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**AL ALAMIYA FOR COOPERATIVE INSURANCE  
COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

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

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**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

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Financial Statements and Independent Auditors' Report  
For the Year Ended 31 December 2016

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**KPMG Al Fozan & Partners**  
Certified Public Accountants



Audit - Consultants - Zakat & Tax

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**SCOPE OF AUDIT**

We have audited the accompanying statement of financial position of Al Alamiya for Cooperative Insurance Company (A Saudi Joint Stock Company) (the "Company") as at 31 December 2016, the related statements of comprehensive income - insurance and shareholders' operations, statement of changes in shareholders' equity, statements of cash flows - insurance and shareholders' operations for the year then ended and the related notes from 1 to 26 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provisions of the Regulations for Companies and the Company's by-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

**UNQUALIFIED OPINION**

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


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

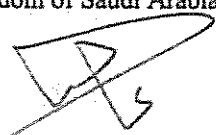
**EMPHASIS OF MATTER**

We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants.

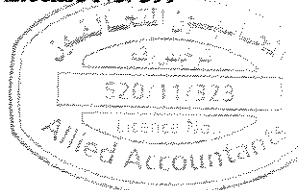
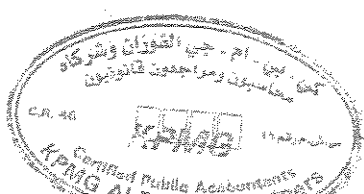
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**PKF Al Bassam & Al Nemer**  
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**Abdullah Hamad Al Fozan**  
Certified Public Accountant  
Licence No. 348

  
**Abdul Mohsen M. Al Nemer**  
Certified Public Accountant  
License No. 399

2 Jumada Al Thani 1438H  
1 March 2017

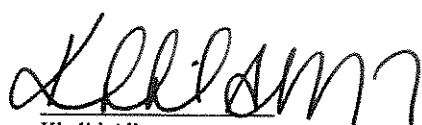


**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION**

As at 31 December

	Notes	2016 SR	2015 SR
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	5	25,392,144	27,070,207
Term deposits	6	173,980,565	149,466,089
Investments	7(a)	1,923,079	1,923,079
Premiums and insurance balances receivable	9	64,217,031	85,811,649
Due from related parties	23	3,738,030	3,412,297
Due from shareholders' operations		10,331,206	51,633,383
Reinsurers' share of unearned premiums	10(a)	65,177,646	56,783,251
Reinsurers' share of outstanding claims	10(d)	59,932,896	157,125,580
Deferred policy acquisition costs	10(b)	4,145,586	5,502,871
Prepayments and other assets	11	2,341,448	2,316,428
Property and equipment	13	159,872	206,527
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>		<b>411,339,503</b>	<b>541,251,361</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	5	208,948	2,709,224
Term deposits	6	253,669,070	230,543,775
Investments	7(b)	75,877,200	89,586,973
Prepayments and other assets	11	1,624,061	1,949,425
Statutory deposit	12	40,000,000	40,000,000
Return on investment of statutory deposit	12	1,241,902	966,547
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>372,621,181</b>	<b>365,755,944</b>
<b>TOTAL INSURANCE OPERATIONS AND SHAREHOLDERS' ASSETS</b>		<b>783,960,684</b>	<b>907,007,305</b>



Khalid Allagany  
Chief Executive Officer



Fadi Aboul Hosn  
Chief Financial Officer

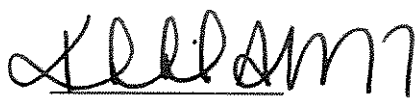
The accompanying notes 1 to 26 form an integral part of these financial statements.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December

	Notes	2016 SR	2015 SR
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
Gross outstanding claims	10(d)	170,703,351	260,154,226
Gross unearned premiums	10(a)	120,085,145	158,389,000
Accounts payable		9,549,217	3,742,945
Reinsurance balances payable		54,019,105	69,980,765
Due to related parties	23	854,256	3,486,684
Accrued expenses and other liabilities	14	31,471,807	25,942,199
Unearned reinsurance commission	10(c)	6,906,953	7,033,385
Employees' end of service benefits		9,803,018	9,151,478
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>		<b>403,392,852</b>	<b>537,880,682</b>
<b>INSURANCE OPERATIONS' SURPLUS</b>			
Accumulated surplus		7,946,651	3,370,679
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>		<b>411,339,503</b>	<b>541,251,361</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>SHAREHOLDERS' LIABILITIES</b>			
Due to insurance operations		10,331,206	51,633,383
Due to a related party	23	1,061,027	1,061,027
Deferred return on investment of statutory deposit	12	1,241,902	966,547
Accrued expenses and other liabilities	14	29,031,265	19,629,893
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>41,665,400</b>	<b>73,290,850</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	17	400,000,000	400,000,000
Fair value reserve for available for sale investments		(688,369)	(1,285,861)
Accumulated losses		(68,355,850)	(106,249,045)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>330,955,781</b>	<b>292,465,094</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>372,621,181</b>	<b>365,755,944</b>
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>783,960,684</b>	<b>907,007,305</b>



Khalid Allagany  
Chief Executive Officer



Fadi Aboul Hosn  
Chief Financial Officer

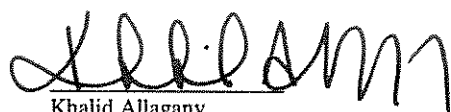
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**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF COMPREHENSIVE INCOME – INSURANCE OPERATIONS**

For the year ended 31 December

	Notes	2016 SR	2015 SR
Gross written premiums	10(a)	310,750,744	402,031,766
Less: Reinsurance premium ceded	10(a)	(142,005,815)	(136,867,211)
Excess of loss premiums	10(a)	(8,146,220)	(9,865,493)
<b>NET WRITTEN PREMIUMS</b>		<b>160,598,709</b>	<b>255,299,062</b>
Changes in unearned premiums		38,303,855	(7,227,649)
Changes in reinsurers' share of unearned premiums		8,394,395	(13,221,633)
<b>NET PREMIUMS EARNED</b>		<b>207,296,959</b>	<b>234,849,780</b>
Gross claims paid	10(d)	(190,962,395)	(449,590,140)
Reinsurers' share of gross claims paid	10(d)	97,004,634	336,019,937
Changes in outstanding claims		89,450,875	(238,237,408)
Changes in reinsurers' share of outstanding claims		(97,192,684)	211,793,328
<b>NET CLAIMS INCURRED</b>		<b>(101,699,570)</b>	<b>(140,014,283)</b>
Policy acquisition costs	10(b)	(20,893,080)	(24,199,540)
Reinsurance commission income	10(c)	16,999,892	23,222,411
Other underwriting expenses		(1,579,504)	(2,049,000)
<b>NET UNDERWRITING SURPLUS</b>		<b>100,124,697</b>	<b>91,809,368</b>
General and administrative expenses	20	(57,183,073)	(63,657,495)
Investment income		3,063,725	448,575
Other income		421,006	226,337
<b>INSURANCE OPERATIONS' SURPLUS</b>		<b>46,426,355</b>	<b>28,826,785</b>
Shareholders' appropriation from insurance operations' surplus	2(a)	(41,783,720)	(25,944,107)
<b>NET INSURANCE OPERATIONS' SURPLUS FOR THE YEAR</b>		<b>4,642,635</b>	<b>2,882,678</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>--</b>	<b>--</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR FROM INSURANCE OPERATIONS</b>		<b>4,642,635</b>	<b>2,882,678</b>

  
Khalid Allagany  
Chief Executive Officer

  
Fadi Aboul Hosn  
Chief Financial Officer

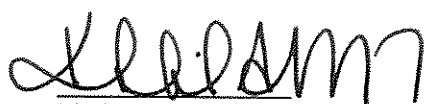
The accompanying notes 1 to 26 form an integral part of these financial statements.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF COMPREHENSIVE INCOME – SHAREHOLDERS' OPERATIONS**

For the year ended 31 December

	<i>Notes</i>	<b>2016 SR</b>	<b>2015 SR</b>
<b>INCOME</b>			
Shareholders' appropriation from insurance operations' surplus	2(a)	41,783,720	25,944,107
Investment income		6,297,116	3,104,242
		<u>48,080,836</u>	<u>29,048,349</u>
General and administrative expenses	20	(1,579,299)	(1,772,352)
Realised loss on available for sale investments		(155,072)	--
		<u>(1,734,371)</u>	<u>(1,772,352)</u>
<b>NET INCOME FOR THE YEAR</b>		<b>46,346,465</b>	<b>27,275,997</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Change in fair value of available for sale investments	8	597,492	(900,879)
		<u>597,492</u>	<u>(900,879)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>46,943,957</b>	<b>26,375,118</b>
		<u>46,943,957</u>	<u>26,375,118</u>
<b>BASIC AND DILUTED EARNING PER SHARE FOR THE YEAR</b>	18	<b>1.16</b>	<b>0.69</b>
		<u>1.16</u>	<u>0.69</u>
<b>WEIGHTED AVERAGE NUMBER OF ISSUED SHARES</b>	18	<b>40,000,000</b>	<b>39,742,857</b>
		<u>40,000,000</u>	<u>39,742,857</u>



Khalid Allagany  
Chief Executive Officer



Fadi Aboul Hosn  
Chief Financial Officer

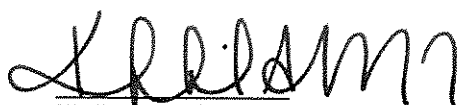
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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December

	Share Capital SR	Fair value reserve for available for sale investments SR	Accumulated losses SR	Total SR
Balance at 1 January 2015	200,000,000	(384,982)	(116,805,509)	82,809,509
Net profit for the year	--	--	27,275,997	27,275,997
<i>Other comprehensive income:</i>				
Net change in fair value of available for sale investments	--	(900,879)	--	(900,879)
Total comprehensive (loss) / income	--	(900,879)	27,275,997	26,375,118
Rights issue - note 17	200,000,000	--	--	200,000,000
Rights issue transaction costs - note 17	--	--	(9,144,643)	(9,144,643)
Zakat and income tax - note 16(d)	--	--	(7,574,890)	(7,574,890)
Balance as at 31 December 2015	400,000,000	(1,285,861)	(106,249,045)	292,465,094
Balance at 1 January 2016	400,000,000	(1,285,861)	(106,249,045)	292,465,094
Net profit for the year	--	--	46,346,465	46,346,465
<i>Other comprehensive income:</i>				
Change in fair value of available for sale investments	--	597,492	--	597,492
Total comprehensive income	--	597,492	46,346,465	46,943,957
Zakat and income tax - note 16(d)	--	--	(8,453,270)	(8,453,270)
Balance as at 31 December 2016	400,000,000	(688,369)	(68,355,850)	330,955,781



Khalid Allagany  
Chief Executive Officer



Fadi Aboul Hosn  
Chief Financial Officer

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

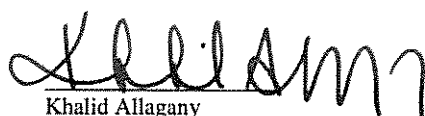


**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CASH FLOWS – INSURANCE OPERATIONS**

For the year ended 31 December

	<i>Notes</i>	<b>2016 SR</b>	<b>2015 SR</b>
<b>OPERATING ACTIVITIES</b>			
Insurance operations' surplus after shareholders' appropriation		<b>4,642,635</b>	2,882,678
<i>Adjustments to reconcile insurance operations' surplus to net cash provided from operating activities:</i>			
Depreciation	13	<b>150,655</b>	1,137,762
Employees' end of service benefits	20	<b>3,327,445</b>	1,878,786
Provision for doubtful debt	9	<b>(1,004,014)</b>	3,154,787
Operating cash inflows before changes in operating assets and liabilities		<b>7,116,721</b>	9,054,013
<i>Changes in operating assets and liabilities:</i>			
Premiums and insurance balances receivable		<b>22,598,632</b>	(6,811,652)
Due from related parties		<b>(325,733)</b>	(1,359,383)
Due from shareholders' operations		<b>41,302,177</b>	25,944,107
Reinsurers' share of outstanding claims		<b>97,192,684</b>	238,237,408
Prepayments and other assets		<b>(25,020)</b>	5,661,972
Reinsurers' share of unearned premiums		<b>(8,394,395)</b>	13,221,633
Deferred policy acquisition costs		<b>1,357,285</b>	(11,130,595)
Gross outstanding claims		<b>(89,450,875)</b>	(211,793,328)
Gross unearned premiums		<b>(38,303,855)</b>	7,227,649
Accounts payable		<b>5,806,272</b>	(2,317,356)
Reinsurance balances payable		<b>(15,961,660)</b>	(6,919,544)
Due to related parties		<b>(2,632,428)</b>	498,746
Accrued expenses and other liabilities		<b>5,529,608</b>	(4,336,631)
Unearned reinsurance commission		<b>(126,432)</b>	8,142,391
Disbursement of surplus to policyholders		<b>(66,663)</b>	--
<i>Cash from operations</i>		<b>25,616,318</b>	63,319,430
Employees' end of service benefits paid		<b>(2,675,905)</b>	(1,785,134)
<b>Net cash from operating activities</b>		<b>22,940,413</b>	61,534,296
<b>INVESTING ACTIVITY</b>			
Purchase of property and equipment, net	13	<b>(104,000)</b>	(85,207)
Term deposits		<b>(24,514,476)</b>	(95,270,230)
<b>Net cash used in investing activities</b>		<b>(24,618,476)</b>	(95,355,437)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,678,063)</b>	(33,821,141)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>27,070,207</b>	60,891,348
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	5	<b>25,392,144</b>	27,070,207



Khalid Allagany  
**Chief Executive Officer**



Fadi Aboul Hosn  
**Chief Financial Officer**

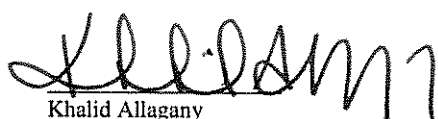
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**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CASH FLOWS – SHAREHOLDERS’ OPERATIONS**

For the year ended 31 December

	<i>Notes</i>	<b>2016 SR</b>	<b>2015 SR</b>
<b>OPERATING ACTIVITIES</b>			
Net income for the year		<b>46,346,465</b>	<b>27,275,997</b>
<i>Changes in operating assets and liabilities:</i>			
Prepayments and other assets		<b>325,364</b>	<b>(1,525,154)</b>
Due to a related party		<b>--</b>	<b>2,673</b>
Due to insurance operations		<b>(41,302,177)</b>	<b>(25,944,107)</b>
Accrued expenses and other liabilities		<b>948,102</b>	<b>721,859</b>
Return on investment of statutory deposit		<b>275,355</b>	<b>21,650</b>
Deferred return on investment of statutory deposit		<b>(275,355)</b>	<b>(21,650)</b>
Statutory deposit		<b>--</b>	<b>(20,966,547)</b>
<b>Net cash from/ (used in) operating activities</b>		<b>6,317,754</b>	<b>(20,435,279)</b>
<b>INVESTING ACTIVITIES</b>			
Term deposits		<b>(23,125,295)</b>	<b>(130,323,700)</b>
Proceeds from disposal of investments		<b>14,307,265</b>	<b>--</b>
Purchase of investments		<b>--</b>	<b>(49,863,729)</b>
<b>Net cash used in investing activities</b>		<b>(8,818,030)</b>	<b>(180,187,429)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from rights issue	17	<b>--</b>	<b>200,000,000</b>
Transactions costs relating to right issues	17	<b>--</b>	<b>(9,144,643)</b>
<b>Net cash from financing activities</b>		<b>--</b>	<b>190,855,357</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,500,276)</b>	<b>(9,767,351)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>2,709,224</b>	<b>12,476,575</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	5	<b>208,948</b>	<b>2,709,224</b>
<b><u>Non-cash transactions:</u></b>			
Net change in fair value of available for sale investments		<b>597,492</b>	<b>(900,879)</b>

  
Khalid Allagany  
Chief Executive Officer

  
Fadi Aboul Hosn  
Chief Financial Officer

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

# AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 1 ORGANISATION AND PRINCIPAL ACTIVITIES

Al Alamiya for Cooperative Insurance Company ("the Company") is a Saudi joint stock company registered on 29 Dhu-al Qu'dah, 1430H (17 November 2009) under commercial registration (CR) number 4030194978. The registered head office of the Company is in Riyadh under CR number of 1010287831 with branches in Jeddah (CR 4030194978) and Khobar (CR 2051042939).

The activities of the Company are to transact cooperative insurance and reinsurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 26 Dhu Al Hijjah, 1430H (13 December 2009), the Company received the license from Saudi Arabian Monetary Agency ("SAMA") to transact insurance business in the Kingdom of Saudi Arabia.

The registered office address of the Company is at Prince Mohammed bin Abdul Aziz Road, Home Centre Building, P.O. Box: 6393, Riyadh 11442, Kingdom of Saudi Arabia.

The Company operates in an industry where significant seasonal or cyclical variations in operating income are experienced during the financial year.

### 2 BASIS OF PREPARATION

#### a) *Statement of compliance*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

The Company is required to distribute 10% of the net surplus from insurance operations to policyholders and the remaining 90% to be allocated to the shareholders' of the Company in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Agency ("SAMA"). Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "The Law") came into force on 25/07/1437H (corresponding to 2 May 2016). The Company has to amend its bylaws for any changes to align the Articles to the provisions of The Law. Consequently, the Company has already initiated this process based on new bylaws template shared by SAMA. The amended bylaws will be subject to SAMA approval before submitting them to the shareholders in an Extraordinary General Assembly meeting for their ratification. The full compliance with The Law is expected no later than 24/07/1438H (corresponding to 21 April 2017)

#### b) *Basis of measurement*

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

#### c) *Functional and presentational currency*

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

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2016

**2 BASIS OF PREPARATION (continued)**

**d) Critical accounting judgments, estimates and assumptions**

The preparation of financial statements requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

**(i) 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 need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims Incurred But Not Reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the end of reporting date, for which the insured event has occurred prior to the end of reporting date. The Company uses the services of an independent actuary in the valuation of IBNR as well as premium deficiency reserves.

**(ii) Impairment on premiums and insurance balances receivable**

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 considers past-due status being indicative of the ability to pay all amounts due as per contractual terms.

**(iii) Deferred policy acquisition costs**

Certain acquisition costs related to writing or renewal of new policies are recorded as deferred acquisition costs and are amortised over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment.

**(iv) Impairment of available for sale financial assets**

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

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2016

**3 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS**

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations. In the current year, the Company has applied number of amendments to IFRS and new interpretations issued by International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 January 2016. The adoption of new standards, amendments and revisions to existing standards, as mentioned below, had no significant financial impact on the financial statements of the Company:

*New and amendments to existing standards*

*Annual improvements to IFRSs 2012 – 2014*

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

*Disclosure initiative (Amendments to IAS 1)*

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

*Standards issued but not yet effective*

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

*IFRS 9 Financial Instruments*

The implementation of IFRS 9 is expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in OCI, are expected to increase due to the introduction of the expected credit loss methodology. Upon implementation of the revised standard IFRS 4 'Insurance Contracts', more assets may be classified as at fair value through profit or loss under the fair value option. The Company continues to monitor the IASB progress on amendments to IFRS 4 which also introduces a temporary exemption for the implementation of IFRS 9 for reporting entities whose activities predominantly relate to insurance. The Company expects that it will be eligible for this temporary exemption and will consider deferring the implementation of IFRS 9 until a later date, but no later than January 1, 2021.

*Disclosure initiative (Amendments to IAS 7)*

Amendments to IAS 7 – "Statement of Cash Flows", applicable for the annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

*IAS 12 Income taxes*

Amendments to IAS 12 – "Income Taxes", applicable for the annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2016

**3 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS (continued)**

*IFRS 2 Share-based payment*

Amendments to IFRS 2 – “Share-based Payment”, applicable for the period beginning on or after 1 January 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled.

*IFRS 15 Revenue from contracts with customers*

IFRS 15 – “Revenue from contracts with customers”, applicable for the annual periods beginning on or after 1 January 2018. The new standard presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard will have a significant impact on how and when you recognize revenue, with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred.

*IFRS 16 Leases*

IFRS 16 – “Leases”, applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies followed in preparation of these financial statements:

*a) Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the date of acquisition.

*b) Prepayments*

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

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

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

**c) *Accrued expenses and other liabilities***

Accrued expenses and other liabilities are recognised for amounts to be paid in the future for goods and services, whether billed by the supplier or not.

**d) *Insurance contracts***

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

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

**e) *Investments***

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

Available for sale investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through income statement. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS financial investments are subsequently measured at fair value.

Return on debt securities is recognised on an effective yield method. Profit or loss on sale of investments is recognised at the time of sale. Dividend income is recognised when right to receive such dividend is established.

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under 'fair value reserve for available for sale investment'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income – shareholders' operations.

Any significant or prolonged decline in value of investments is adjusted for and reported in the statement of comprehensive income – shareholders' operations, as impairment charges. Fair values of investments are based on quoted prices for marketable securities or estimated fair values. The fair value of profit rate-bearing items is estimated based on discounted cash flows using profit rates for items with similar terms and risk characteristics.

**f) *Revenue recognition***

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

Retained premiums and commissions which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:

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

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2016

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

**g) Claims**

These include the cost of claims and claims handling expenses paid during the period, together with the movements in provisions for outstanding claims, claims incurred but not reported (IBNR) and claims handling provisions. Total outstanding claims comprise estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date, net of salvage and other recoveries including claims handling expenses.

The Company estimates its claims provisions based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Company's prior experience, is maintained for Incurred But Not Reported ('IBNR') claims as well as for the cost of settling pending claims at the statement of financial position date. The IBNR amount is based on estimates calculated using widely accepted actuarial techniques such as Chain Ladder, Bornhuetter Ferguson Method and loss ratio which are reviewed at regular intervals by the company's independent actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. Regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating provisions are that past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a fair reflection of the likely level of ultimate claims to be incurred for the more recent years.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant reinsurance contract. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

**h) Liability adequacy test**

At each end of reporting period, a liability adequacy test is performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims by line of business handling and administration expenses are used. Any deficiency is immediately charged to the statement of income - insurance operations initially by writing off related deferred policy acquisition costs and subsequently by establishing a provision for losses arising from liability adequacy test ("premium deficiency reserve"). The Company estimates premium deficiency reserves based on an independent actuarial valuation for each line of business separately.

**i) Receivables**

Premium and insurance receivables balance are recognized as receivable when due and are measured on initial recognition at the fair value of the consideration received or receivables. The carrying value of receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income - insurance operation. Premium and insurance balance receivables are derecognized when the de-recognition criteria for financial assets have been met.

**j) Property and equipment**

Property and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value is depreciated on a straight line basis over the estimated useful life as follows:

	Years
Furniture, fixtures and office equipment	3
Motor vehicles	3

The assets' residual values and useful lives are reviewed at each financial position date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.



**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2016

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

*j) Property and equipment (continued)*

Gains or losses arising from disposal of property and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the related property and equipment and are recognised in the statement of income – insurance operations when the related property and equipment is disposed.

*k) Reinsurance*

The Company cedes insurance risk in the normal course of business for a portion of its businesses. 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' financial position representing premiums due to 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. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

*l) Deferred policy acquisition costs (DPAC)*

DPAC are those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts that are deferred to the extent that those costs are recoverable out of future premiums. All other policy acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future premiums. Amortisation is recorded in the statement of income - insurance operations. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in accounting estimate.

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

*m) Zakat and income tax*

In accordance with the regulations of the General authority of zakat and income tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders' and to income tax attributable to the foreign shareholders'. Provision for zakat and income tax is charged to the statement of changes in shareholders' equity. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. Zakat is computed on the Saudi shareholders' share of equity and and/ or net income using the basis defined under the regulations of GAZT. Income tax is computed on the foreign shareholders' share of net income for the year. Zakat and income tax are charged to retained earnings as these are liabilities of the shareholders'. Zakat and income tax are charged in full to the retained earnings. Income tax charged to the retained earnings, in excess to the proportion of the Saudi shareholders' zakat per share, is recovered from the foreign shareholder' and credited to retained earnings.

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders', in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2016

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

**n) Provisions**

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

**o) Foreign currencies**

Transactions in foreign currencies are initially recorded at the spot exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate at the reporting date. All differences arising on non-trading activities are taken to the statement of income - insurance operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

As the Company's foreign currency transactions are primarily in US dollar, which is pegged against Saudi Riyals, therefore foreign exchange gains and losses are not significant and have not been disclosed separately.

**p) Salvage and subrogation reimbursement**

Some insurance contracts permit the Company to sell (usually damaged) asset acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of property. Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

**q) Impairment of financial assets**

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

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income of insurance or shareholders' operations;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

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

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- 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.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2016

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

**r) Derecognition of financial instruments**

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

**s) Impairment of non-financial assets**

Assets that have an indefinite useful life – for example, land – 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).

**t) Segmental reporting**

An operating segment is a component of the Company that is engaged in business activities from which it may earn revenues and incur expenses and which is subject to risk and rewards that are different from those of other segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions. The Company is organised into business units based on their products and services and has six reportable operating segments as follows:

- Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting there from.
- Motor insurance products which provide coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Engineering includes long term Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD.
- Medical products which provide health care cover to policyholders.
- Marine insurance for loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.
- Others include property, general accident and marine insurance.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2016

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

*Segmental reporting(continued)*

Shareholders' operations is a non-operating segment. Income earned from investments is its 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.

No inter-segment transactions occurred during the period. If any transactions were to occur, transfer prices between operating segments are set mutually agreed terms. 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.

As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

*u) Offsetting*

Financial assets and financial 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 liabilities simultaneously. Income and expense are not offset in the statement of comprehensive income - insurance operations or statement of comprehensive income - shareholders' operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

*v) Trade date accounting*

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

*w) Expense recognition*

Expenses are recognized in statements of comprehensive income - insurance operations and shareholders' operations when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses are presented using the nature of expense method.

**5 CASH AND CASH EQUIVALENTS**

	2016		2015	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cash on hand	33,616	--	38,157	--
Cash at bank – current accounts	25,358,528	208,948	10,532,050	2,709,224
Cash at bank – term deposits	--	--	16,500,000	--
	<u>25,392,144</u>	<u>208,948</u>	<u>27,070,207</u>	<u>2,709,224</u>

Cash at bank is placed with counterparties who have investment grade credit ratings. The short-term deposits, which are denominated in Saudi Riyals, are made for varying periods of between one day and three months from the date of original acquisition depending on the immediate cash requirements of the Company.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2016

**6 TERM DEPOSITS**

Term deposits are placed with counterparties which have credit ratings of A- to A+ ratings under Standard and Poor's and Moody's ratings methodology. Term deposits are placed with local banks with a maturity of more than three months from the date of original acquisition and earn investment income at weighted average rate of 2.3% per annum (2015: 1.7% per annum). The carrying amounts of the term deposits reasonably approximate the fair value at the statement of financial position date.

The Company holds an amount of SR 1,300,000 (31 December 2015 – SR 900,000) in the statement of financial position of Insurance operations, in respect of deposits against letters of guarantee in favour of the Company's service providers.

**7 INVESTMENTS**

**a) Insurance operations – Investments**

This represents investments in respect of the Company's shareholding in Najm which is a Claim's Service Provider. This investment has been carried at cost in the absence of active markets or other means of reliably measuring its fair value.

**b) Shareholders' operations – Available for sale investments (AFS)**

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Amortised cost</b>	<b>Market value</b>	<b>Amortised cost</b>	<b>Market value</b>
	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
<b>Bonds – Fixed rate (Quoted)</b>				
Abu Dhabi National Energy Company (TAQA)	4,003,797	4,031,250	4,158,050	4,157,624
SABIC Capital II BV	20,568,786	20,375,550	34,507,978	33,878,250
QNB (Qatar National Bank) Finance	13,733,256	13,459,500	13,799,873	13,573,575
Abu Dhabi Commercial Bank	15,665,254	15,428,400	15,684,660	15,311,400
<b>Sukuks – Fixed rate (Quoted)</b>				
Saudi Electricity Company	18,765,876	18,768,750	18,818,966	18,834,374
EIB Sukuk Ltd (Emirates Islamic Bank)	3,828,600	3,813,750	3,903,307	3,831,750
	<b>76,565,569</b>	<b>75,877,200</b>	<b>90,872,834</b>	<b>89,586,973</b>

The investment income ranges between 2% to 3% per annum (2015: 2% to 3% per annum) in case of bonds and 2.4% per annum (2015: 2.4% per annum) in case of sukuks.

The geographical split of investments held as available for sale comprise of bonds and sukuks issued by GCC based companies through international stock exchanges.

The movement of available for sale investments in shareholders' operation is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>SR</b>	<b>SR</b>
Opening	89,586,973	40,624,123
(Disposals)/additions	(14,307,265)	49,863,729
Gain/(loss), net	597,492	(900,879)
Closing	<b>75,877,200</b>	<b>89,586,973</b>

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**8 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair values of recognised financial instruments are not significantly different from the carrying values included in the financial statements. The estimated fair values of financial instruments are based on quoted market prices, when available. The fair values of these investments are disclosed below.

*Determination of fair value and fair value hierarchy*

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 repacking);

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

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

As at 31 December 2016 and 31 December 2015, all financial instruments under shareholders' operation which are measured at fair value are level 1 instruments.

The unlisted securities of SR 1.92 million (2015: SR 1.92 million), held as part of Company's insurance operations, were stated at cost in the absence of active markets or other means of reliably measuring their fair value.

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

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements. The net change in fair value of AFS investments amounting to a gain of SR 597,492 (31 December 2015: loss of SR 900,879) has been recorded in the statement of comprehensive income – shareholders' operations.

The credit quality of investment portfolio is as follows:

Credit Quality	Credit Rating Agency	Financial Instrument	2016 SR
A to A-	S&P	Bonds/ Sukuks	58,603,950
AA- to A	Fitch	Bonds/ Sukuks	17,273,250
			<u>75,877,200</u>
Credit Quality	Credit Rating Agency	Financial Instrument	2015 SR
AA	S&P	Bonds/ Sukuks	18,834,374
A to A+	S&P	Bonds/ Sukuks	66,920,849
BBB	S&P	Bonds/ Sukuks	3,831,750
			<u>89,586,973</u>

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**9 PREMIUMS AND INSURANCE BALANCES RECEIVABLE**

	<u>2016</u> <u>SR</u>	<u>2015</u> <u>SR</u>
Premiums receivable	63,098,370	50,978,547
Receivables from insurance and reinsurance companies	6,692,881	42,408,255
Receivables from related parties	7,396,731	7,545,611
	<u>77,187,982</u>	<u>100,932,413</u>
Less: Allowance for impairment of receivables	<u>(12,970,951)</u>	<u>(15,120,764)</u>
	<u><u>64,217,031</u></u>	<u><u>85,811,649</u></u>

Allowance for doubtful debts includes SR 1.4 million (31 December 2015: SR 1.68 million) against receivables from related parties. Movement in the allowance for doubtful debt is as follows:

	<u>2016</u> <u>SR</u>	<u>2015</u> <u>SR</u>
Balance at 1 January	15,120,764	12,854,165
Debts written off against the provision	(1,145,799)	(888,188)
(Reversal) / charge for the year	<u>(1,004,014)</u>	<u>3,154,787</u>
Balance at 31 December	<u><u>12,970,951</u></u>	<u><u>15,120,764</u></u>

As at 31 December 2016 and 2015, the ageing of premiums and insurance balances receivable is as follows:

	<u>Total</u> <u>SR</u>	<u>Neither past due</u> <u>nor impaired</u> <u>SR</u>	<u>Past due but not impaired</u>		<u>Past due</u> <u>and</u> <u>impaired</u> <u>SR</u>
			<u>90 to 180 days</u> <u>SR</u>	<u>181 to 360 days</u> <u>SR</u>	
2016	77,187,982	35,682,692	19,228,466	12,672,361	9,604,463
2015	100,932,413	48,772,813	23,455,855	17,644,071	11,059,674

The Company classifies balances as "past due and impaired" on case by case basis and an impairment adjustment is recorded in the statement of income- insurance operations. Unimpaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is the normal practice of the Company to not obtain collateral over premiums receivable. These balances are therefore unsecured. The credit quality of these financial assets that are neither past due nor impaired can be assessed by reference to respective policyholders' credit history, where there are minimal account defaults and vast majority of the receivables have been fully recovered in the past.

The Company does not have a formal internal credit ratings assessment process. Amounts which are neither past due nor impaired, in respect of premiums receivable balances, are from individuals and unrated corporates.

Premiums and insurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies outside Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual or company as at 31 December 2016 accounts for more than 29% (31 December 2015: 18%) of the premiums receivable. In addition, the five largest customers accounts for 40% (31 December 2015: 33%) of the premiums receivable as at 31 December 2016.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**10 MOVEMENT IN UNEARNED PREMIUMS, DEFERRED POLICY ACQUISITION COSTS, UNEARNED REINSURANCE COMMISSION AND OUTSTANDING CLAIMS**

**a) Unearned premium**

	<b>2016</b>			<b>2015</b>		
	<i>Gross</i>	<i>*Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>*Reinsurers'</i>	<i>Net</i>
	<i>SR</i>	<i>share</i>	<i>SR</i>	<i>SR</i>	<i>share</i>	<i>SR</i>
		<i>SR</i>			<i>SR</i>	
Balance at 1 January	158,389,000	(56,783,251)	101,605,749	151,161,351	(70,004,884)	81,156,467
Premiums written during the year	310,750,744	(150,152,035)	160,598,709	402,031,766	(146,732,704)	255,299,062
Premiums earned during the year	(349,054,599)	141,757,640	(207,296,959)	(394,804,117)	159,954,337	(234,849,780)
<b>Balance at 31 December</b>	<b>120,085,145</b>	<b>(65,177,646)</b>	<b>54,907,499</b>	<b>158,389,000</b>	<b>(56,783,251)</b>	<b>101,605,749</b>

\*The reinsurance share of premium ceded during the year includes excess of loss premiums amounting to SR 8,146,220 (31 December 2015: SR 9,865,493).

**b) Deferred policy acquisition costs**

	<b>2016</b>	<b>2015</b>
	<i>SR</i>	<i>SR</i>
Balance at 1 January	5,502,871	6,136,160
Cost incurred during the year	19,535,795	23,566,251
Amortised during the year	(20,893,080)	(24,199,540)
<b>Balance at 31 December</b>	<b>4,145,586</b>	<b>5,502,871</b>

**c) Unearned reinsurance commission**

	<b>2016</b>	<b>2015</b>
	<i>SR</i>	<i>SR</i>
Balance at 1 January	7,033,385	10,654,878
Commission received during the year	16,873,460	19,600,918
Commission earned during the year	(16,999,892)	(23,222,411)
<b>Balance at 31 December</b>	<b>6,906,953</b>	<b>7,033,385</b>



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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**10 MOVEMENT IN UNEARNED PREMIUMS, DEFERRED POLICY ACQUISITION COSTS, UNEARNED REINSURANCE COMMISSION AND OUTSTANDING CLAIMS (continued)**

**d) Outstanding claims**

	2016			2015		
	Gross SR	Reinsurers' share SR	Net SR	Gross SR	Reinsurers' share SR	Net SR
Balance at 31 December						
Claims reported	(74,327,283)	26,601,099	(47,726,184)	(190,700,998)	135,141,189	(55,559,809)
IBNR and other Reserves	(95,046,776)	33,331,797	(61,714,979)	(67,153,228)	21,984,391	(45,168,837)
	(169,374,059)	59,932,896	(109,441,163)	(257,854,226)	157,125,580	(100,728,646)
Premium deficiency Reserve	(1,329,292)	--	(1,329,292)	(2,300,000)	--	(2,300,000)
Total outstanding claims	(170,703,351)	59,932,896	(110,770,455)	(260,154,226)	157,125,580	(103,028,646)
Claims paid during the year	(190,962,395)	97,004,634	(93,957,761)	(449,590,140)	336,019,937	(113,570,203)
Balance at 1 January						
Claims reported	190,700,998	(135,141,189)	55,559,809	405,386,554	(381,550,389)	23,836,165
IBNR and other Reserves	67,153,228	(21,984,391)	45,168,837	63,202,000	(13,812,599)	49,389,401
	257,854,226	(157,125,580)	100,728,646	468,588,554	(395,362,988)	73,225,566
Premium deficiency Reserve	2,300,000	--	2,300,000	3,359,000	--	3,359,000
Claims incurred	(101,511,520)	(188,050)	(101,699,570)	(237,796,812)	97,782,529	(140,014,283)

**11 PREPAYMENTS AND OTHER ASSETS**

	2016		2015	
	Insurance operations SR	Shareholders' operations SR	Insurance operations SR	Shareholders' operations SR
Prepaid rent	372,032	--	200,485	--
Employees' housing advances	383,233	--	876,930	--
Employees' prepaid insurance	726,517	--	758,525	--
Accrued investment income	541,645	1,624,061	221,346	1,949,425
Other assets	318,021	--	259,142	--
	2,341,448	1,624,061	2,316,428	1,949,425

**12 STATUTORY DEPOSIT**

In compliance with Insurance Implementing Regulations of SAMA, the Company deposited 10% of its paid up capital, amounting to SR 40 Million in a bank designated by SAMA. The receivable commission on the deposit as at 31 December 2016 is SR 1,241,902 (31 December 2015: SR 966,547) and has been disclosed in assets as "Return on investment of statutory deposit" and the corresponding amount is shown in liabilities as "Deferred return on investment of statutory deposit". This deposit cannot be withdrawn without SAMA's consent.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**13 PROPERTY AND EQUIPMENT**

	<i>Furniture and fixtures SR</i>	<i>Office equipment SR</i>	<i>Motor vehicles SR</i>	<i>Total 2016 SR</i>	<i>Total 2015</i>
<i>Cost:</i>					
Balance at 1 January	3,294,103	6,341,833	384,450	10,020,386	9,935,179
Additions during the year	--	104,000	--	104,000	85,207
Disposals during the year	--	(155,690)	--	(155,690)	--
Balance at 31 December	3,294,103	6,290,143	384,450	9,968,696	10,020,386
<i>Accumulated depreciation:</i>					
Balance at 1 January	(3,167,450)	(6,261,959)	(384,450)	(9,813,859)	(8,676,097)
Charge for the year (note 20)	(88,892)	(61,763)	--	(150,655)	(1,137,762)
Disposals during the year	--	155,690	--	155,690	--
Balance at 31 December	(3,256,342)	(6,168,032)	(384,450)	(9,808,824)	(9,813,859)
<i>Net book value:</i>					
<b>At 31 December 2016</b>	<b>37,761</b>	<b>122,111</b>	<b>--</b>	<b>159,872</b>	
At 31 December 2015	126,653	79,874	--		206,527

**14 ACCRUED EXPENSES AND OTHER LIABILITIES**

	<i>Insurance operations 2016 SR</i>	<i>Shareholders' operations 2016 SR</i>	<i>Insurance operations 2015 SR</i>	<i>Shareholders' operations 2015 SR</i>
Accrued salaries and benefits	7,250,000	--	6,850,000	--
Accrued supervision fees	461,970	--	500,383	--
Board of Directors' remuneration	--	725,957	--	624,937
Provision for zakat and income tax (note 16d)	--	25,516,159	--	17,062,889
Accrued withholding tax	6,553,978	--	5,913,942	--
Accrued IT related services	1,750,000	--	705,653	--
Accrued legal and professional fees	3,200,000	--	2,657,000	--
Outsourced service charges payable	8,825,326	--	8,967,714	--
Office Relocation	1,048,363	--	--	--
Training and recruitments	594,687	--	--	--
Hotel and travelling	328,502	--	--	--
Other accrued expenses and liabilities	1,458,981	2,789,149	347,507	1,942,067
	<b>31,471,807</b>	<b>29,031,265</b>	<b>25,942,199</b>	<b>19,629,893</b>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**15 CLAIMS DEVELOPMENT**

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. During each year, the estimate of ultimate claim cost for respective year presented net of payments. Claims triangulation analysis (gross and net) by accident year spanning a number of financial years are set out as below.

**2016 – Gross Basis**

<i>Accident Year</i>	<i>2012&amp; earlier</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:						
At the end of accident year	140,661,747	628,710,438	101,118,835	190,122,920	105,768,260	1,166,382,199
One year later	96,271,777	565,367,682	83,130,816	134,301,084	--	879,071,359
Two years later	74,345,486	552,235,479	75,118,029	--	--	701,698,994
Three years later	76,209,697	551,028,057	--	--	--	627,237,754
Four years later and after	78,414,622	--	--	--	--	78,414,622
Current estimate of cumulative claims	78,414,622	551,028,057	75,118,029	134,301,084	105,768,260	944,630,052
Cumulative paid claims	76,052,611	546,708,827	66,469,976	84,695,287	--	773,926,701
Liability recognised in statement of financial position	2,362,011	4,319,230	8,648,053	49,605,797	105,768,260	170,703,351

**2016 – Net basis**

<i>Accident Year</i>	<i>2012&amp; earlier</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:						
At the end of accident year	51,235,089	43,072,735	54,869,038	94,229,698	67,490,245	304,789,805
One year later	49,322,192	49,762,957	41,802,306	82,783,456	--	223,670,911
Two years later	36,796,634	54,244,967	40,301,186	--	--	131,342,781
Three years later	33,636,358	43,141,697	--	--	--	76,778,055
Four years later and after	43,359,713	--	--	--	--	43,359,713
Current estimate of cumulative claims	43,359,713	43,141,697	40,301,186	82,783,456	67,490,245	277,076,297
Cumulative paid claims	41,617,431	41,334,775	35,297,826	48,055,810	--	166,305,842
Liability recognised in statement of financial position	1,742,282	1,806,922	5,003,360	34,727,646	67,490,245	110,770,455

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**15 CLAIMS DEVELOPMENT (Continued)**

**2015 – Gross Basis**

<i>Accident Year</i>	<i>2011&amp; earlier</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:						
At the end of accident year	150,793,842	66,834,065	628,710,438	101,118,835	190,122,920	1,137,580,100
One year later	124,005,584	57,630,088	565,367,683	83,130,816	--	830,134,171
Two years later	88,819,591	42,654,920	552,235,479	--	--	683,709,990
Three years later	81,868,468	44,549,385	--	--	--	126,417,853
Four years later and after	81,838,213	--	--	--	--	81,838,213
Current estimate of cumulative claims	81,838,213	44,549,385	552,235,479	83,130,816	190,122,920	951,876,813
Cumulative paid claims	81,075,822	42,910,696	509,458,388	58,277,681	--	691,722,587
Liability recognised in statement of financial position	762,391	1,638,689	42,777,091	24,853,135	190,122,920	260,154,226

**2015 – Net basis**

<i>Accident Year</i>	<i>2011&amp; earlier</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:						
At the end of accident year	68,774,224	29,127,101	43,072,737	54,869,038	94,229,698	290,072,798
One year later	54,530,911	37,810,438	49,762,964	41,802,305	--	183,906,618
Two years later	43,934,676	28,316,592	54,244,967	--	--	126,496,235
Three years later	40,902,966	23,396,865	--	--	--	64,299,831
Four years later and after	42,662,418	--	--	--	--	42,662,418
Current estimate of cumulative claims	42,662,418	23,396,865	54,244,967	41,802,305	94,229,698	256,336,253
Cumulative paid claims	41,989,950	29,697,793	53,664,069	27,955,795	--	153,307,607
Liability recognised in statement of financial position	672,469	(6,300,929)	580,898	13,846,510	94,229,698	103,028,646

**16 ZAKAT AND INCOME TAX**

**a) Zakat charge for the year**

The zakat charge for the year consists of the current year's provision amounting to SR 6.7 million (2015: SR 5.6 million).

The zakat provision is based on the following:

	<i>2016 SR</i>	<i>2015 SR</i>
Share capital	400,000,000	200,000,000
Reserves and provision	(81,976,802)	(94,893,518)
Book value of long term assets	(2,171,934)	(2,620,178)
Adjusted net profit for the year	46,346,465	27,275,997
<b>Zakat base</b>	<b>362,197,729</b>	<b>129,762,301</b>
<b>Saudi shareholders' share of zakat base</b>	<b>269,529,440</b>	<b>97,276,309</b>

The differences between the financial and the zakatable results are mainly due to provisions which are not included in the calculation of zakatable income.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**16 ZAKAT AND INCOME TAX (continued)**

**b) Income tax charge for the year**

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

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
At the beginning of the year	1,959,503	12,925
Provided during the year	1,705,476	1,946,578
At the end of the year	<u>3,664,979</u>	<u>1,959,503</u>

**c) Movement in the provision for zakat during the year**

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

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
At the beginning of the year	15,103,386	9,475,074
Provided during the year	6,747,794	5,628,312
At the end of the year	<u>21,851,180</u>	<u>15,103,386</u>

**d) Movement in the provision for zakat and income tax during the year**

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

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
At the beginning of the year	17,062,889	9,487,999
Provided during the year	8,453,270	7,574,890
At the end of the year	<u>25,516,159</u>	<u>17,062,889</u>

**e) Status of zakat and tax assessments**

The Company has submitted its zakat and income tax returns up to the year ended 31 December 2015, and has obtained the required certificates and official receipts but the final assessments have not been raised by GAZT.

**f) Status of appeal**

The Company has filed an appeal against the 'GAZT's initial assessments for the year ended 31 December 2010, 2011, 2012, 2014 and 2015 which are pending as at 31 December 2016.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**17 SHARE CAPITAL**

The authorised, issued and paid up share capital of the Company is SR 400 million divided in 40 million shares (31 December 2015: SR400 million divided into 40 million shares) with a nominal value of SR 10 each. The founding shareholders' of the Company have subscribed and paid for 28 million shares which represents 70% of the shares of the Company's share capital and the remaining 12 million shares have been subscribed by the public.

The Company held an extraordinary general assembly of its shareholders' on 6 January 2015 to approve the increase in the share capital through a rights issue. Based on the approval received from the shareholders' at the extraordinary general assembly, the Company proceeded to raise SAR 200 million through a rights issue. Under the terms of the rights issue, the Company offered 20,000,000 new ordinary shares by way of rights to qualifying shareholders' at SAR 10 per new ordinary share at close of business on the record date of 6 January 2015. The rights issue was made on the basis of one new ordinary share for everyone share held by shareholders'. The legal formalities for capital increase were completed during the year and the Company successfully raised additional share capital of SR 200 million during February 2015. The Company incurred transaction costs relating to right issue amounting to SR 9.14 million and charged it to Statement of Changes in Shareholders' Equity.

**18 BASIC AND DILUTED EARNINGS PER SHARE FOR THE YEAR**

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

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

	31 December 2016	31 December 2015
Issued ordinary shares as at 1 January	40,000,000	20,000,000
Adjusted rights issue / bonus element	--	19,742,857
Weighted average number of ordinary shares	<u>40,000,000</u>	<u>39,742,857</u>

The basic and diluted earnings per share are as follows:

	31 December 2016 SR	31 December 2015 SR
Net income for the year	46,346,465	27,275,997
Weighted average number of ordinary shares	40,000,000	39,742,857
Basic and diluted earnings per share	<u>1.16</u>	<u>0.69</u>

**19 STATUTORY RESERVE**

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company is required to establish a statutory reserve by appropriating 20% of net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution. No appropriation has been made because the Company has accumulated losses at the end of the year.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**20 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2016</b>		<b>2015</b>	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
	SR	SR	SR	SR
Salaries and benefits	37,507,357	325,000	41,377,507	325,000
End of service benefits	3,327,445	--	1,878,786	--
Remuneration of the Board of Directors (note 23)	--	588,750	--	465,000
Outsourced service charges (note 23)	4,750,000	--	3,600,000	--
Rent	1,192,930	--	1,556,662	--
Provision for doubtful debts	(1,004,014)	--	3,154,787	--
Depreciation	150,655	--	1,137,762	--
Legal and professional fees	3,166,139	--	3,576,370	--
Business travel and transport	823,637	--	771,891	--
IT related services	4,240,611	--	4,098,315	--
Utilities	562,981	--	719,055	--
Stationery	481,171	--	524,459	--
Others	1,984,161	665,549	1,261,901	982,352
	<u>57,183,073</u>	<u>1,579,299</u>	<u>63,657,495</u>	<u>1,772,352</u>

**21 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial assets and liabilities include cash and cash equivalents, time deposits, investments, receivables, payables, and certain other assets and liabilities. The fair values of the financial assets and liabilities are not materially different from their carrying values with the exception of unquoted financial instruments amounting to SAR 1.9 million which are carried at cost.

**22 CONTINGENCIES AND COMMITMENTS**

*Legal proceedings and regulations*

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

*Operating lease commitments*

Rental expenses under operating leases pertained to leases of office spaces in various locations amounted to SR 1.19 million for the year ended 31 December 2016 (2015: SR 1.55 million) are recognised in the statement of comprehensive income - insurance operations.

Future minimum lease payments under the operating lease arrangements as at 31 December are as follows:

	<b>31 December 2016 SR</b>	<b>31 December 2015 SR</b>
Less than one year	<u>587,384</u>	<u>881,476</u>

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**23 RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent major shareholders' and key management personnel of the Company. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken at mutually agreed terms which are approved by the management. Related parties include RSA group in United Kingdom as well as affiliated companies in United Arab Emirates, Sultanate of Oman and Kingdom of Bahrain and Riyad Bank. The following are the details of major related party transactions for insurance and shareholders' operations during the year and the balances at the end of the year:

Related party	Nature of transaction	2016 SR	2015 SR
Shareholders' / Companies under common management	- Gross written premiums	49,317,807	136,827,806
	- Gross claims paid	37,259,567	62,422,171
	- Reinsurance premiums ceded	32,091,863	39,553,752
	- Reinsurers' share of gross claims paid	16,754,617	76,251,387
	- Reinsurance commission income	9,128,900	11,195,628
	- Outsourced service charges*	4,750,000	3,600,000
	- Brand fee*	30,100	30,100
	- Gross outstanding claims	25,728,269	--
RSA group entities	- Operational expenses paid on behalf of affiliates and reinsurance placements	934,654	3,663,397
	- Operation expenses paid by affiliates on behalf of Company	(927,105)	(2,810,433)
Key management personnel and Board members	- Gross written premiums	181,604	183,921
Board of directors	- Remuneration and meeting fee	588,750	465,000

\*Outsourced service charges and brand fee are included within the accrued expenses and other liabilities appearing on the face of the statement of financial position.

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly and comprise top management executives including the Chief Executive Officer and the Chief Financial Officer of the Company.

The significant amounts with the related parties are included in the following balances as at the financial position date:

		2016 SR	2015 SR
Entities controlled, jointly controlled or significantly influenced by related parties.	- Premiums receivable, net	7,396,731	7,545,610
	- Accrued expenses	(9,625,626)	(9,637,994)
	- Reinsurance share of gross outstanding claims	9,365,820	--
	- Gross outstanding claims	(25,728,269)	(28,534,421)
Operational expenses paid on behalf of affiliates and reinsurance placements	- Due from related parties	3,738,030	3,412,297
Operation expenses paid by affiliates on behalf of Company	- Due to related parties		
	- Insurance operations	(845,256)	(3,486,684)
	- Shareholder's operations	(1,061,027)	(1,061,027)



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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**23 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

**Key management personnel's remuneration**

Key management personnel of the Company include all directors (executive and non-executive) and senior management. The remuneration of key management personnel during the period is as follows:

	<u>2016</u>	<u>2015</u>
	<u>SR</u>	<u>SR</u>
Short term benefits	7,022,061	6,034,392
End of service benefits	223,448	210,219
	<u>7,245,509</u>	<u>6,244,611</u>

**24 SEGMENTAL INFORMATION**

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

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

Segment assets do not include (in respect of insurance operations) property and equipment, due from shareholders' operations, bank balances and cash, prepaid expenses and other assets, premiums and reinsurance balances receivable, net. Accordingly, these are included in unallocated assets and are managed and reported to the chief operating decision maker on a centralised basis.

Segment liabilities do not include (in respect of insurance operations) employees' end of service benefits, reinsurance balances payable, accrued expenses and other liabilities. Accordingly, these are included in unallocated liabilities and are managed and reported to the chief operating decision maker on a centralised basis.

All of the Company's operating assets (except certain reinsurance balances) and principal activities are located in the Kingdom of Saudi Arabia.

Shareholders' operations is a non-operating segment. Certain direct operating expenses, other overhead expenses and loss or surplus from the insurance operations are allocated to this segment on an appropriate basis.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2016

24 SEGMENTAL INFORMATION (continued)

	For the year ended 31 December 2016							Total SR
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Group Life SR	Others SR	
<b>Insurance operations</b>								
Gross written premiums	136,185,638	84,345,157	18,732,813	2,355,976	34,607,654	13,174,868	21,348,638	310,750,744
Reinsurance premiums ceded	(95,097,749)	--	(15,415,346)	(1,288,987)	(17,217,828)	(7,004,180)	(5,981,725)	(142,005,815)
Excess of loss premiums	(2,826,972)	(1,224,988)	(749,993)	(182,998)	(1,580,984)	(1,359,986)	(220,299)	(8,146,220)
Net written premiums	38,260,917	83,120,169	2,567,474	883,991	15,808,842	4,810,702	15,146,614	160,598,709
Change in unearned premiums, net	3,616,736	39,583,199	91,141	37,339	1,051,836	2,382,006	(64,007)	46,698,250
Net premiums earned	41,877,653	122,703,368	2,658,615	921,330	16,860,678	7,192,708	15,082,607	207,296,959
Gross claims paid	(75,135,249)	(80,127,199)	(7,338,927)	(2,420,976)	(11,948,881)	(10,949,891)	(3,041,272)	(190,962,395)
Reinsurers' share of gross claims paid	73,783,562	--	6,570,444	1,301,987	6,556,834	8,647,914	143,893	97,004,634
Change in outstanding claims, net	(8,117,384)	(4,001,939)	1,764,584	(56,159)	1,063,943	1,093,576	511,570	(7,741,809)
Net claims incurred	(9,469,071)	(84,129,138)	996,101	(1,175,148)	(4,328,104)	(1,208,401)	(2,385,809)	(101,699,570)
Policy acquisition costs	(5,281,459)	(9,645,456)	(1,964,726)	(19,966)	(2,136,976)	(174,428)	(1,670,069)	(20,893,080)
Reinsurance commission income	7,735,746	--	3,212,379	(104,437)	4,606,169	1,248,003	302,032	16,999,892
Other underwriting expenses	34,862,869	28,928,774	4,902,369	(378,221)	15,001,767	7,057,882	11,328,761	101,704,201
Net underwriting surplus								(1,579,504)
General and administrative expenses								100,124,697
Investment income								(57,183,073)
Other income								3,063,725
Insurance operations' surplus								421,006
								46,426,355

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**24 SEGMENTAL INFORMATION (continued)**

<i>For the year ended 31 December 2015</i>							
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Group Life SR	Total SR
<b>Insurance operations</b>							
Gross written premiums	128,686,713	166,582,334	20,663,793	5,521,945	35,592,644	21,730,783	402,031,766
Reinsurance premiums ceded	(78,158,113)	--	(17,547,925)	(3,112,969)	(16,590,334)	(14,859,122)	(136,867,211)
Excess of loss premiums	(3,359,927)	(2,150,658)	(1,355,786)	(231,403)	(2,014,740)	(515,324)	(9,865,493)
Net written premiums	47,168,673	164,431,676	1,760,082	2,177,573	16,987,570	6,356,337	255,299,062
Change in unearned premiums, net	(16,605,228)	(3,092,406)	42,214	1,452,673	(631,353)	(1,053,970)	(20,449,282)
Net premiums earned	30,563,445	161,339,270	1,802,296	3,630,246	16,356,217	5,302,367	234,849,780
Gross claims paid	(325,796,742)	(90,571,094)	(6,403,936)	(6,445,936)	(5,631,944)	(13,232,867)	(449,590,140)
Reinsurers' share of gross claims paid	313,436,056	--	5,070,940	4,083,959	3,440,666	9,774,402	336,019,937
Change in outstanding claims, net	(182,469)	(17,673,339)	(3,049,549)	573,010	(5,708,277)	(202,902)	(26,444,080)
Net claims incurred	(12,543,155)	(108,244,433)	(4,382,545)	(1,788,967)	(7,899,555)	(3,661,367)	(140,014,283)
Policy acquisition costs	(6,002,840)	(9,513,239)	(3,570,050)	(112,033)	(2,148,978)	(216,547)	(24,199,540)
Reinsurance commission income	8,316,569	--	7,089,855	(147,692)	4,225,982	3,065,095	23,222,411
Other underwriting expenses	20,334,019	43,581,598	939,556	1,581,554	10,533,666	4,489,548	93,858,368
Net underwriting surplus							91,809,368
General and administrative expenses							(63,657,495)
Investment income							448,575
Other expense							226,337
Insurance operations' surplus							28,826,785

<i>As at 31 December 2016</i>							
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Group Life SR	Total SR
<b>Insurance operations' assets</b>							
Reinsurers' share of unearned Premiums	48,019,520	--	8,500,861	679,993	4,580,654	629,994	65,177,646
Reinsurers' share of outstanding claims	20,307,937	--	11,593,904	203,518	10,063,909	11,508,338	59,932,896
Deferred policy acquisition Costs	1,258,801	1,197,842	1,019,245	51,292	340,000	27,547	4,145,586
Unallocated assets							282,083,375
							411,339,503
<b>Insurance operations' liabilities</b>							
Gross outstanding claims	34,638,744	70,058,059	16,244,988	1,286,677	21,359,266	16,849,762	170,703,351
Gross unearned premiums	71,640,284	19,857,801	9,715,720	1,270,987	8,180,918	1,236,988	120,085,145
Unearned reinsurance commission Income	3,940,986	--	1,875,521	32,917	936,568	2,517	6,906,953
Unallocated liabilities							113,644,054
							411,339,503

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**24 SEGMENTAL INFORMATION (continued)**

	<i>As at 31 December 2015</i>							
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Group Life SR	Others SR	Total SR
Insurance operations' assets								
Reinsurers' share of unearned Premiums	34,083,159	499,995	8,584,914	1,675,650	5,234,848	3,420,966	3,283,719	56,783,251
Reinsurers' share of outstanding claims	93,275,644	7,880	24,957,082	1,279,987	15,903,541	19,026,843	2,674,603	157,125,580
Deferred policy acquisition Costs	1,294,312	2,544,381	938,991	12,259	530,995	13,977	167,956	5,502,871
Unallocated assets								<u>321,839,659</u>
								<u>541,251,361</u>
Insurance operations' liabilities								
Gross outstanding claims	99,489,005	66,063,339	31,372,686	2,306,977	28,262,717	25,457,745	7,201,757	260,154,226
Gross unearned premiums	61,320,387	59,940,401	9,890,901	2,303,977	9,885,901	6,409,936	8,637,497	158,389,000
Unearned reinsurance commission Income	2,496,006	-	1,752,982	(6,521)	1,205,988	1,402,518	182,412	7,033,385
Unallocated liabilities								<u>115,674,750</u>
								<u>541,251,361</u>

**25 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, investment income rate, credit, liquidity, market and foreign currency 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 the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

***Senior management***

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

***Audit Committee and Internal Audit Department***

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

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

**a) Insurance risk**

Insurance risk is the risk that actual claims payable to policy holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands. The Company underwrites mainly property, motor, engineering, medical and marine risks.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**25 RISK MANAGEMENT (continued)**

*Frequency and severity of claims*

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly property, engineering, motor, casualty, medical and marine classes. These classes of insurance except for long tail engineering policies are generally regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

*Sources of uncertainty in estimation of future probable claim payments*

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at balance sheet date the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of outstanding claims (including IBNR) are given under notes 2 (d) and 10 (d).

*Process used to decide on assumptions*

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of balance sheet date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

*Property*

Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting there from, are underwritten either on a replacement value or on a market value basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties and 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 as well as non-proportional treaties.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2016

**25 RISK MANAGEMENT (continued)**

*Engineering*

The engineering business includes long term Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD. The long tail EAR/CAR policies cover various projects for the whole project period. Selection of the risks and proper underwriting are the criteria for this line of business. These are adequately covered under the Engineering proportional and non-proportional treaties.

*Motor*

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive policies for owner/drivers over 18 years of age. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 2 million (31 December 2015: SR 2 million)

*Medical*

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risks and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, 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 claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has reinsurance cover to limit the losses for any individual claim to SR 1.5 million (2015: SR 1.5 million).

*Marine*

For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargo.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim, to SR 1.75million (2015: SR 1.75 million).

*Concentration of insurance risk*

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in property and motor. The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluate the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company. Since the Company does not have any foreign operations, hence, all the insurance risks relate to policies written in Saudi Arabia.

*Sensitivity analysis*

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. A hypothetical 10% change in the claims ratio would impact income annually in aggregate by:

Change in claim ratio	Effect on income 2016- SR	Effect on income 2015 - SR
+10%	10 million	14 million
-10%	10 million	14 million

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**25 RISK MANAGEMENT (continued)**

**b) Claims management risk**

Claims management risk may arise within the company in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the company and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The company's claims teams are focused on delivering quality, reliability and speed of service the policyholders. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

**c) Reserving and ultimate reserves risk**

Reserving and ultimate reserves risk occurs within the company where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions. To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognized techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances. The objective of the company's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business.

**d) Reinsurance risk**

In order to minimise its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for reinsurance purpose. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Reinsurance program is effected under treaty, facultative and excess floss reinsurance contracts.

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

Reinsurance ceded contracts do not relieve the Company from its obligations to the policyholders and as a result the Company remains liable for a portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The credit exposure in this connection is SR 59.9 million (2015: SR 157.1million).

**e) 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.

**f) 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, creditworthy 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.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**25 RISK MANAGEMENT (continued)**

**f) Credit risk (continued)**

- 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 management 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.

*Maximum exposure to credit risk*

The Company's maximum exposure to credit risk on its financial assets at 31 December 2016 is Saudi Riyals 329.2 million for Insurance Operations (31 December 2015: Saudi Riyals 422.8 million) and Saudi Riyals 331.4 million for Shareholders' Operations (31 December 2015: 324.7 million).

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

	<b>2016</b>		<b>2015</b>	
	<b>SR</b>		<b>SR</b>	
	<i>Insurance'</i>	<i>Shareholders'</i>	<i>Insurance'</i>	<i>Shareholders'</i>
	<i>Operations</i>	<i>operations</i>	<i>Operations</i>	<i>operations</i>
<b>Assets</b>				
Cash and cash equivalents	25,392,144	208,948	27,070,207	2,709,224
Time deposits	173,980,565	253,669,070	149,466,089	230,543,775
Investments	1,923,079	75,877,200	--	89,586,973
Premiums and insurance balances receivable	64,217,031	--	85,811,649	--
Reinsurers' share of outstanding claims	59,932,896	--	157,125,580	--
Due from related parties	3,738,030	--	3,412,297	--
Other assets	--	1,624,061	--	1,949,425
	<b>329,183,745</b>	<b>331,379,279</b>	<b>422,885,822</b>	<b>324,789,397</b>

*Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

**g) Liquidity risk**

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



**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**25 RISK MANAGEMENT (continued)**

**g) Liquidity risk (continued)**

*Maturity table*

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

	<u>2016</u>			<u>2015</u>		
	<i>Less than one year SR</i>	<i>More than one year SR</i>	<i>Total SR</i>	<i>Less than one year SR</i>	<i>More than One year SR</i>	<i>Total SR</i>
<b>INSURANCE OPERATIONS' ASSETS</b>						
Cash and cash equivalents	25,392,144	--	25,392,144	27,070,207	--	27,070,207
Term deposits	173,980,565	--	173,980,565	149,466,089	--	149,466,089
Investments	--	1,923,079	1,923,079	--	1,923,079	1,923,079
Premiums and insurance balances receivable, net	64,217,031	--	64,217,031	85,811,649	--	85,811,649
Due from related parties	3,738,030	--	3,738,030	3,412,297	--	3,412,297
Due from shareholders' operations	10,331,206	--	10,331,206	51,633,383	--	51,633,383
Reinsurers' share of unearned premiums	65,177,646	--	65,177,646	56,783,251	--	56,783,251
Reinsurers' share of outstanding claims	59,932,896	--	59,932,896	157,125,580	--	157,125,580
Deferred policy acquisition costs	4,145,586	--	4,145,586	5,502,871	--	5,502,871
Prepayments and other assets	2,341,448	--	2,341,448	2,316,428	--	2,316,428
Property and equipment, net	--	159,872	159,872	--	206,527	206,527
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>	<b>409,256,552</b>	<b>2,082,951</b>	<b>411,339,503</b>	<b>539,121,755</b>	<b>2,129,606</b>	<b>541,251,361</b>
<b>SHAREHOLDERS' ASSETS</b>						
Cash and cash equivalents	208,948	--	208,948	2,709,224	--	2,709,224
Term deposits	253,669,070	--	253,669,070	230,543,775	--	230,543,775
Investments	--	75,877,200	75,877,200	--	89,586,973	89,586,973
Other assets	1,624,061	--	1,624,061	1,949,425	--	1,949,425
Return on investment of statutory deposit	--	1,241,902	1,241,902	--	966,547	966,547
Statutory deposit	--	40,000,000	40,000,000	--	40,000,000	40,000,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>	<b>255,502,079</b>	<b>117,119,102</b>	<b>372,621,181</b>	<b>235,202,424</b>	<b>130,553,520</b>	<b>365,755,944</b>
<b>TOTAL INSURANCE OPERATIONS AND SHAREHOLDERS' ASSETS</b>	<b>664,758,631</b>	<b>119,202,053</b>	<b>783,960,684</b>	<b>774,324,179</b>	<b>132,683,126</b>	<b>907,007,305</b>

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**25 RISK MANAGEMENT (continued)**

<b>INSURANCE OPERATIONS' LIABILITIES</b>	<b>2016</b>			<b>2015</b>		
	<i>Less than one year SR</i>	<i>More than one year SR</i>	<i>Total SR</i>	<i>Less than one year SR</i>	<i>More than one year SR</i>	<i>Total SR</i>
Gross outstanding claims	170,703,351	--	170,703,351	260,154,226	--	260,154,226
Gross unearned premiums	120,085,145	--	120,085,145	158,389,000	--	158,389,000
Accounts payable	9,549,217	--	9,549,217	3,742,945	--	3,742,945
Reinsurance balances payable	54,019,105	--	54,019,105	69,980,765	--	69,980,765
Due to related parties	854,256	--	854,256	3,486,684	--	3,486,684
Accrued expenses and other liabilities	31,471,807	--	31,471,807	25,942,199	--	25,942,199
Surplus distribution payable	7,946,651	--	7,946,651	3,370,679	--	3,370,679
Unearned reinsurance commission	6,906,953	--	6,906,953	7,033,385	--	7,033,385
Employees' end of service benefits	9,803,018	--	9,803,018	9,151,478	--	9,151,478
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>	<b>411,339,503</b>	<b>--</b>	<b>411,339,503</b>	<b>541,251,361</b>	<b>--</b>	<b>541,251,361</b>
<b>SHAREHOLDERS' LIABILITIES</b>						
Due to insurance operations	10,331,206	--	10,331,206	51,633,383	--	51,633,383
Due to a related party	1,061,027	--	1,061,027	1,061,027	--	1,061,027
Deferred return on Investment of Statutory deposit	--	1,241,902	1,241,902	--	966,547	966,547
Accrued expenses and other liabilities	29,031,265	--	29,031,265	19,629,893	--	19,629,893
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>	<b>40,423,497</b>	<b>1,241,902</b>	<b>41,665,400</b>	<b>72,324,303</b>	<b>966,547</b>	<b>73,290,850</b>

To manage the liquidity risk arising from financial liabilities mentioned above, the Company holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active market. These assets can be readily sold to meet liquidity requirements.

**h) Foreign currency risk**

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal.

**i) Investment income rate risk**

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

The Company is not exposed to investment income rate risk as rates are fixed.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**25 RISK MANAGEMENT (continued)**

**j) Market rate risk**

Market rate 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.

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' operations will be impacted.

The sensitivity of the income on the assumed changes in the market prices of quoted available for sale investments on the statement of shareholders' comprehensive income is set out below:

	<i>Change in market price</i>	<i>Effect on statement of shareholders' comprehensive operations SR</i>
<b>2016</b>	+5%	<b>3,793,860</b>
	-5%	<b>(3,793,860)</b>
<b>2015</b>	+5%	<b>4,479,349</b>
	-5%	<b>(4,479,349)</b>

**k) Capital management**

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

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 minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In order to maintain or adjust the capital structure, the Company may issue right shares.

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

- Minimum Capital Requirement of SR 200 million
- Premium Solvency Margin
- Claims Solvency Margin

The Company has fully complied with the externally imposed capital requirements during the reported financial year.

**26 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 21 February 2017, corresponding to 25 Jumada'I 1438H.