2(b)	36,824	39,109
Unrealised gain on FVIS investment	6	3,790	1,174
Realised gain on available-for-sale investments	7	146	-
Other income		967	79
Total income		41,727	40,362
General and administration expenses	19	(6,152)	(5,958)
Impairment loss on available-for-sale investments	7	(2,238)	-
NET INCOME FOR THE YEAR		33,337	34,404
Weighted average number of ordinary shares outstanding (in thousands)		16,667	16,667
Earnings per share for the year (SR)	27	2.00	2.06

Director

Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 30 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	*2015*
	SR'000	*SR'000*
NET INCOME FOR THE YEAR	**33,337**	34,404
Other comprehensive income:		
Items that will never be reclassified to statement of shareholders' operations		
Zakat and income tax for the year (note 12)	**(5,473)**	(4,934)
Items that may be reclassified to statement of shareholders' operations when conditions are met in the future		
Net change in fair value of available-for-sale investments (note 7)	**2,011**	(856)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**29,875**	28,614

Director

Chief Executive Officer

Chief Financial Officer

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ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

	Share capital SR '000	*Statutory reserve* SR '000	*(Accumulated losses)/ retained earnings* SR '000	*Cumulative changes in fair value of available-for-sale investments* SR '000	*Total* SR '000
Balance as at 31 December 2014	166,667	7,874	(8,990)	-	165,551
Net income for the year	-	-	34,404	-	34,404
Other comprehensive income:					
Net change in fair value of available-for-sale investments (note 7)	-	-	-	(856)	(856)
Zakat and income tax for the year (note 12)	-	-	(4,934)	-	(4,934)
Transfer to statutory reserve (note 14)	-	4,096	(4,096)	-	-
Balance at 31 December 2015	166,667	11,970	16,384	(856)	194,165
Net income for the year	-	-	33,337	-	33,337
Dividend (note 29)	-	-	(8,333)	-	(8,333)
Other comprehensive income:					
Net change in fair value of available-for-sale investments (note 7)	-	-	-	2,011	2,011
Zakat and income tax for the year (note 12)	-	-	(5,473)	-	(5,473)
Transfer to statutory reserve (note 14)	-	6,667	(6,667)	-	-
Balance as at 31 December 2016	**166,667**	**18,637**	**29,248**	**1,155**	**215,707**

Director

Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 30 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES			
Policyholders' share of surplus for the year		4,091	4,345
Adjustments for:			
Depreciation	19	2,134	341
Employees' end of service benefits, net		304	311
Reinsurance share of unearned contribution		(58)	(75)
Unearned contribution – gross		111	141
Allowance for doubtful receivables – contribution and reinsurance		361	147
Unrealised gains on re-measurement of FVIS investments	6	(2,122)	(34)
Income before changes in operating assets and liabilities		4,821	5,176
Changes in operating assets and liabilities:			
Unit-linked investments, net		28,894	(75,091)
Contribution receivable		1,174	(412)
Reinsurance balance receivable		(3,217)	(176)
Accrued income		125	(4)
Prepayments and other receivables		(127)	(183)
Reinsurance share of outstanding claims		(27,681)	(7,218)
Technical reserve for Insurance Operations		(30,514)	67,399
Outstanding claims – gross		30,551	8,269
Reinsurance balances payable		560	34,472
Due to Shareholders' Operations		23,922	(16,781)
Due to related parties		(897)	(5,556)
Contributions received in advance		8,390	(91)
Accruals and other payables		(4,446)	3,066
Net cash from operating activities		31,555	12,870
INVESTING ACTIVITIES			
Purchase of furniture, fittings and office equipment	10	(1,469)	(6,760)
Purchase of FVIS investments	6	(50,000)	(70,000)
Net cash used in investing activities		(51,469)	(76,760)
Net decrease in cash and cash equivalents		(19,914)	(63,890)
Cash and cash equivalents at the beginning of the year		38,821	102,711
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	18,907	38,821

Director

Chief Financial Officer

Chief Executive Officer

The accompanying notes 1 to 30 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES			
Net income for the year		33,337	34,404
Adjustments for:			
Unrealised gains on remeasurement of FVIS investments	6	(3,790)	(1,174)
Gain on sale of available-for-sale investment	7	(146)	-
Impairment loss on available-for-sale investments	7	2,238	-
Income before changes in operating assets and liabilities		31,639	33,230
Changes in operating assets and liabilities:			
Prepayments and other receivables		34	(61)
Return on investment of statutory deposit		(364)	(98)
Due from Insurance Operations		(23,922)	16,781
Accruals and other payables		594	605
Accrued return on investment of statutory deposit		364	98
Zakat and income tax paid	12	(1,892)	(1,853)
Net cash from operating activities		6,453	48,702
INVESTING ACTIVITIES			
Purchase of FVIS investments	6	(3,906)	(32,500)
Proceeds from disposal/(purchase) of available-for-sale investments	7	3,914	(15,000)
Net cash from/(used in) investing activities		8	(47,500)
FINANCING ACTIVITY			
Dividends paid, net	29	(7,643)	-
Net (decrease)/increase in cash and cash equivalents		(1,182)	1,202
Cash and cash equivalents at the beginning of the year		1,308	106
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	126	1,308

Director

Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 30 form an integral part of these financial statements.

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

AlAhli Takaful Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030171573 dated 21 Rajab 1428H, corresponding to 4 August 2007. The following is the address of the Company's registered office:

P. O. Box 48510,
Al Khalidiyah Business Center,
Prince Sultan Street,
Jeddah 21582,
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company commenced its commercial operations on 4 February 2008. The Company was listed on the Saudi Stock Exchange on 18 August 2007.

The Company signed an agency agreement with AlAhli Insurance Marketing Services Company Limited (the "Agency"), a subsidiary of the National Commercial Bank (NCB), a major shareholder, on 19 March 2015 for the purpose of marketing and sale of the Company's products through the distribution channels of NCB for a period of 10 years. This Agreement supersedes the previous distribution agreement signed with NCB. Under this arrangement, the Agency is entitled to a fixed amount as commission on each policy issued in case of retail products of the Company. The agreement is effective from 1 July 2014. Accordingly, the excess of fees accrued under the previous distribution agreement over the fees payable under the current agency agreement for the six month period ended 31 December 2014 amounting to SR 6.84 million has been reversed during the year ended 31 December 2015, and recorded as other income in those financial statements.

2 BASIS OF PREPARATION

a) Basis of measurement

The financial statements are prepared on historical cost basis except for the measurement of Unit Linked Investments, Fair Value through Income Statement (FVIS) investments and Available-for-Sale (AFS) investments at their fair values.

b) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the Regulation for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

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

2 BASIS OF PREPARATION (continued)

b) Statement of compliance (continued)

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

Shareholders	90%
Policyholders	10%
	100%

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

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

The Company presents its statement of financial position in order of liquidity.

c) Functional and presentation currency

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

d) Use of estimates and judgements

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Actual results may differ from these estimates. Estimates, assumptions and judgements are reviewed on ongoing basis. Revisions to estimates are recognised prospectively. Information about judgments, assumptions and estimation uncertainties that have most significant effect on amounts recognised in these financial statements are given below.

Provision for outstanding claims
Judgement by management is required in the estimation of amounts due to participants arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its previous experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The provision for outstanding claims, as at 31 December, is also certified by the independent actuary.

Premium deficiency reserve
Estimation of premium deficiency reserve is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risk for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and contribution relationship which are expected to apply in future.

Allowance for doubtful receivables
A provision for impairment of contributions receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the contributions receivable are impaired.

2 BASIS OF PREPARATION (continued)

d) *Use of estimates and judgements (continued)*

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

Fair values of financial instruments
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

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

Useful lives of furniture, fittings and office equipment
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 values and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's financial statements for the year ended 31 December 2015 and adoption of following new standards, interpretation and amendments, effective for annual period beginning on or after 1 January 2016, which had no financial impact on the financial statements of the Company.

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

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

Standard/ Amendments	*Description*
IFRS 14	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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standard/ Amendments	*Description*
IFRS 10 IFRS 11 IFRS 12 IAS 28	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 subsidiaries. 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 re-measured if the joint operator retains joint control.
IAS 1	Amendments to IAS 1 – "Presentation of Financial Statements", applicable for annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to: • 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.
IAS 16 & IAS 38	Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 38 – "Intangible Assets", applicable for 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.
IAS 16, IAS 41 & IAS 20	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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standard/ Amendments	*Description*
IAS 27	Amendments to IAS 27 – "Separate Financial Statements", applicable for annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements
IFRS 5	Amendments to IFRS 5 – "Non-current Assets Held for Sale and Discontinued Operations", applicable for annual periods beginning on or after 1 January 2016, amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
IFRS 7	Amendments to IFRS 7 – "Financial Instruments: Disclosures", applicable for the annual periods beginning on or after 1 January 2016, has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to interim condensed financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
IAS 19	Amendments to IAS 19 – "Employee Benefits" , applicable for annual periods beginning on or after 1 January 2016, clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
IAS 34	Amendments to IAS 34 – "Interim Financial Reporting", applicable for annual periods beginning on or after 1 January 2016, clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-referencing to the interim financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

The Company has not early adopted any other standard, interpretation or amendment that has been issued for early adoption but is not yet effective.

The significant accounting policies used in the preparation of these financial statements are set out below:

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and balance with bank.

Contributions receivable
Contributions receivable are recognised when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of contribution receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recorded in the statement of insurance operations and accumulated surplus. Contribution receivables are derecognised when the derecognition criteria for financial assets have been met.

Financial instruments –recognition and measurement
Financial assets consist of cash and cash equivalents, contribution receivables, reinsurance receivables, statutory deposit, unit linked investments, FVIS and AFS investments, due from insurance operations and other receivables. Financial liabilities consist of outstanding claims, reinsurance balances payable, amounts due to related parties, due to shareholders' operations and certain other liabilities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments –recognition and measurement (continued)

Date of recognition
Regular way sale and purchases of financial instruments are recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial instruments that require settlement of instrument within the time frame generally established by regulation or convention in the market place.

Recognition and measurement of financial instruments
Financial instruments are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Subsequent to initial measurement, financial instruments are carried at amortised cost except for unit linked investments, AFS investments and FVIS investments, which are carried at fair value.

Derecognition

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilites
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Unit-linked investments
Unit-linked investments held to cover unit-linked liabilities represent assets associated with certain contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in short-term Murabaha funds, which are readily marketable, and are initially recognised at cost and subsequently remeasured at fair value. Unrealised gain on these investments is transferred to investment contract liabilities. The fair value is determined by reference to the net asset value quoted by the Fund Manager. Where partial holdings are sold, the cost of investments is calculated on a weighted average basis.

Fair Value through Income Statement (FVIS) investments
The FVIS investments represent investments in a discretionary portfolio by shareholder operations and investment by insurance operations in a mutual fund. FVIS Investments are marked-to-market method using the fund's net asset value (NAV). The resultant realised and unrealised gains and losses are recognised in the statement of shareholders' operations or statement of insurance operations and accumulated surplus accordingly. Where partial holdings are sold, the cost of investments is calculated on a weighted average basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale investments
Investments which are classified as "available-for-sale" are subsequently measured at fair value. Available-for-sale investments are those investments that are not held to maturity nor held for trading. For an available-for-sale investment, any unrealised gain or loss arising from a change in its fair value is recognised directly under shareholders' comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss previously recognised under the shareholders' comprehensive income is included in the statement of shareholders operations for the year. Available-for-sale investments whose fair value cannot be reliably measured are carried at cost less impairment provision.

Impairment of financial assets
The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations.
(b) 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.
(c) For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

Fair values
The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the financial reporting date. If quoted market prices are not available, reference is made to broker or dealer price quotations.

For financial assets where there is not an active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar assets.

Prepayments
Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statements of insurance operations and shareholders' comprehensive operations as they are consumed or expire with the passage of time.

Furniture, fittings and office equipment
Furniture, fittings and office equipment is 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 the assets. Work in progress is not depreciated and is carried at cost. The estimated useful lives of the assets for calculation of depreciation are as follows:

	Years
Furniture and fittings	5 to 10
Computer and office equipment	4 to 6.67

Residual values, useful lives and the method of the depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the period is recognised in the statement of insurance operations and accumulated surplus. Similarly, impairment losses, if any, are recognised in the statement of insurance operations and accumulated surplus.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture, fittings and office equipment (continued)
Expenditure for repair and maintenance is charged to the statement of insurance operations and accumulated surplus. Improvements are capitalised only when it's probable that future economic benefits associated with the expenditure will flow to the Company.

Impairment of non-financial assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Impairment losses of continuing operations are recognised in the statement of insurance operations and accumulated surplus and statement of shareholders' operations in expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of insurance operations and accumulated surplus and statement of shareholders' operations unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Zakat and income tax
Zakat and income tax are provided for in accordance with Saudi Arabian Fiscal Regulations. Zakat and income tax, which are the liabilities of the shareholders, are accrued and debited to the retained earnings under the statement of changes in shareholders' equity. Accordingly, amounts reimbursable by the shareholders of such Zakat and income tax are credited to retained earnings.

As all Zakat and income tax charges will be recovered from the shareholders, no adjustments are made in the financial statements to account for the effects of deferred income taxes. The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Accruals and other payables
Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
Provisions are recognised when the Company has an 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.

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 employees' 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. The expense for the period is charged to the statement of insurance operations.

Foreign currencies
The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statements of insurance operations and accumulated surplus or statement of shareholders' operations. As the Company's foreign currency transactions are primarily in US dollars, to which the Saudi Arabian Riyal is pegged, foreign exchange gains and losses are not significant and have not been disclosed separately.

Product classification
The Company issues life insurance contracts which are linked to investment contracts. Where contracts contain both an investment component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Any contributions relating to the insurance component are accounted for through the statement of insurance operations and accumulated surplus and the remaining element is accounted through the insurance operations' statement of financial position.

Insurance contracts
Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. The significance of insurance risk is dependent on both the probability 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 term of the policies, even if the insurance risk reduced significantly during this period.

Contributions, in respect of insurance contacts, are recognized as revenue over the contribution paying period of the related policies.

Investment contracts
Any contracts with customers not considered insurance contracts under International Financial Reporting Standards are classified as investment contracts. Amounts collected under investment contracts are accounted for through the statement of insurance operations and accumulated surplus, and the investible portion of the contribution collected is shown as a deduction from the gross contributions for the year from insurance operations, and transferred to investment contract liabilities (unit-linked contracts).

Technical reserve for Insurance Operations
The provision for investment contract liabilities is calculated on the basis of an actuarial valuation method through the use of current unit fund price.

The actuarial valuation includes a provision for participation which is the amount the Company expects to pay investment contract holders.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Technical reserve for Insurance Operations (continued)
Technical reserve is determined by an actuarial valuation of future policy claims. Actuarial assumptions include a margin for adverse deviation and generally take account of the type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience.

Reinsurance
The Company has modified quota-share reinsurance arrangement with independent reinsurance companies. The Company only deals with reinsurers approved by the management, which are rated at least BBB or above by international rating agencies.

A liability or asset is recorded in the Insurance Operations' statement of financial position representing contributions due to or payments due from Reinsurer. Amounts receivable from Reinsurer is estimated in a manner consistent with the claim liability associated with the insured parties. Receivable arising from reinsurance contracts are reviewed for impairment as part of the impairment review of receivables.

Liability adequacy test
At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities. In performing these tests, management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of insurance operations and accumulated surplus by establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

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

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, are charged to the statement of insurance operations and accumulated surplus as incurred. 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.

The Company generally estimates its claims based on actuarial input. This includes a provision based on management's judgement and the cost of settling claims incurred but not reported at the statement of financial position date. The ultimate liability may be in excess of or less than the amount provided.

The Company does not discount its liability for unpaid claims.

Acquisition fees
Acquisition fees are paid to the distributing shareholder and are charged to expense as and when they are due, as per the terms of the contract.

Entrance and administration fees
Entrance and administration fees payable, to the technical and distributing shareholders, by the Company, which are costs directly, incurred in securing contributions on insurance certificates, are recognised as incurred and charged to expense as and when they are due, as per the terms of the contract.

Commissions
Commissions are paid to AlAhli Insurance Marketing Services Company Limited, sales staff, call centre staff, and are charged to expense as and when they are due.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and accumulated surplus 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.

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 risks and rewards that are different from those of other segments and whose operating results are reviewed regularly by chief operating decision maker to allocate resources to each segment and assess their performance.

Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of insurance operations' and accumulated surplus on a straight-line basis over the lease term.

4 CASH AND CASH EQUIVALENTS

	2016	*2015*
	SR'000	*SR'000*
Insurance Operations		
Cash in hand	4	4
Cash at bank – current accounts (note (a) below)	18,903	38,817
	18,907	38,821
Shareholders' Operations		
Cash at bank – current accounts (note (a) below)	126	1,308

a) Cash in bank is held in bank accounts maintained with a related party (note 20).

5 UNIT-LINKED INVESTMENTS

Insurance Operations
Unit-linked investments comprise units of fund of funds, denominated in United States Dollars, which are managed by a subsidiary of the Company's major shareholder and are based in the Kingdom of Saudi Arabia.

	2016	*2015*
	SR'000	*SR'000*
Investment held to cover unit-linked liabilities:		
AlAhli Multi-Asset Conservative Fund	435,117	462,769
AlAhli Multi-Asset Moderate Fund	182,760	182,997
AlAhli Multi-Asset Growth Fund	131,894	132,899
	749,771	778,665

5 UNIT-LINKED INVESTMENTS (continued)

The movement in unit-linked investments during the year is as follows:

	2016 SR'000	2015 SR'000
Insurance Operations		
Balance at the beginning of the year	778,665	703,574
Purchased during the year	-	90,501
Redemption during the year	(39,500)	-
Unrealised gains/(losses) during the year (note 22b)	10,606	(15,410)
Balance at the end of the year	749,771	778,665

6 FVIS INVESTMENTS

Insurance Operations

FVIS investments of Insurance Operations represent investments in AlAhli Diversified Saudi Riyal Trade Fund (a quoted income fund), managed by a subsidiary of the Company's major shareholder and is based in the Kingdom of Saudi Arabia. This investment is designated as FVIS investment upon initial recognition because it is managed on fair value basis and its performance is actively monitored.

	2016 SR'000	2015 SR'000
AlAhli Diversified Saudi Riyal Trade fund	122,156	70,034

The movement in the FVIS investments during the year is as follows:

	2016 SR'000	2015 SR'000
Insurance Operations		
Balance at the beginning of the year	70,034	-
Purchased during the year	50,000	70,000
Unrealised gain during the year	2,122	34
Realised gain during the year	214	-
Net cash received	(214)	-
Balance at the end of the year	122,156	70,034

Shareholders' Operations

	2016 SR'000	2015 SR'000
AlAhli Takaful discretionary portfolio	161,151	156,950
Investment in a real estate fund	7,079	7,500
AlAhli Diversified Saudi Riyal Trade Fund	3,916	-
	172,146	164,450

AlAhli Takaful discretionary portfolio and AlAhli Diversified Saudi Riyal Trade Fund are managed by a subsidiary of the Company's major shareholder. The discretionary portfolio is invested in securities issued by financial institutions, government entities, and mutual funds which are denominated in Saudi Arabian Riyals and US Dollars.

6 FVIS INVESTMENTS (continued)

	2016 SR'000	2015 SR'000
Shareholders' Operations		
Balance at the beginning of the year	164,450	130,776
Purchased during the year	3,906	32,500
Unrealized gain during the year	3,790	1,174
Balance at the end of the year	172,146	164,450

7 AVAILABLE-FOR-SALE INVESTMENTS

	2016 SR'000	2015 SR'000
Shareholders' Operations		
Balance at the beginning of the year	14,144	-
(Sold)/purchased during the year	(3,914)	15,000
Impairment loss during the year	(2,238)	-
Unrealised gain / (loss) during the year	2,011	(856)
Realised gain on sale during the year	146	-
Balance at the end of the year	10,149	14,144

Available-for-sale investments comprises of investments in shares of certain companies, listed in the Kingdom of Saudi Arabia.

8 CONTRIBUTION RECEIVABLE-NET

	2016 SR'000	2015 SR'000
Insurance Operations		
Gross contribution receivable	1,620	3,171
Allowance for doubtful receivables	(131)	(147)
Contribution receivable, net	1,489	3,024

As at 31 December, the ageing of unimpaired contribution receivable is as follows:

	Total SR'000	*Less than 90 days SR'000*	*91 to 180 days SR'000*	*181 to 365 days SR'000*	*Above 365 days SR'000*
2016	1,489	1,096	-	393	-
2015	3,024	2,445	306	272	1

The Company classifies client balances as past due and impaired on case by case basis. Impairment is recorded in the Statement of Insurance Operations and Accumulated Surplus. It is not the practice of Company to obtain collateral over receivables and they are, therefore unsecured.

9 PREPAYMENTS AND OTHER RECEIVABLES

	2016 SR'000	2015 SR'000
Insurance Operations		
Prepaid rent	65	65
Advance to suppliers	238	278
Due from employees	429	262
	732	605

	2016 SR'000	2015 SR'000
Shareholders' Operations		
Deposit against bank guarantee (note 12)	3,997	3,997
Advance to suppliers	35	69
	4,032	4,066

10 FURNITURE, FITTINGS AND OFFICE EQUIPMENT

Insurance Operations

	Furniture and fittings SR'000	*Computer and office equipment* SR'000	*Work in progress* SR'000	*Total* SR'000
Cost:				
At 1 January 2016	2,015	8,556	5,084	15,655
Additions	-	137	1,332	1,469
Transfers from work in progress	-	6,416	(6,416)	-
At 31 December 2016	**2,015**	**15,109**	**-**	**17,124**
Accumulated depreciation:				
At 1 January 2016	1,395	6,813	-	8,208
Charge for the year (note 19)	74	2,060	-	2,134
At 31 December 2016	**1,469**	**8,873**	**-**	**10,342**
Carrying amount:				
At 31 December 2016	**546**	**6,236**	**-**	**6,782**
At 31 December 2015	620	1,743	5,084	7,447

11 ACCRUALS AND OTHER PAYABLES

Insurance Operations	*2016* *SR'000*	*2015* *SR'000*
Underwriting expenses payable	4,384	3,617
Policies surrendered payable	1,534	5,688
Accrued expenses and other payables	7,058	8,117
	12,976	17,422

Shareholders' Operations	*2016* *SR'000*	*2015* *SR'000*
Accrued expenses	414	422
Remuneration and other expenses payable to Board and other committee members (note 21)	2,607	2,204
Other payables	1,250	1,051
	4,271	3,677

12 ZAKAT AND INCOME TAX

Zakat

The Zakat payable by the Company has been calculated in accordance with Zakat regulations in Saudi Arabia.

The Zakat provision for the year is based on the following:

	2016 *SR'000*	*2015* *SR'000*
Equity	194,165	165,551
Provisions and other adjustments	1,665	1,207
Book value of long-term assets	(7,239)	(6,985)
Adjusted income for the year	34,450	34,253
	223,041	194,026
Zakat base attributable to Saudi shareholders	156,200	138,080
Adjusted income attributable to Saudi shareholders	23,495	24,371

The differences between the financial and Zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations. Zakat is calculated at 2.5% of the higher of the Zakat base and adjusted income attributable to the Saudi Shareholder.

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

	Zakat *2016* *SR'000*	*Tax* *2016* *SR'000*	*2016* *SR'000*	*2015* *SR'000*
Balance at the beginning of the year	14,310	1,489	15,799	12,718
Charge for the year	3,905	1,568	5,473	4,934
Zakat and income tax paid	(403)	(1,489)	(1,892)	(1,853)
Balance at the end of the year	17,812	1,568	19,380	15,799

12 ZAKAT AND INCOME TAX (continued)

Income Tax
Income tax relating to the non-Saudi shareholders amounting to SR 1,568 thousand (2015: SR 1,482 thousand) consists of the current year charge, which has been provided for based on the estimated taxable profit using tax rate of 20% (2015: 20%).

Status of assessments
Zakat and income tax returns have been submitted to the General Authority of Zakat and Tax (GAZT) for the period ended 31 December 2007 and for the years ended 31 December 2008 through 31 December 2015.

The GAZT raised an assessment for the period ended 31 December 2007 and for the years ended 31 December 2008 and 31 December 2009 demanding additional Zakat and withholding tax liability of SR 3,997 thousand. The Company filed an appeal against additional Zakat of SR 3,921 thousand and paid additional withholding tax of SR 76 thousand and a delay penalty of SR 26 thousand under protest. The Preliminary Appeal Committee [PAC] issued their decision upholding the GAZT's treatment. The Company has filed an appeal against the PAC decision with the Higher Appeal Committee [HAC] and submitted a bank guarantee for the amount under dispute. The management is confident of a favourable outcome from HAC.

GAZT has issued initial assessments for the years 2010 through 2014, disallowing investments from the Zakat base with additional Zakat liability of SR 9,571 thousand. The Company has filed an appeal against these initial assessments and is confident of a favourable outcome.

The GAZT has not yet raised any assessment for 2015.

13 SHARE CAPITAL

The authorised and issued share capital of the Company is SR 166.7 million divided into 16.67 million ordinary shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for 9.81 million shares with a nominal value of SR 10 each, which represents 58.85% of the shares of the Company's capital and the remaining 6.86 million shares with a nominal value of SR 10 each have been subscribed by the public.

14 STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net income before Zakat and income tax shall be set aside as a statutory reserve until this reserve amounts to 100% of paid up capital of the Company. Accordingly, SR 6,667 thousand (31 December 2015: SR 4,096 thousand) has been transferred from net income. The statutory reserve is not currently available for distribution.

15 STATUTORY DEPOSIT

	2016	*2015*
	SR'000	*SR'000*
Shareholders' Operations		
Statutory deposit	**16,667**	16,667

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up share capital, amounting to SR 16,667 thousand (31 December 2015: SR 16,667 thousand) in the Al Ahli Diversified Saudi Riyal Trade Fund, denominated in Saudi Arabian Riyal, which is managed by a subsidiary of the Company's major shareholder and is based in the Kingdom of Saudi Arabia. The statutory deposit was invested in the above fund after obtaining written approval from SAMA. Commission accruing on this deposit is payable to SAMA and this deposit cannot be withdrawn without the approval from SAMA.

16 CHANGE IN OUTSTANDING CLAIM AND UNEARNED CONTRIBUTION

a) Unearned contribution – net

	2016			2015		
	Gross SR'000	Reinsurance share SR'000	Net SR'000	Gross SR'000	Reinsurance share SR'000	Net SR'000
Unearned contribution at beginning of the year	174	(100)	74	33	(25)	8
Gross contribution (written)/ceded during the year	(356,279)	74,627	(281,652)	(361,048)	78,345	(282,703)
Investible contributions and contributions earned during the year	356,390	(74,685)	281,705	361,189	(78,420)	282,769
Unearned contribution at end of the year	285	(158)	127	174	(100)	74

b) Outstanding claims – net

	2016			2015		
	Gross SR'000	Reinsurance share SR'000	Net SR'000	Gross SR'000	Reinsurance share SR'000	Net SR'000
Outstanding at beginning of the year	14,417	(12,120)	2,297	6,148	(4,902)	1,246
Claims (paid)/recovered during the year	(91,072)	77,069	(14,003)	(66,303)	56,747	(9,556)
Incurred during the year	121,623	(104,750)	16,873	74,572	(63,965)	10,607
Outstanding at end of the year	44,968	(39,801)	5,167	14,417	(12,120)	2,297

17 CHANGE IN NET OUTSTANDING CLAIMS AND TECHNICAL RESERVE

	2016 SR'000	2015 SR'000
Change in outstanding claims – Gross	30,551	8,269
Change in outstanding claims – Reinsurance	(27,681)	(7,218)
Change in Incurred But Not Reported claims (IBNR) (note 22(b))	342	2,389
Change in allowance for the retained risk (note 22(b))	1,844	2,031
Change in net outstanding claims and technical reserve	5,056	5,471

18 OTHER INCOME

	2016 SR'000	2015 SR'000
Reversal of National Commercial Bank distribution fees - a shareholder (note 1)	-	6,838
Surplus from reinsurance	2,435	1,484
Others	2,337	34
	4,772	8,356

19 GENERAL AND ADMINISTRATION EXPENSES

	2016 SR'000	2015 SR'000
Insurance Operations		
Employee costs	11,766	10,531
Information technology expenses	3,623	535
Depreciation (note 10)	2,134	341
Office rent	714	714
Repairs and maintenance	373	307
Allowance for doubtful receivables	361	147
Communication expense	353	110
Professional and consultancy services	326	3,381
Others	816	774
	20,466	16,840
Shareholders' Operations		
Board and other committee related expenses (note 21)	2,838	2,308
Legal and professional fees	2,789	3,089
Regulatory fees	260	279
Others	265	282
	6,152	5,958

20 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. All transactions with such related parties are conducted on normal terms and conditions, which are approved by the management.

a) Following are the details of related party transactions during the years ended 31 December 2016 and 2015:

Name	Relationship	Nature of transactions	Amount of transactions 2016 SR'000	Amount of transactions 2015 SR'000
Insurance Operations				
National Commercial Bank	Shareholder	Gross Group Insurance contribution	109,611	97,246
		Gross claims paid	89,572	65,655
AlAhli Insurance Marketing Services Company Limited	Subsidiary of a Shareholder	Agency commission and others (note 1)	3,116	3,497
FWU	Shareholder	Administration fee	2,927	3,411
		Service charges	1,200	3,665
NCB Capital	Subsidiary of a Shareholder	Investment fund fee	5,007	5,644
Key management personnel		Short term benefits	3,359	3,450
		End of service benefits	157	161

20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

b) Receivable from/(payable to) related parties as at 31 December not disclosed elsewhere in the financial statements are as follows:

	2016 SR'000	2015 SR'000
Receivable from National Commercial Bank - a shareholder – net of provision of doubtful receivable of SR 131 thousand (2015: SR 147 thousand)	1,489	3,024
Payable to FWU – a shareholder	(227)	(302)
Payable to AlAhli Insurance Marketing Services Company Limited - subsidiary of a shareholder (note 1)	(937)	(1,759)
	(1,164)	(2,061)
Accrued investment fund fee receivable from subsidiary of a Shareholder	362	487
Outstanding claims from National Commercial Bank - a shareholder - gross	(41,166)	(10,315)

c) In addition to the disclosures set out in notes 1, 4, 5, 6, 11, 15, 18, 19 and 21 relating to related parties, amounts due from and due to related parties are shown in the Statement of Financial Position.

21 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

a) Following are the details of Board of Directors and members of other committees' remuneration and related expenses during the year ended 31 December 2016 and 31 December 2015:

	2016 SR'000	2015 SR'000
Shareholders' Operations		
Board and other committees remuneration	2,122	1,453
Board and other committees attendance fees	276	189
Board accommodation and travel	440	666
Total (note 19)	2,838	2,308

b) Payable to Board of Directors and members of other committees

	2016 SR'000	2015 SR'000
Remuneration and other expenses payable to Board and other committees	2,607	2,204

Board remuneration and related expenses represent remuneration and expenses payable to the Chairman and members of the Board and its sub-committees. The remuneration and related expenses payable as at 31 December 2015 (see above) were paid during 2016 after obtaining the approval in the Annual General Meeting held in May 2016.

22 TECHNICAL RESERVE FOR INSURANCE OPERATIONS

a) A technical reserve for Insurance Operations is created, as per the report received from the Independent Actuary, as detailed below:

	2016 SR'000	2015 SR'000
Technical reserve relating to the Participant Investment Strategies (unit liability)	754,927	787,627
Allowance for the retained risk	7,379	5,535
Incurred But Not Reported (IBNR) reserves	5,305	4,963
	767,611	798,125

b) Movement in technical reserve for insurance operations is as follows:

	2016 SR'000	2015 SR'000
Balance as at the beginning of the year	798,125	730,726
Change in Incurred But Not Reported Claims(IBNR) reserves (note 17)	342	2,389
Change in allowance for the retained risk (note 17)	1,844	2,031
Unrealised gains/(losses) on unit-linked investments (note 5)	10,606	(15,410)
Investible contribution	201,282	208,303
Surrender and maturities	(244,588)	(129,362)
Others	-	(552)
Balance at the end of the year	767,611	798,125

23 CLAIMS DEVELOPMENT TABLE

The Company aims to maintain adequate reserves in respect of its takaful 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 result 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 claim is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Claims triangulation analysis by accident year spanning a number of financial years is as follows:

2016 - Gross Accident year	2012 and prior SR'000	2013 SR'000	2014 SR'000	2015 SR'000	2016 SR'000	Total SR'000
At end of accident year	12,285	6,950	48,489	46,288	70,806	
One year later	15,542	9,210	76,772	96,020	-	
Two years later	15,609	9,210	77,950	-	-	
Three years later	15,609	9,373	-	-	-	
Four years later	15,609	-	-	-	-	
Current estimate of cumulative claims incurred	15,609	9,373	77,950	96,020	70,806	269,758
Cumulative payments to date	(15,609)	(8,364)	(73,134)	(73,971)	(53,712)	(224,790)
Total gross insurance outstanding claims per the statement of financial position	-	1,009	4,816	22,049	17,094	44,968

23 CLAIMS DEVELOPMENT TABLE (continued)

2016 - Net *Accident year*	*2012 and prior*	*2013*	*2014*	*2015*	*2016*	*Total*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
At end of accident year	1,230	695	9,066	5,528	10,757	
One year later	1,522	931	14,027	10,632	-	
Two years later	1,529	935	14,554	-	-	
Three years later	1,529	937	-	-	-	
Four years later	1,542	-	-	-	-	
Current estimate of cumulative claims incurred	1,542	937	14,554	10,632	10,757	38,422
Cumulative payments to date	(1,542)	(787)	(13,846)	(8,373)	(8,707)	(33,255)
Total net insurance outstanding claims per the statement of financial position	-	150	708	2,259	2,050	5,167

24 OPERATING SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. For management purposes, the activities of Insurance Operations, which are all in the Kingdom of Saudi Arabia, are reported under three business units, as detailed below:

- Insurance – individual segment offers life insurance products on an individual basis including unit linked investment oriented products.
- Insurance – group life segment offers life protection programmes to the members of organizations on a group basis.
- Insurance – group credit segment offers protection benefits in respect of personal loan given by financing organisation. This segment also include protection benefits in respect of various credit facilities other than personal loans extended by the financing organisation to its customers.

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

24 OPERATING SEGMENT INFORMATION (continued)

	2016			
	Insurance - individual *SR '000*	*Insurance- group life* *SR '000*	*Insurance- group credit protection* *SR '000*	*Total* *SR '000*
INSURANCE REVENUE				
Gross contributions	246,164	7,232	102,883	356,279
Investible contribution	(201,282)	-	-	(201,282)
Net insurance contributions	44,882	7,232	102,883	154,997
Reinsurance ceded	(4,110)	(4,087)	(66,430)	(74,627)
Net written contributions	40,772	3,145	36,453	80,370
Change in net unearned contribution	-	(53)	-	(53)
Net insurance revenue	40,772	3,092	36,453	80,317
CLAIMS AND EXPENSES				
Gross claims paid	(1,221)	(5,129)	(84,722)	(91,072)
Reinsurance share of claims paid	1,012	3,248	72,809	77,069
Net claims paid	(209)	(1,881)	(11,913)	(14,003)
Change in net outstanding claims and technical reserve	(328)	302	(5,030)	(5,056)
Net claims incurred	(537)	(1,579)	(16,943)	(19,059)
Policy related fees and other expenses	(7,872)	-	-	(7,872)
Supervision and inspection fee	(1,235)	(35)	(514)	(1,784)
Total claims and expenses	(9,644)	(1,614)	(17,457)	(28,715)
Underwriting surplus for the year	31,128	1,478	18,996	51,602
Investment fund fee	5,007	-	-	5,007
	36,135	1,478	18,996	56,609
Unallocated amounts:				
- General and administration expenses				(20,466)
- Other income				4,772
Surplus for the year from Insurance Operations				40,915

24 OPERATING SEGMENT INFORMATION (continued)

	2015			
	Insurance - individual *SR '000*	*Insurance-group life* *SR '000*	*Insurance-group credit protection* *SR '000*	*Total* *SR '000*
INSURANCE REVENUE				
Gross contributions	258,019	4,509	98,520	361,048
Investible contribution	(208,303)	-	-	(208,303)
Net insurance contributions	49,716	4,509	98,520	152,745
Reinsurance ceded	(5,833)	(1,986)	(70,526)	(78,345)
Net written contributions	43,883	2,523	27,994	74,400
Change in net unearned contribution	-	(66)	-	(66)
Net insurance revenue	43,883	2,457	27,994	74,334
CLAIMS AND EXPENSES				
Gross claims paid	(648)	(5,925)	(59,730)	(66,303)
Reinsurance share of claims paid	583	4,748	51,416	56,747
Net claims paid	(65)	(1,177)	(8,314)	(9,556)
Change in net outstanding claims and technical reserve	(772)	(598)	(4,101)	(5,471)
Net claims incurred	(837)	(1,775)	(12,415)	(15,027)
Policy related fees and other expenses	(11,082)	-	(137)	(11,219)
Supervision and inspection fee	(1,290)	(14)	(490)	(1,794)
Total claims and expenses	(13,209)	(1,789)	(13,042)	(28,040)
Underwriting surplus for the year	30,674	668	14,952	46,294
Investment fund fee	5,644	-	-	5,644
	36,318	668	14,952	51,938
Unallocated amounts:				
- General and administration expenses				(16,840)
- Other income				8,356
Surplus for the year from Insurance Operations				43,454

24 OPERATING SEGMENT INFORMATION (continued)

	As at 31 December 2016			
	Insurance - individual	*Insurance- group life*	*Insurance- group credit protection*	*Total*
	SR '000	*SR '000*	*SR '000*	*SR '000*
INSURANCE OPERATIONS' ASSETS				
Cash and cash equivalents	15,704	623	2,580	18,907
Unit-linked investments	749,771	-	-	749,771
FVIS investments	70,603	-	51,553	122,156
Contribution receivable	-	400	1,089	1,489
Accrued income	362	-	-	362
Reinsurance share of outstanding claims	697	1,171	37,933	39,801
Reinsurance balances receivable	-	996	2,397	3,393
Reinsurance share of unearned contributions	-	158	-	158
	837,137	3,348	95,552	936,037
Unallocated amounts:				
- Prepayments and other receivables				732
- Furniture, fittings and office equipment				6,782
Total Insurance Operations' Assets				943,551
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS				
Insurance Operations' Liabilities				
Technical reserve for Insurance Operations	757,151	445	10,015	767,611
Unearned contribution – gross	-	285	-	285
Outstanding claims – gross	797	1,358	42,813	44,968
Reinsurance balances payable	11,615	1,260	42,718	55,593
Due to related parties	1,164	-	-	1,164
Contributions received in advance	9,046	-	-	9,046
Accruals and other payables	4,313	-	6	4,319
	784,086	3,348	95,552	882,986
Unallocated amounts:				
- Accruals and other payables				8,657
- Due to Shareholders Operations				36,928
- Employees' end of service benefits				1,584
Total Insurance Operations' Liabilities				930,155
Surplus from Insurance Operations				13,396
Total Insurance Operations' Liabilities and surplus				943,551

24 OPERATING SEGMENT INFORMATION (continued)

	As at 31 December 2015			
	Insurance - individual	*Insurance- group life*	*Insurance- group credit protection*	*Total*
	SR '000	*SR '000*	*SR '000*	*SR '000*
INSURANCE OPERATIONS' ASSETS				
Cash and cash equivalents	18,432	485	19,904	38,821
Unit-linked investments	778,665	-	-	778,665
FVIS investments	38,500	-	31,534	70,034
Contribution receivable	-	10	3,014	3,024
Accrued income	487	-	-	487
Reinsurance share of outstanding claim	794	2,680	8,646	12,120
Reinsurance balances receivable	-	-	176	176
Reinsurance share of unearned contributions	-	100	-	100
	836,878	3,275	63,274	903,427
Unallocated amounts:				
- Prepayments and other receivables				605
- Furniture, fittings and office equipment				7,447
Total Insurance Operations' Assets				911,479
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS				
Insurance Operations' Liabilities				
Technical reserve for Insurance Operations	789,212	264	8,649	798,125
Unearned contribution – gross	-	174	-	174
Outstanding claims – gross	1,206	3,350	9,861	14,417
Reinsurance balances payable	9,108	347	45,578	55,033
Due to related parties	2,061	-	-	2,061
Contributions received in advance	656	-	-	656
	802,243	4,135	64,088	870,466
Unallocated amounts:				
- Accruals and other payables				17,422
- Due to Shareholders Operations				13,006
- Employees' end of service benefits				1,280
Total Insurance Operations' Liabilities				902,174
Surplus from Insurance Operations				9,305
Total Insurance Operations' Liabilities and surplus				911,479

As at 31 December 2016 contribution receivable from a shareholder accounts for 100% (2015: 100%) of total contribution receivable. Gross contribution written from a major customer (which is also a shareholder of the Company) accounts for 31% (2015: 27%) of gross contribution of the Company (refer note 20).

25 FAIR VALUES OF FINANCIAL INSTRUMENTS

a) Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's financial assets consist of cash in hand and at banks, unit-linked investments, FVIS investments, available-for-sale investments, contribution receivable, other receivables, due from insurance operations and its financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to related parties, due to shareholder operations and other payables. The fair values of financial instruments are not materially different from their carrying values. As at 31 December 2016, apart from the investments which are carried at fair value (note 5, 6 and 7), there were no other financial instruments held by the Company that were measured at fair value.

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

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

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

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

As at 31 December 2016 and 2015, all financial instruments which are fair valued are Level 2 instruments except for available-for-sale investments which are level 1 investments. The Company determines Level 2 fair values for unit-linked and FVIS investments based on the net assets value of the respective funds as at the end of the reporting period. There were no transfers between the levels during the current and prior year.

c) Refer note 5 for the fair value measurement of unit-linked investments, note 6 for details of the fair value measurements of FVIS investments and note 7 for fair value investments of available-for-sale investments.

26 RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through strategic planning process.

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

Board of Directors
The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Senior management
Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's Board authorised risk appetite parameters.

Audit committee
The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit there of and the soundness of the internal controls of the Company.

Internal audit
All key operational, financial and risk management processes are audited by Internal Audit. Internal Audit examines the adequacy of the relevant policies and procedures, the Company's compliance with internal policies and regulatory guidelines. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

26 RISK MANAGEMENT (continued)

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

i) *Insurance risk*

Insurance risk is the risk that actual claims payable to policyholders exceed the carrying amount of reserve for insurance activities. This is influenced by the frequency and amounts of claims paid and subsequent development of long term claims. Therefore, the objective of the Insurance Operations is to ensure that sufficient reserves are available to cover these liabilities. The Insurance Operations manages this risk by ensuring that adequate reinsurance cover is taken to restrict the maximum loss payable for any individual claim.

Concentration of insurance risk

The Company's insurance risk exposure relating to contract holders is concentrated in Kingdom of Saudi Arabia.

Key assumptions

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risk, civil riots, etc. The Company manages these risks through conservative underwriting strategies and effective use of reinsurance arrangements.

Frequency and amount of claims

For individual life business, the main risk is the mortality and morbidity (permanent or temporary disability) of the insured. This is managed through an effective and clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/ consultants and comprehensive medical tests. The Company also assesses financial, lifestyle and occupational information to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

For group life and group credit protection, the main risks are mortality and morbidity (permanent or temporary disability) of the insured. The mortality risk is compounded due to the concentration of lives, for e.g. employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/ consultants and comprehensive medical tests. The Company also looks at the nature of activity carried out by the group, group size, mix of lives by geographical regions, cultural background and manual/non-manual worker split.

The individual life business and group credit protection portfolios are protected through an efficient reinsurance arrangement. This protects the Company from adverse mortality/morbidity experience.

Sensitivity of claims

Insurance claim liabilities are sensitive to the various assumptions mentioned above. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. A hypothetical 5% change in the net claims ratio, with other variable held constant, would impact income for the year by approximately SR 4,016 thousand (2015: SR 3,717 thousand) in aggregate.

ii) *Reinsurance risk*

In common with other insurance companies, in order to minimise financial exposure arising from increase in number of claims paid, the Insurance Operations, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Reinsurance ceded contracts do not relieve the Company from its obligations to policy holders and as a result the Company remains liable for the portion of outstanding claim reinsured.

To minimise its exposure to significant losses from reinsurance managers' insolvencies, the Insurance Operations evaluates the financial condition of its reinsurance managers. The Insurance Operations has a quota-share reinsurance arrangement with reinsurance companies based in Germany, the United States of America and Saudi Arabia having credit ratings of "BBB+" or above. These reinsurance arrangements covers individual and group contracts issued by the Insurance Operations in the Kingdom of Saudi Arabia.

The exception to this rule is in respect of local companies which do not carry any such credit rating. This, however, is limited to those companies registered and approved by the Local Insurance Regulators. Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are reviewed by the Company and matched against a list of requirements pre-set by the Company's management before approving them for exchange of reinsurance business.

26 RISK MANAGEMENT (continued)

ii) ***Reinsurance risk (continued)***

Under the arrangements, the Insurance Operations retains 30% (2015: 10%) of the insurance cover in case of individual life insurance business (up to a maximum of SR 56,250 (2015: SR 18,750) per life) and 10% to 20% of the insurance cover is retained in respect of Group care and Group credit protection business. Any surplus made in the Reinsurance Fund on the Insurance risk (mortality risk) is paid into AlAhli Takaful Fund by the Reinsurers to be distributed amongst the policyholders.

iii) ***Regulatory framework risk***

The operations of the Company are 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 minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise. The Company complied with the relevant regulations.

iv) ***Capital management (solvency) risk***

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

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

As per guidelines laid out by SAMA in Article 67 of the Implementing Insurance Regulations, the Company is required to maintain solvency margin equivalent to aggregate of the minimum Capital requirement, 0.3% and 0.1% of capital at risk for individual life and group life policies respectively after certain deduction and subject to a cap of 50% of total Capital at risk. The Company complied with the relevant regulations.

v) ***Financial risk***

The Company's principal financial instruments are cash and cash equivalents, unit-linked investments, FVIS investments, available-for-sale investments, contribution receivable, gross outstanding claims, reinsurance share of outstanding claims, accrued income, other receivables, due from insurance operations, reinsurance balances payable/ receivable, due to related parties, due to Shareholders' Operations and other payables. The Company does not enter into derivative transactions.

The main risks arising from the financial instruments of Insurance Operations and Shareholders' Operations are market price risk, foreign currency risk, commission rate risk, credit risk and liquidity risk. The management reviews and agrees policies for managing each of these risks and they are summarised below:

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Insurance Operations and Shareholders' Operations are exposed to market risk with respect to their investments. The underlying investments of mutual funds and discretionary portfolios are in equities, Sukuks and Murabaha purchased in the local and international markets and unit price of these investments is dependent on the movements in the market prices of underlying investments. The fund manager limits market risk by monitoring the developments in the relevant markets for these instruments.

Investments in listed equity shares classified as available-for-sale investments are also exposed to risk of change in market prices.

A 5% increase/decrease in the value of FVIS investments of Insurance Operations, with all other variables held constant, would increase/decrease the statement of insurance operations and accumulated surplus by SR 6,108 thousand (2015: SR 3,502 thousand).

A 5% increase/decrease in the value of FVIS and AFS investments of Shareholders' Operations, with all other variables held constant, would increase/decrease the statement of shareholders' operations by SR 8,607 thousand (2015: SR 8,223 thousand) and other comprehensive income by SR 507 thousand (2015: SR 706 thousand) respectively.

26 RISK MANAGEMENT (continued)

v) Financial risk (continued)

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. Management believes that there is minimal risk of losses due to exchange rate fluctuations as the Insurance Operations and Shareholders' Operations primarily deal in Saudi Riyals and in US Dollars. The Saudi Riyal is pegged to the US Dollar so balances in US Dollar do not carry any significant foreign currency risk.

Commission rate risk
Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. As the Company does not have any commission bearing assets or liabilities, the Company is not exposed to commission rate risk.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by setting credit limits and monitoring outstanding receivables.

The Company issues unit linked policies. In unit linked business the plan holder bears the investment risk on the assets held in the unit linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore the Company has no material credit risk on the unit linked investments. The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	2016	*2015*
	SR'000	*SR'000*
Insurance Operations		
Cash at bank	18,903	38,817
Reinsurance share of outstanding claims	39,801	12,120
Contribution receivable	1,489	3,024
Due from employees	429	262
Accrued income	362	487
Reinsurance balances receivable	3,393	176
	64,377	54,886
Shareholders' Operations		
Cash at bank	126	1,308
Other receivables	4,772	4,408
	4,898	5,716

Concentration of credit risk
Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of the counterparties whose aggregate credit exposure is significant in relation to the Company's total exposure.

Currently credit risk of bank balance, contribution receivables concentrated in a major shareholder of a Company (National Commercial Bank) and its subsidiary.

Credit quality
Bank balances and contribution receivable are with major shareholder of a Company (National Commercial Bank) with A+ credit rating assigned by an international credit rating agency. Unit-linked and FVIS investments are not rated.

26 RISK MANAGEMENT (continued)

v) *Financial risk (continued)*

Liquidity risk

Liquidity risk is the risk that Shareholders' Operations and Insurance Operations will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. All assets of the Insurance Operations and Shareholders' Operations are current, except for furniture, fittings and office equipment and statutory deposit, which are non-current in nature.

The Insurance Operations' financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to a related party and other payables, and the Shareholders' Operations financial liabilities consist of other payables. All financial liabilities are non-interest bearing and are expected to be settled within 12 months from the date of statement of financial position.

27 EARNINGS PER SHARE

Earnings per share for the year ended 31 December 2016 and 31 December 2015 has been calculated by dividing the net income for the year by the ordinary issued and outstanding shares at the Statement of Financial Position date. Diluted earnings per share is not applicable for the Company.

28 NEW IFRS, IFRIC AND AMENDMENTS THEREOF, ISSUED BUT NOT YET EFFECTIVE

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

Standard/ Interpretation	*Description*	*Effective from periods beginning on or after the following date*
IAS 7	Amendments to IAS 7 Disclosure initiative.	1 January 2017
IAS 12	Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised losses.	1 January 2017
IFRS 12	Annual Improvements 2016 to IFRS 2014- 2016 cycle.	1 January 2017
IFRS 9	Financial Instruments.	1 January 2018
IFRS 2	Amendments to IFRS 2 Classification and Measurement of share-based Payment transactions.	1 January 2018
IFRS 15	Revenue from Contracts with Customers.	1 January 2018
IAS 40	Amendments to IAS 40 Transfers of investment property.	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance consideration.	1 January 2018
IFRS 1 and IAS 28	Annual Improvements 2016 to IFRS 2014- 2016 cycle.	1 January 2018
IFRS 16	Leases.	1 January 2019

The Company is currently assessing the impact of the above standards.

29 DIVIDEND

On 19 Jumada Al-Awwal 1437H (corresponding to 28 February 2016), the Company's Board of Directors proposed to pay a dividend, for the year ended 31 December 2015, of SR 0.5 per share totalling SR 8.33 million to its shareholders (31 December 2015: nil). This dividend proposal was approved by the shareholders in the Ordinary General Assembly Meeting held on 24 Rajab 1437H (corresponding to 1 May 2016). Accordingly, the dividend payment was made on 13 Shab'an 1437H (corresponding to 26 May 2016).

30 APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors on 23 Jumada I 1438H, corresponding to 20 February 2017.