
ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)

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

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)

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FOR THE YEAR ENDED 31 DECEMBER 2015

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**INDEPENDENT AUDITORS' REVIEW REPORT ON INTERIM CONDENSED FINANCIAL STATEMENTS
TO THE SHAREHOLDERS OF ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)**

SCOPE OF AUDIT

We have audited the accompanying statement of financial position of **Allied Cooperative Insurance Group (ACIG)** – a Saudi Joint Stock Company – (the "Company") as at 31 December 2015, and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' operations cash flows for the year then ended and the notes from 1 to 29 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the Saudi Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

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

UNQUALIFIED OPINION

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

- i). Present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii). Comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

EMPHASIS OF MATTER

We draw attention to note 2 to the accompanying financial statements that these financial statements have been prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia as issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

**PKF Al-Bassam & Al-Nemer
Allied Accountants**

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



**Ahmed Tayseer Ibrahim & Co.
Chartered Accountants**

Ahmed Tayseer Ibrahim
Certified Public Accountant
Licence No. 213



21 February 2016
12 Jamaad Al-Awwal 1437H
Jeddah, Kingdom of Saudi Arabia

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
At 31 DECEMBER 2015

| | Note | 31 December 2015 SR'000 | 31 December 2014 SR'000 |
|---|------|-------------------------------|-------------------------------|
| INSURANCE OPERATIONS' ASSETS | | | |
| Cash and cash equivalents | 5 | 167,613 | 129,941 |
| Term deposits | 6 | 50,000 | - |
| Premiums receivable, net | 7 | 82,492 | 46,015 |
| Reinsurance receivables, net | | 1,336 | 1,267 |
| Reinsurers' share of unearned premiums | 14 | 34,420 | 26,511 |
| Reinsurers' share of outstanding claims | 15 | 6,507 | 9,106 |
| Deferred policy acquisition cost | 10 | 21,553 | 11,929 |
| Prepayments and other receivables | 11 | 22,280 | 12,015 |
| Property and equipment, net | 12 | 5,452 | 5,947 |
| Total insurance operations' assets | | 391,653 | 242,731 |
| SHAREHOLDERS' ASSETS | | | |
| Cash and cash equivalents | 5 | 30,551 | 44,235 |
| FVIS investments | 8 | - | 5,319 |
| Available-for-sale investments | 9 | 65,442 | 40,193 |
| Prepayments and other receivables | 11 | 2,387 | 2,691 |
| Statutory deposit | 18 | 20,000 | 20,000 |
| Total shareholders' assets | | 118,380 | 112,438 |
| TOTAL ASSETS | | 510,033 | 355,169 |



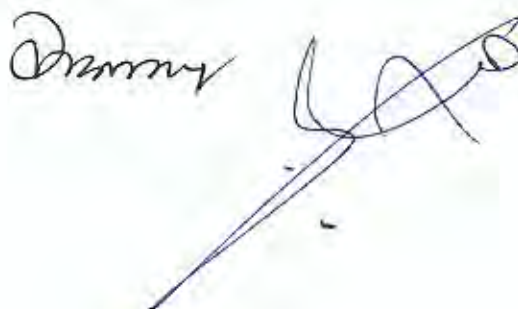




The accompanying notes 1 to 29 form part of these financial statements.

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION- (continued)
At 31 DECEMBER 2015

| | Note | 31 December 2015 SR'000 | 31 December 2014 SR'000 |
|--|------|-------------------------------|-------------------------------|
| INSURANCE LIABILITIES AND SURPLUS | | | |
| Insurance operations' liabilities | | | |
| Reinsurance payables | | 38,430 | 19,830 |
| Unearned commission income | 13 | 1,943 | 2,307 |
| Unearned premiums | 14 | 234,971 | 154,924 |
| Premium deficiency reserve | | 6,969 | - |
| Catastrophe reserve | | 133 | - |
| Accounts payable | 16 | 21,743 | 12,914 |
| Outstanding claims | 15 | 72,137 | 43,572 |
| Accrued and other payables | 17 | 7,373 | 3,584 |
| Employees' terminal benefits | | 5,126 | 3,858 |
| Total insurance operations' liabilities | | 388,825 | 240,989 |
| Insurance operations' surplus | | | |
| Surplus from insurance operations | | 2,828 | 1,742 |
| Total insurance operations' liabilities and surplus | | 391,653 | 242,731 |
| SHAREHOLDERS' LIABILITIES AND EQUITY | | | |
| Shareholders' liabilities | | | |
| Accruals and other payables | 17 | 673 | 613 |
| Accrued zakat and income tax | 19 | 748 | 1,294 |
| Total shareholders' liabilities | | 1,421 | 1,907 |
| Shareholders' equity | | | |
| Share capital | 20 | 200,000 | 200,000 |
| Accumulated losses | | (80,482) | (90,895) |
| Available-for-sale investments reserve | 9 | (2,559) | 1,426 |
| Total shareholders' equity | | 116,959 | 110,531 |
| Total shareholders' liabilities and equity | | 118,380 | 112,438 |
| TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY | | 510,033 | 355,169 |




The accompanying notes 1 to 29 form part of these financial statements.

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
**STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED 31 DECEMBER 2015**

| | Note | 31 December 2015 SR'000 | 31 December 2014 SR'000 |
|--|------|-------------------------------|-------------------------------|
| REVENUE | | | |
| Gross premiums written | | 549,441 | 297,374 |
| Less: Premiums ceded | | (85,293) | (63,650) |
| Excess of loss premiums | | (7,957) | (4,404) |
| Net written premiums | | 456,191 | 229,320 |
| Changes in net unearned premiums | 14 | (72,138) | (16,680) |
| Net premiums earned | | 384,053 | 212,640 |
| Other underwriting income | | 10,740 | - |
| Reinsurance commission earned | 13 | 4,798 | 3,951 |
| Net revenues | | 399,591 | 216,591 |
| Cost and expenses | | | |
| Gross claims paid | 15 | 284,317 | 165,503 |
| Less: Reinsurers' share | 15 | (24,491) | (22,333) |
| Net claims paid | | 259,826 | 143,170 |
| Changes in outstanding claims, net | | 31,164 | 6,187 |
| Net claims incurred | 15 | 290,990 | 149,357 |
| Change in premium deficiency reserve | | 6,969 | (3,800) |
| Change in catastrophe reserve | | 133 | - |
| Policy acquisition cost | 10 | 36,198 | 22,520 |
| Net cost and expenses | | 334,290 | 168,077 |
| Net result of insurance operations | | 65,301 | 48,514 |
| General and administrative expenses | 23 | (52,670) | (41,219) |
| Supervision and inspection fee | | (2,282) | (1,498) |
| CCHI fee | | (1,588) | (1,756) |
| Investment income | | 869 | 1,038 |
| Other income | | 1,225 | 1,306 |
| Surplus from insurance operations | | 10,855 | 6,385 |
| Shareholders' share of insurance operations surplus: | | (9,770) | (5,747) |
| Surplus for the year | | 1,085 | 638 |
| Accumulated surplus at the beginning of the year | | 1,742 | 1,104 |
| Accumulated surplus at the end of the year | | 2,827 | 1,742 |




The accompanying notes 1 to 29 form part of these financial statements.

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)

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

| | Note | 31 December 2015 SR'000 | 31 December 2014 SR'000 |
|--|------|-------------------------------|-------------------------------|
| Shareholders' share of insurance operations surplus | | 9,770 | 5,747 |
| Realized gain on available-for-sale investments | | 2,311 | 97 |
| Dividends | | 118 | 343 |
| Realized gain on FVIS investments | | 423 | 5,209 |
| Unrealized loss on FVIS investments | 8 | - | (5) |
| Commission income | | 108 | 53 |
| Total revenues | | 12,730 | 11,444 |
| EXPENSES | | | |
| General and administrative expenses | 23 | (1,597) | (2,512) |
| Net income for the year | | 11,133 | 8,932 |
| Weighted average number of ordinary shares outstanding ('000') | 20 | 20,000 | 20,000 |
| Basic and diluted earnings per share for the year (SR) | 21 | 0.56 | 0.45 |

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ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)

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

| | Note | 31 December 2015 SR '000 | 31 December 2014 SR '000 |
|--|------|--------------------------------|--------------------------------|
| Net income for the year | | 11,133 | 8,932 |
| Other comprehensive income / (expenses): | | | |
| Change in fair value of available-for-sale investments | 9 | (3,985) | 1,012 |
| Zakat and income tax | 19 | (720) | (1,663) |
| Total comprehensive income for the year | | <u>6,428</u> | <u>8,281</u> |







ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

| | Share capital SR '000 | Accumulated losses SR '000 | Available-for- sale investments reserve | Total SR '000 |
|--|-----------------------------|----------------------------------|--|------------------|
| Balance as at 31 December 2014 | 200,000 | (90,895) | 1,426 | 110,531 |
| Net income for the year | - | 11,133 | - | 11,133 |
| Change in fair value of available-for-sale investments | - | - | (3,985) | (3,985) |
| Zakat and income tax (note 19) | - | (720) | - | (720) |
| Balance as at 31 December 2015 | 200,000 | (80,482) | (2,559) | 116,959 |
| Balance as at 31 December 2013 | 200,000 | (98,164) | 414 | 102,250 |
| Net income for the year | - | 8,932 | - | 8,932 |
| Change in fair value of available-for-sale investments | - | - | 1,012 | 1,012 |
| Zakat and income tax | - | (1,663) | - | (1,663) |
| Balance as at 31 December 2014 | 200,000 | (90,895) | 1,426 | 110,531 |

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ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)

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

| | 31 December 2015 SR '000 | 31 December 2014 SR '000 |
|---|--------------------------------|--------------------------------|
| Cash flows from operating activities: | | |
| Surplus for the year from insurance operations | 1,085 | 638 |
| Adjustment for: | | |
| Depreciation | 1,933 | 1,774 |
| Employees' terminal benefits, net | 1,268 | 1,431 |
| Provision for doubtful debts | 951 | 840 |
| | <u>5,237</u> | <u>4,683</u> |
| <i>Changes in operating assets and liabilities:</i> | | |
| Premiums receivable, net | (37,428) | (15,532) |
| Reinsurance receivables, net | (69) | (437) |
| Reinsurers' share of unearned premiums | (7,909) | 18,037 |
| Reinsurers' share of outstanding claims | 2,599 | (3,798) |
| Deferred policy acquisition cost | (9,624) | 136 |
| Prepayments and other receivables | (10,264) | 505 |
| Reinsurance payables | 18,600 | (23,368) |
| Unearned commission income | (364) | 597 |
| Unearned premiums | 80,047 | (1,357) |
| Premium deficiency reserve | 6,969 | (3,800) |
| Catastrophe reserve | 133 | - |
| Accounts payable | 8,829 | 146 |
| Outstanding claims | 28,565 | 9,985 |
| Accrued and other payables | 3,789 | (459) |
| Net cash from / (used in) operating activities | <u>89,110</u> | <u>(14,662)</u> |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (1,438) | (1,367) |
| Investment in term deposit | (50,000) | - |
| Net cash used in investing activities | <u>(51,438)</u> | <u>(1,367)</u> |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>37,672</u> | <u>(16,029)</u> |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>129,941</u> | <u>145,970</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>167,613</u> | <u>129,941</u> |

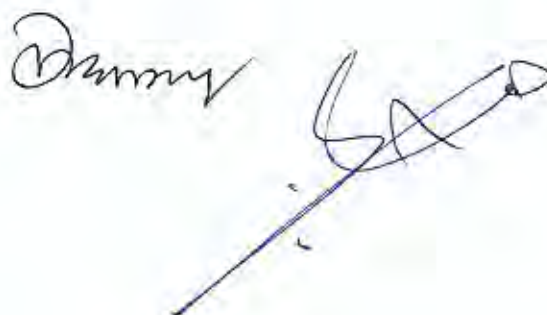
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**ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)**

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

| | 31 December 2015 | 31 December 2014 |
|---|---------------------|---------------------|
| | SR'000 | SR'000 |
| OPERATING ACTIVITIES | | |
| Net income for the year | 11,133 | 8,932 |
| Adjustment for: | | |
| Realized gain on available-for-sale investments | (2,311) | (97) |
| Dividend income | (188) | (343) |
| Realized gain on FVIS investments | (423) | (5,209) |
| Unrealized loss on FVIS investments | - | 5 |
| | <u>8,281</u> | <u>3,288</u> |
| <i>Changes in operating assets and liabilities:</i> | | |
| Prepayments and other receivables | 304 | 28 |
| Accrued and other payables | 60 | (456) |
| Zakat paid | (1,266) | (1,488) |
| Net cash from operating activities | <u>7,379</u> | <u>1,372</u> |
| INVESTING ACTIVITIES | | |
| Proceeds from sale of FVIS investments | 5,742 | 22,137 |
| Purchase of available-for-sale investments | (69,392) | (5,324) |
| Proceeds from sale of available-for-sale investments | 42,469 | 1,253 |
| Dividend received on FVIS investments | 118 | - |
| Net cash (used in) / from investing activities | <u>(21,063)</u> | <u>18,066</u> |
| NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | <u>(13,684)</u> | <u>19,438</u> |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>44,235</u> | <u>24,797</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>30,551</u> | <u>44,235</u> |
| <u>Non Cash Transactions:</u> | | |
| Change in fair value of available-for-sale investments | <u>(3,985)</u> | <u>1,012</u> |




ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Allied Cooperative Insurance Group (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030171999 dated 9 Shabaan 1428H, corresponding to 22 August 2007. Registered Office address of the Company is Al Ruwais District, P. O. Box 7076, Jeddah 21462, Kingdom of Saudi Arabia.

During 2014, as per the shareholders' resolution dated 13 May 2014, the registered office address of the Company has changed from Jeddah to Al Malka District P.O. Box 40523 Riyadh 11511, Kingdom of Saudi Arabia. The legal formalities to change the registered office address of the Company have been completed during 2014 and accordingly new Commercial Registration No. 1010417178 has been obtained and Articles of Association has been amended.

The activities of the Company are to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. On 4 April 2009, the Company received license from the Saudi Arabian Monetary Agency ("SAMA") to engage in insurance in Saudi Arabia. The Company commenced its commercial operations on 1 July 2009. The company was listed on the Saudi Stock Exchange (Tadawul) on 27 August 2007.

2. BASIS OF PREPARATION

Basis of measurement

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

Statement of Compliance

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

Basis of presentation

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

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

| | |
|---------------------------------------|-------|
| Transfer to Shareholders' operations | 90% |
| Transfer to Policyholders' operations | 10% |
| | <hr/> |
| | 100% |

In case of deficit, the whole deficit will be transferred to Shareholders' operations.

Functional and presentational currency

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

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

2. BASIS OF PREPARATION – (continued)

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):

| <u>Standard/ Interpretation</u> | <u>Description</u> |
|-------------------------------------|---|
| IAS 19 | Revision to IAS 19 Employee Benefits |
| IFRS 2 | Share based payment |
| IFRS 3 | Business combination |
| IFRS 8 | Operating segments |
| IFRS 13 | Fair value measurement |
| IAS 16 & 38 | Property, plant and equipment and intangible assets |
| IAS 24 | Related party disclosures |
| IAS 40 | Investment property |

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these interim condensed financial statements.

Standards issued but not yet effective

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

| <u>Standard/ Interpretation</u> | <u>Description</u> | <u>Effective date</u> |
|-------------------------------------|--|-----------------------|
| IFRS 9 | Financial Instruments – Classification & Measurement | 1 January 2018 |
| IFRS 11 | Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 |
| IFRS 14 | Regulatory Deferral Accounts | 1 January 2016 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2017 |
| IAS 16 and IAS 38 | Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| IAS 27 | Amendments to IAS 27 Equity Method in Separate Financial Statements | 1 January 2016 |
| IFRS 10 and IAS 28 | Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2016 |
| IAS 1 | Amendments to IAS 1 Disclosure initiative | 1 January 2016 |
| IAS 16 and IAS 41 | Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants | 1 January 2016 |
| IFRS 10, IFRS 12 and IAS 28 | Amendments to IFRS 10, IFRS 12 and IAS 28 Applying the Consolidation Exception | 1 January 2016 |

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance contracts

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this year.

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

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

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

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

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

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

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

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

Reinsurance

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Reinsurance – (continued)

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

Impairment and uncollectibility of financial assets

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

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

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

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

Significant financial difficulty of the issuer or debtor;

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

Impairment of non-financial assets

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

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

Deferred policy acquisition costs

Direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Investments

All investments are initially recognised at cost, being the fair value consideration given including acquisition charges associated with the investment. Financial assets are initially recognised at fair values plus, in the case of all financial assets not carried at fair value through income statement, transaction costs that are directly attributable to their acquisition.

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

a) FVIS Investments

Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investments classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the statement of shareholders' operations and statement of insurance operations and accumulated surplus.

b) Available-for-sale investments

After initial recognition, investments which are classified as "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are included in statement of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported within statement of comprehensive income is included in the statement of shareholders' operations.

Trade date accounting

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

Cash and cash equivalents

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

Property and equipment

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

| | Years |
|--|-------|
| Motor vehicles | 4 |
| Furniture, fittings and office equipment | 7 |
| Computers & software | 4 |
| Leasehold improvements | 7 |

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Provisions for obligations

Provisions are recognized when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Trade and other payables

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

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

Foreign currency translation

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

Liability adequacy test

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

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

Insurance and other receivables

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

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

End-of-service benefits

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

Revenue recognition

Recognition of premiums and commission revenue

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Revenue recognition – (continued)

Recognition of premiums and commission revenue – (continued)

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

- Last three month of premiums for marine cargo business
- Actual number of days for other lines of business

Commission income

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

Dividend income

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

Claims

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

Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on Management's judgment and the Company's experience is maintained for the cost of settling claims incurred but not reported (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following period is included in the statement of insurance operations and accumulated surplus for that year.

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

Salvage and subrogation reimbursements

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

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

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

De-recognition of financial instruments

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

Offsetting

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Zakat and income tax

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

Unearned commission income

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

Fair values of financial instruments

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

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

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

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

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

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

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

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

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the statement of insurance operations and accumulated surplus and statement of shareholders operations unless required or permitted by any accounting standard or interpretation.

Premium deficiency reserve

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

Segmental reporting

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

- Motor Insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Medical insurance, which covers medical costs, medicines, and all other medical services and supplies. General accident, which covers miscellaneous accident classes of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity.
- Other classes, which covers any other classes of insurance not included above.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Segmental reporting - (continued)

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

The ultimate liability arising from claims made under insurance contracts

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

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

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

Impairment losses on receivables

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

Deferred policy acquisition costs

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

Reinsurance

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

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

5. CASH AND CASH EQUIVALENTS

| | 2015 SR'000 | 2014 SR'000 |
|---------------------------------|----------------|----------------|
| <i>Insurance operations</i> | | |
| Cash in hand and at banks | 45,050 | 41,941 |
| Short term deposit | 122,563 | 88,000 |
| | <u>167,613</u> | <u>129,941</u> |
| <i>Shareholders' operations</i> | | |
| Cash in hand and at banks | 18,551 | 32,235 |
| Short term deposit | 12,000 | 12,000 |
| | <u>30,551</u> | <u>44,235</u> |

Cash at banks are placed with counterparties who have good credit ratings.
The carrying amounts disclosed above reasonably approximate fair value at the statement of financial position date.

6. TERM DEPOSITS

| | 2015 SR'000 | 2014 SR'000 |
|-----------------------------|----------------|----------------|
| <i>Insurance Operations</i> | | |
| Term deposits | <u>50,000</u> | <u>-</u> |

The term deposits are held with the commercial banks. These term deposits are denominated in Saudi Arabian Riyals and have been an original maturity of more than three months and less than twelve months. The carrying amounts of these term deposits reasonably approximate their fair values at the reporting date.

7. PREMIUMS RECEIVABLE, NET

| | 2015 SR'000 | 2014 SR'000 |
|--|----------------|----------------|
| Due from policyholders | 84,965 | 47,528 |
| Due from policyholders - related parties | 149 | 158 |
| Provision for doubtful debts | <u>(2,622)</u> | <u>(1,671)</u> |
| | <u>82,492</u> | <u>46,015</u> |

| | <i>Past due but not impaired</i> | | | Total |
|--|----------------------------------|-------------------|-----------------------|---------------|
| | Less than 90 days | 91 to 180 days | More than 180 days | |
| 31 December 2015 | | | | |
| <i>Amount in SR '000</i> | | | | |
| Due from policyholders | 71,451 | 9,784 | 3,730 | 84,965 |
| Due from policyholders - related parties | 88 | 49 | 12 | 149 |
| Provision for doubtful debts | - | (1,468) | (1,154) | (2,622) |
| Premiums receivable, net | <u>71,539</u> | <u>8,365</u> | <u>2,588</u> | <u>82,492</u> |
| <i>Past due but not impaired</i> | | | | |
| 31 December 2014 | | | | |
| <i>Amount in SR '000</i> | | | | |
| Due from policyholders | 38,591 | 6,155 | 2,782 | 47,528 |
| Due from policyholders - related parties | 107 | 50 | 1 | 158 |
| Provision for doubtful debts | - | (931) | (740) | (1,671) |
| Premiums receivable, net | <u>38,698</u> | <u>5,274</u> | <u>2,043</u> | <u>46,015</u> |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

7 PREMIUMS RECEIVABLES, NET – (Continued)

Movement in provision for doubtful debts is as follows:

| | 2015 SR'000 | 2014 SR'000 |
|--------------------------------------|----------------|----------------|
| Balance at the beginning of the year | 1,671 | 831 |
| Provision for the year | 951 | 840 |
| Balance at the end of the year | <u>2,622</u> | <u>1,671</u> |

Unimpaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customer balances accounted for approximately 22% of this balance as at 31 December 2015 (2014: 26%). Premiums receivable comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia.

8. FVIS investments

Shareholders' operations

| | 2015 SR'000 | 2014 SR'000 |
|--------------------------------------|----------------|----------------|
| Balance at the beginning of the year | 5,319 | 16,928 |
| Purchased during the year | - | 5,324 |
| Disposals during the year | (5,319) | (16,928) |
| Change in fair value of investment | - | (5) |
| Balance at the end of the year | <u>-</u> | <u>5,319</u> |

9. AVAILABLE-FOR-SALE INVESTMENTS

Shareholders' operations

| | 2015 SR'000 | 2014 SR'000 |
|---------------------|----------------|----------------|
| Investment in Sukuk | 26,503 | 20,797 |
| Mutual funds | 19,361 | 17,473 |
| Quoted securities | 17,655 | - |
| Unquoted securities | <u>1,923</u> | <u>1,923</u> |
| | <u>65,442</u> | <u>40,193</u> |

| As at 31 December 2015 | Balance at the beginning of the year SR'000 | Movement during the year SR'000 | Change in fair value for the year SR'000 | Balance at the end of the year SR'000 |
|--|--|--|---|--|
| Investment in Najm for Insurance Services Company | 1,923 | - | - | 1,923 |
| Investment in mutual funds | 17,473 | 204 | 1,684 | 19,361 |
| Investment in Sukuk | 20,797 | 5,000 | 706 | 26,503 |
| Quoted securities | - | 24,030 | (6,375) | 17,655 |
| | <u>40,193</u> | <u>29,234</u> | <u>(3,985)</u> | <u>65,442</u> |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

9 AVAILABLE FOR SALE INVESTMENT (Continued).

| | Balance at the beginning of the year SR'000 | Movement during the year SR'000 | Change in fair value for the year SR'000 | Balance at the end of the year SR'000 |
|--|--|--|---|--|
| As at 31 December 2014 | | | | |
| Investment in Najm for Insurance Services Company | 1,923 | | - | 1,923 |
| Investment in mutual funds | 18,266 | (1,156) | 363 | 17,473 |
| Investment in Sukuk | 20,148 | - | 649 | 20,797 |
| | <u>40,337</u> | <u>(1,156)</u> | <u>1,012</u> | <u>40,193</u> |

Investment in Najm for Insurance Services Company is classified under level 3. Investments in mutual funds and GACA Sukuk are classified under level 2.

The unrealized loss of SR 3.985 million for the year ended 31 December 2015 (31 December 2014: unrealised gain SR 1.012 million) was recognized to the statement of changes in shareholders' equity as available-for sale investments reserve. The available-for-sale investments reserve as of 31 December 2015 is SR 2.599 million (31 December 2014: SR 1.426 million)

10. DEFERRED POLICY ACQUISITION COST

| | 2015 SR '000' | 2014 SR '000' |
|-------------------------------|------------------|------------------|
| As at 1 January | 11,929 | 12,065 |
| Cost incurred during the year | 36,198 | 22,384 |
| Charge for the year | <u>(26,574)</u> | <u>(22,520)</u> |
| As at 31 December | <u>21,553</u> | <u>11,929</u> |

11. PREPAYMENTS AND OTHER RECEIVABLES

| | 2015 SR '000' | 2014 SR '000' |
|--------------------------------------|------------------|------------------|
| <i>Insurance operations</i> | | |
| Deferred TPA fee | - | 2,642 |
| Prepaid expenses | 6,406 | 3,184 |
| Guarantee deposits (note 26) | 1,965 | 1,830 |
| Staff advances | 1,066 | 807 |
| Others | <u>12,843</u> | <u>3,552</u> |
| | <u>22,280</u> | <u>12,015</u> |
| <i>Shareholders' Operations</i> | | |
| Zakat reimbursable from shareholders | 2,345 | 2,345 |
| Other receivables | <u>42</u> | <u>346</u> |
| | <u>2,387</u> | <u>2,691</u> |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

12. PROPERTY AND EQUIPMENT, NET

Insurance Operations

| | Motor Vehicles | furniture, fittings and office equipment | Computers & software | Leasehold Improvements | Total |
|----------------------------------|-------------------|---|-------------------------|---------------------------|---------------|
| | SR'000 | SR'000 | SR'000 | SR'000 | SR'000 |
| Cost: | | | | | |
| At 1 January 2015 | 90 | 4,559 | 6,292 | 2,651 | 13,592 |
| Additions | 25 | 517 | 756 | 140 | 1,438 |
| At 31 December 2015 | <u>115</u> | <u>5,076</u> | <u>7,048</u> | <u>2,791</u> | <u>15,030</u> |
| Accumulated depreciation: | | | | | |
| At 1 January 2015 | 90 | 3,291 | 3,067 | 1,197 | 7,645 |
| Charge for the year | 2 | 684 | 718 | 529 | 1,933 |
| At 31 December 2015 | <u>92</u> | <u>3,975</u> | <u>3,785</u> | <u>1,726</u> | <u>9,578</u> |
| Net book value: | | | | | |
| At 31 December 2015 | <u>23</u> | <u>1,101</u> | <u>3,263</u> | <u>1,065</u> | <u>5,452</u> |
| At 31 December 2014 | <u>-</u> | <u>1,268</u> | <u>3,225</u> | <u>1,454</u> | <u>5,947</u> |

13. UNEARNED COMMISSION INCOME

| | 2015 SR '000 | 2014 SR '000 |
|-------------------------------------|-----------------|-----------------|
| As at 1 January | 2,307 | 1,710 |
| Commission received during the year | 4,434 | 4,548 |
| Commission earned during the year | <u>(4,798)</u> | <u>(3,951)</u> |
| As at 31 December | <u>1,943</u> | <u>2,307</u> |

14. MOVEMENT IN UNEARNED PREMIUMS

| | 2015 SR '000 | 2014 SR '000 |
|--|-----------------|-----------------|
| Gross unearned premiums as at 1 January | 154,924 | 156,281 |
| Gross unearned premiums as at 31 December | <u>234,971</u> | <u>154,924</u> |
| Movement in unearned premiums | <u>(80,047)</u> | <u>1,357</u> |
| Reinsurers' share of unearned premiums as at 1 January | 26,511 | 44,548 |
| Reinsurers' share of unearned premiums as at 31 December | <u>34,420</u> | <u>26,511</u> |
| Movement in reinsurance share of unearned premiums | <u>7,909</u> | <u>(18,037)</u> |
| Movement in unearned premiums, net | <u>(72,138)</u> | <u>(16,680)</u> |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

15. CLAIMS

| | 2015 SR'000 | 2014 SR'000 |
|--|----------------|----------------|
| Gross claims paid | 284,317 | 165,503 |
| Gross outstanding claims at the end of the year (see note (I) below) | 72,137 | 43,572 |
| | 356,454 | 209,075 |
| Gross outstanding claims at the beginning of the year | (43,572) | (33,587) |
| Gross claims incurred | 312,882 | 175,488 |
| Reinsurance recoveries | (24,491) | (22,333) |
| Reinsurers' share of outstanding claims at the end of the year (see note (II) below) | (6,507) | (9,106) |
| | (30,998) | (31,439) |
| Reinsurers' share of outstanding claims at the beginning of the year | 9,106 | 5,308 |
| Reinsurers' share of claims | (21,892) | (26,131) |
| Net claims incurred | 290,990 | 149,357 |

- I. Gross outstanding claims as at 31 December 2015 include provision for IBNR, net amounting to SR 56,045 thousand (2014: 26,480 thousand).
- II. Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

CLAIMS DEVELOPMENT TABLE

The following reflects the cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each financial position date, together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims.

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

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

31 December 2015

| Accident year | 2011 & earlier | 2012 | 2013 | 2014 | 2015 | Total |
|--|-------------------|------------|--------------|--------------|---------------|---------------|
| Estimate of ultimate claims cost: | | | | | | |
| At the end of accident year | 89,847 | 79,092 | 105,624 | 141,988 | 311,469 | |
| One year later | 125,454 | 102,829 | 158,114 | 174,436 | - | |
| Two years later | 133,120 | 112,680 | 163,629 | - | - | |
| Three years later | 137,763 | 116,166 | - | - | - | |
| Four years later | 142,721 | - | - | - | - | |
| Current estimate of cumulative claims | 142,721 | 116,166 | 163,629 | 174,436 | 311,469 | 908,421 |
| Cumulative payments made to date | (142,261) | (115,398) | (160,867) | (170,488) | (247,270) | (836,284) |
| Liability recognised in statement of financial position | 460 | 768 | 2,762 | 3,948 | 64,199 | 72,137 |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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15. CLAIMS – (continued)

CLAIMS DEVELOPMENT TABLE – (continued)

31 December 2014

| Accident year | 2010 & earlier | 2011 | 2012 | 2013 | 2014 | Total |
|---|-------------------|----------|-----------|-----------|-----------|-----------|
| Estimate of ultimate claims cost: | | | | | | |
| At the end of accident year | 28,394 | 61,453 | 79,092 | 105,624 | 141,988 | |
| One year later | 38,668 | 86,786 | 102,829 | 158,114 | - | |
| Two years later | 40,163 | 92,957 | 112,680 | - | - | |
| Three years later | 41,482 | 96,281 | - | - | - | |
| Four years later | 42,903 | - | - | - | - | |
| Current estimate of cumulative claims | 42,903 | 96,281 | 112,680 | 158,114 | 141,988 | 551,966 |
| Cumulative payments made to date | (42,700) | (96,086) | (111,703) | (148,536) | (109,369) | (508,394) |
| Liability recognised in statement of financial position | 203 | 195 | 977 | 9,578 | 32,619 | 43,572 |

16. ACCOUNTS PAYABLE

| | 2015 SR '000 | 2014 SR '000 |
|-----------------------------|-----------------|-----------------|
| <i>Insurance operations</i> | | |
| TPA fees | 2,977 | 2,696 |
| Insurance brokers | 4,575 | 2,865 |
| Medical Providers | 5,699 | 2,176 |
| CCHI fees payable | 1,770 | 1,211 |
| Payables to policy holders | 6,382 | 3,507 |
| Others | 340 | 459 |
| | <u>21,743</u> | <u>12,914</u> |

17. ACCRUED EXPENSES AND OTHER PAYABLES

| | 2015 SR'000 | 2014 SR'000 |
|---------------------------------|----------------|----------------|
| <i>Insurance operations</i> | | |
| Accrued expenses | 6,907 | 3,009 |
| Other payables | 466 | 575 |
| | <u>7,373</u> | <u>3,584</u> |
| <i>Shareholders' Operations</i> | <i>SR'000</i> | <i>SR'000</i> |
| Accrued expenses | 100 | 61 |
| Other payables | 573 | 552 |
| | <u>673</u> | <u>613</u> |

18. STATUTORY DEPOSIT

| | 2015 SR'000 | 2014 SR'000 |
|---------------------------------|----------------|----------------|
| <i>Shareholders' Operations</i> | | |
| Statutory deposit | <u>20,000</u> | <u>20,000</u> |
| | <u>20,000</u> | <u>20,000</u> |

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 20 million in a bank designated by the Saudi Arabian Monetary Agency (SAMA). The Company cannot withdraw this deposit without SAMA's approval.

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19. ZAKAT & INCOME TAX

The current year provision is based on the following:

| | 2015 SR'000 | 2014 SR'000 |
|---|----------------|----------------|
| Equity | 200,000 | 200,000 |
| Opening provision and adjustments | 6,823 | 2,321 |
| Net book value of long term assets | (140,894) | (164,304) |
| Unrealized gain on available-for-sale investments | (2,559) | 1,426 |
| | <u>63,370</u> | <u>39,443</u> |
| Adjusted income for the year | 11,133 | 8,932 |
| Zakat base | <u>74,503</u> | <u>48,375</u> |

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

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

| | 2015 SR'000 | 2014 SR'000 |
|--------------------------------------|----------------|----------------|
| Balance at the beginning of the year | 1,294 | 1,119 |
| Charge for the year | 720 | 1,663 |
| Paid during the year | (1,266) | (1,488) |
| Balance at the end of the year | <u>748</u> | <u>1,294</u> |

Income Tax

Foreign shareholder, being Islamic Development Bank (IDB) is exempted from income tax.

Status of assessment:

Zakat and income tax returns have been filed with the Department of Zakat and Income Tax ("DZIT") for the years ended up to 31 December 2014. Final certificate has been received from DZIT for the year ended 31 December 2008. However, DZIT has raised an additional assessment in respect of the returns filed for the years ended 31 December 2008, 2009 and 2010 amounting to SR 1.86 million which has not been booked in the interim condensed financial statements. The major difference of the additional assessment relates to disallowance of a portion of pre-incorporation expenses and withholding tax. The Company has filed an objection against this additional assessment with the Preliminary Tax Objection Committee subsequent to the year end, an adverse decision was received from the Preliminary Tax Objection Committee, upon which the company the appeal with the Higher Objection Committee. The high appeal committee issued its decision in favour of the company with respect to Zakat and rejected the appeal related to withholding tax. The company is in the process of reforming the matter to the board of grievance. In this regard, the company have issued a letter of guarantee amounting to SR 1.83 million in favour of DZT (See Note 26).

20. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 200 million at the year-end consisting of 20 million shares of SR 10 each.

| | 2015 | | 2014 | |
|--------------------------------|------------|----------------|------------|----------------|
| | % holding | SR'000 | % holding | SR'000 |
| Founding shareholders | 40 | 80,000 | 40 | 80,000 |
| General public | 60 | 120,000 | 60 | 120,000 |
| Balance at the end of the year | <u>100</u> | <u>200,000</u> | <u>100</u> | <u>200,000</u> |

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21. BASIC AND DILUTED EARNINGS PER SHARE

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

22. STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. No appropriation has been made as the company has accumulated losses at the end of the year.

23. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2015 SR'000 | 2014 SR'000 |
|---------------------------------|----------------|----------------|
| Insurance operations | | |
| Employee costs | 37,386 | 28,724 |
| Legal and professional fees | 690 | 780 |
| Doubtful debt provision | 951 | 840 |
| Office rent | 3,030 | 3,262 |
| Depreciation | 1,934 | 1,774 |
| Office expenses | 2,693 | 757 |
| Advertising | 3,446 | 1,651 |
| Traveling | 6 | 946 |
| Other | 2,534 | 2,485 |
| | <u>52,670</u> | <u>41,219</u> |
| Shareholders' operations | | |
| | 2015 SR'000 | 2014 SR'000 |
| Legal and professional fees | 502 | 525 |
| Others | 1,095 | 1,987 |
| | <u>1,597</u> | <u>2,512</u> |

24. TRANSACTIONS WITH RELATED PARTIES

Major related party transactions during the year and the related balances at the end of the year are as follows:

Insurance operations

| <u>Related party</u> | <u>Nature of transaction</u> | <u>Amount of Transactions during the year</u> | | <u>Closing balance Receivable / (Payable)</u> | |
|---------------------------|------------------------------|---|-------------------------|---|-------------------------|
| | | <u>31 December 2015</u> | <u>31 December 2014</u> | <u>31 December 2015</u> | <u>31 December 2014</u> |
| | | <u>SR'000</u> | <u>SR'000</u> | <u>SR'000</u> | <u>SR'000</u> |
| Affiliates | Premiums written | <u>1,480</u> | <u>19</u> | <u>149</u> | <u>158</u> |
| | Claim paid | <u>(34)</u> | <u>-</u> | <u>(313)</u> | <u>-</u> |
| Board and audit committee | Meetings fee | <u>689</u> | <u>108</u> | <u>-</u> | <u>-</u> |
| Key management personnel | Short term benefits | <u>5,086</u> | <u>4,047</u> | <u>70</u> | <u>70</u> |
| | Long term benefits | <u>232</u> | <u>177</u> | <u>(1,024)</u> | <u>(684)</u> |

ALLIED COOPERATIVE INSURANCE GROUP (ACIG)
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NOTES TO THE FINANCIAL STATEMENTS
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25. SEGMENTAL INFORMATION

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

Segment results do not include general and administrative expenses and other income.

Segment assets do not include insurance operations' cash and cash equivalents, investments, prepayments and other receivables, and property and equipment, net.

Segment liabilities do not include reinsurance payables, accrued expenses and other liabilities, due to shareholders' operations and employees' terminal benefits.

Operating segments

| 31 December 2015 | Motor | Medical | General accident | Others | Total |
|---|----------------|----------------|-----------------------------|----------------|----------------|
| Revenue | <i>SR '000</i> | <i>SR '000</i> | <i>SR '000</i> | <i>SR '000</i> | <i>SR '000</i> |
| Gross premiums written | 320,469 | 177,031 | 19,831 | 32,110 | 549,441 |
| Less: Premiums ceded | (90) | (44,629) | (9,965) | - | (85,293) |
| Excess of loss premiums | (5,891) | (1,134) | (464) | (468) | (7,957) |
| Net written premiums | 314,488 | 131,268 | 9,402 | 1,033 | 456,191 |
| Changes in net unearned premiums | (54,188) | (14,119) | (3,153) | (678) | (72,138) |
| Net premiums earned | 260,300 | 117,149 | 6,249 | 355 | 384,053 |
| Other underwriting Income | 10,740 | - | - | - | 10,740 |
| Reinsurance commission earned | 42 | - | 1,283 | 3,473 | 4,798 |
| Net revenues | 271,082 | 117,149 | 7,532 | 3,828 | 399,591 |
| Cost and expenses | | | | | |
| Gross claims paid | 221,850 | 56,017 | 2,897 | 3,553 | 284,317 |
| Less: Reinsurers' share | (598) | (19,233) | (2,374) | (2,286) | (24,491) |
| Net claims paid | 221,252 | 36,784 | 523 | 1,267 | 259,826 |
| Changes in outstanding claims, net | 31,754 | (912) | 301 | 21 | 31,164 |
| Net claims incurred | 253,006 | 35,872 | 824 | 1,288 | 290,990 |
| Change in premium deficiency reserve | 6,969 | - | - | - | 6,969 |
| Change in catastrophe reserve | - | - | - | 133 | 133 |
| Policy acquisition cost | 21,477 | 12,449 | 1,157 | 1,115 | 36,198 |
| Net cost and expenses | 281,452 | 48,321 | 1,981 | 2,536 | 334,290 |
| Net result of insurance operations | (10,370) | 68,828 | 5,551 | 1,292 | 65,301 |
| General and administrative expenses | - | - | - | - | (52,670) |
| Supervision and inspection fee | (1,263) | (794) | (86) | (139) | (2,282) |
| CCHI fee | - | (1,588) | - | - | (1,588) |
| Investment income | | | | | 869 |
| Other income | | | | | 1,225 |
| Surplus from insurance operations | | | | | 10,855 |

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NOTES TO THE FINANCIAL STATEMENTS
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25 SEGMENTANL INFORMATION (Continued).

As at 31 December 2015

| | | | | | |
|---|---------|--------|--------|--------|----------------|
| Premiums and reinsurance receivables – net | 32,847 | 30,125 | 653 | 20,203 | 83,828 |
| Reinsurers' share of unearned premiums | 40 | 16,453 | 3,017 | 14,910 | 34,420 |
| Reinsurers' share of outstanding claims | 1,773 | 3,120 | 751 | 863 | 6,507 |
| Deferred policy acquisition cost | 11,531 | 8,694 | 947 | 381 | 21,553 |
| Unallocated assets | | | | | 245,345 |
| Total insurance operations assets | | | | | 391,653 |
| Unearned commission income | 6 | - | 530 | 1,407 | 1,943 |
| Unearned premiums | 140,931 | 65,031 | 13,550 | 15,459 | 234,971 |
| Outstanding claims | 57,462 | 10,547 | 2,685 | 1,443 | 72,137 |
| Premium deficiency reserve | 6,969 | - | - | - | 6,969 |
| Catastrophe reserve | - | - | - | 133 | 133 |
| Other liabilities | | | | 34,242 | 34,242 |
| Unallocated liabilities | | | | | 41,258 |
| Total insurance operations liabilities | | | | | 391,653 |

| 31 December 2014 | Motor | Medical | General accident | Others | Total |
|-------------------------------------|----------|----------|------------------|----------|----------|
| Revenue | SR '000 | SR '000 | SR '000 | SR '000 | SR '000 |
| Gross premiums written | 130,251 | 121,127 | 15,276 | 30,720 | 297,374 |
| Less: Premiums ceded | (483) | (26,843) | (7,788) | (28,536) | (63,650) |
| Excess of loss premiums | (3,576) | - | (382) | (446) | (4,404) |
| Net written premiums | 126,192 | 94,284 | 7,106 | 1,738 | 229,320 |
| Changes in net unearned premiums | (40,498) | 26,721 | (2,462) | (441) | (16,680) |
| Net premiums earned | 85,694 | 121,005 | 4,644 | 1,297 | 212,640 |
| Reinsurance commission earned | 32 | - | 1,173 | 2,746 | 3,951 |
| Net revenues | 85,726 | 121,005 | 5,817 | 4,043 | 216,591 |
| Cost and expenses | | | | | |
| Gross claims paid | 106,712 | 54,734 | 1,466 | 2,591 | 165,503 |
| Less: Reinsurers' share | 100 | (20,181) | (449) | (1,803) | (22,333) |
| Net claims paid | 106,812 | 34,553 | 1,017 | 788 | 143,170 |
| Changes in outstanding claims, net | 2,709 | 4,690 | (754) | (458) | 6,187 |
| Net claims incurred | 109,521 | 39,243 | 263 | 330 | 149,357 |
| Premium deficiency reserve | (3,800) | - | - | - | (3,800) |
| Policy acquisition cost | 7,289 | 13,387 | 900 | 944 | 22,520 |
| Net cost and expenses | 113,010 | 52,630 | 1,163 | 1,274 | 168,077 |
| Net result of insurance operations | (27,284) | 68,375 | 4,654 | 2,769 | 48,514 |
| General and administrative expenses | | | | | (41,219) |
| Supervision and inspection fee | (656) | (610) | (77) | (155) | (1,498) |
| CCHI fee | | (1,756) | - | - | (1,756) |
| Investment income | - | | | | 1,038 |
| Other income | | | | | 1,306 |
| Surplus from insurance operations | | | | | 6,385 |

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FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

25 SEGMENTAL INFORMATION (Continued).

As at 31 December 2014

| | | | | | |
|--|--------|--------|--------|--------|---------|
| Premiums and reinsurance receivables – net | 21,996 | 15,807 | 1,136 | 8,343 | 47,282 |
| Reinsurers' share of unearned premiums | 331 | 12,299 | 3,592 | 10,289 | 26,511 |
| Reinsurers' share of outstanding claims | 1,098 | 3,414 | 3,498 | 1,096 | 9,106 |
| Deferred policy acquisition cost | 6,973 | 3,697 | 717 | 542 | 11,929 |
| Unallocated assets | | | | | 147,903 |
| Total insurance operations assets | | | | | 242,731 |
| Unearned commission income | 36 | - | 634 | 1,637 | 2,307 |
| Unearned premiums | 85,996 | 46,759 | 10,972 | 11,197 | 15,4924 |
| Outstanding claims | 25,034 | 11,753 | 5,131 | 1,654 | 43,572 |
| Other liabilities | 3,041 | 6,187 | - | 821 | 10,049 |
| Unallocated liabilities | | | | | 31,879 |
| Total insurance operations liabilities | | | | | 242,731 |

26. CONTINGENT LIABILITY

As at 31 December 2015, the Company has a letter of guarantee amounting to SR 1.83 million (31 December 2014: SR 1.83 million) in favor of DZIT (See Note 19). A margin of SR 1.83 million (31 December 2014: SR 1.83 million) being deposited with a bank for this purpose is included in prepayments and other receivables in the statement of financial position of insurance operations.

27. GEOGRAPHICAL DISTRIBUTION

Most of the Company's assets and liabilities are located in the Kingdom of Saudi Arabia

28. RISK MANAGEMENT

Risk governance

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

Risk management structure

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

Board of Directors

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

Senior management

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

Audit Committee and Internal Audit Function

Risk management processes throughout the Company are audited annually by the Internal Audit function which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Auditor discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The risks faced by the Company and the manner in which these risks are mitigated by management are summarized below:

Insurance risk management

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under such contracts is the occurrence of the insured events and the severity of reported claims. The Company's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

28 RISK MANAGEMENT – (continued)

Insurance risk management (continued)

Underwriting and retention policies and procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local market are closely observed, reacting where necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

Sensitivities

The Company believes that claim liabilities under insurance contract (outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions.

Sensitivity of loss for the year to change in claim liabilities based on an increase / decrease of 5% in outstanding claim reserve (net of reinsurance share) is given below.

| | Change in assumptions | Impact on net liabilities | Impact on net income |
|------|-----------------------|---------------------------|----------------------|
| 2015 | ± 5% | ±3,281 | ±3,281 |
| 2014 | ± 5% | ±1,723 | ±1,723 |

Frequency and Severity of Claims

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

Fire and Burglary

Fire and burglary insurance contracts, with the main peril being fire damage and other allied perils resulting there from, are underwritten either on replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional treaties.

Motor

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 58% (2014: 44%) of gross written premium.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

28. RISK MANAGEMENT – (continued)

General Accident and Workmen's Compensation

For miscellaneous accident classes of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

Marine

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

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

Concentration of insurance risk

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

Medical

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

Regulatory framework risk

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

Credit risk

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

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

The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

The Company investment portfolio is managed by the investment committee in accordance with the investment policy established by the investment committee.

The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.

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28. RISK MANAGEMENT – (continued)

Credit risk – (continued)

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

31 December 2015

| | Insurance operations SR '000 | Shareholders' Operations SR '000 |
|---|------------------------------------|--|
| Cash and cash equivalents | 167,613 | 30,551 |
| Available-for-sale investments | - | 65,442 |
| Premiums receivable, net | 82,492 | - |
| Reinsurance receivables, net | 1,336 | - |
| Reinsurers' share of outstanding claims | 6,507 | - |
| Prepayments and other receivables | 22,280 | - |
| | 280,228 | 95,993 |

31 December 2014

| | Insurance operations SR '000 | Shareholders' Operations SR '000 |
|---|------------------------------------|--|
| Cash and cash equivalents | 129,941 | 44,235 |
| FVIS investments | - | 5,319 |
| Available-for-sale investments | - | 40,193 |
| Premiums receivable, net | 46,015 | - |
| Reinsurance receivables, net | 1,267 | - |
| Reinsurers' share of outstanding claims | 9,106 | - |
| Prepayments and other receivables | 12,015 | 2,691 |
| | 198,344 | 92,438 |

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

Maturity profiles

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

31 December 2015

| | Up to one year SR '000 | More than one year SR' 000 | Total SR' 000 |
|--|------------------------------|----------------------------------|------------------|
| Insurance Operations' Financial Liabilities | | | |
| Reinsurance payables | 38,430 | - | 38,430 |
| Accounts payable | 21,743 | - | 21,743 |
| Outstanding claims | 72,137 | - | 72,137 |
| Accrued and other payables | 5,126 | - | 5,126 |
| | 137,436 | - | 137,436 |
| Shareholders' Financial Liabilities | | | |
| Accrued and other payables | 899 | 522 | 1,421 |
| | 899 | 522 | 1,421 |
| Total Financial Liabilities | 138,335 | 522 | 138,857 |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - (continued)

28. RISK MANAGEMENT – (continued)

Maturity profiles – (continued)

31 December 2014

| | Up to one year SR '000 | More than one year SR' 000 | Total SR' 000 |
|---|------------------------------|----------------------------------|------------------|
| Insurance Operations' Financial Liabilities | | | |
| Reinsurance payables | 19,830 | - | 19,830 |
| Accounts payable | 12,914 | - | 12,914 |
| Outstanding claims | 43,572 | - | 43,572 |
| Accrued and other payables | 3,423 | 161 | 3,584 |
| | <u>79,739</u> | <u>161</u> | <u>79,900</u> |
| Shareholders' Financial Liabilities | | | |
| Accrued and other payables | 1,355 | 552 | 1,907 |
| | <u>1,355</u> | <u>552</u> | <u>1,907</u> |
| Total Financial Liabilities | <u>81,094</u> | <u>713</u> | <u>81,807</u> |

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company principal transactions are carried out in Saudi Riyal. Management believes that there is no risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

Commission rate risk

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the company to cash flow commission risk, whereas fixed commission rate instruments expose the company to fair value interest risk.

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

The following table demonstrates the sensitivity of statement of Shareholders' comprehensive income to reasonably possible changes in commission rates, with all other variables held constant.

The sensitivity of the statement of shareholders' comprehensive income is the effect of the assumed changes in commission rates on the Company's income for the year, based on the floating rate financial assets and financial liabilities held as at December 31:

| | Change in basis points | Effect on comprehensive income for the year SR'000 |
|------|---------------------------|--|
| 2015 | 50 | +/- 923 |
| 2014 | 50 | +/- 500 |

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28. RISK MANAGEMENT – (continued)

Market price risk

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

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

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

| As at 31 December 2015 | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|---------------|---------------|--------------|---------------|
| Shareholders' operations | | | | |
| FVIS investments | - | - | - | - |
| Available-for-sale investments | 17,655 | 45,864 | 1,923 | 65,442 |
| | <u>17,655</u> | <u>45,864</u> | <u>1,923</u> | <u>65,442</u> |
| As at 31 December 2014 | Level 1 | Level 2 | Level 3 | Total |
| Shareholders' operations | | | | |
| FVIS investments | 5,319 | - | - | 5,319 |
| Available-for-sale investments | - | 38,270 | 1,923 | 40,193 |
| | <u>5,319</u> | <u>38,270</u> | <u>1,923</u> | <u>45,512</u> |

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' comprehensive income will be impacted.

Capital management

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

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

29. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the board of directors on 18 February 2016 corresponding to 9 Jumaad Al-Awwal 1437H.