
SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

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

INDEX	PAGES
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF COMPREHENSIVE INCOME - REINSURANCE OPERATIONS AND ACCUMULATED SURPLUS	3
STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS	4
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS	5
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	6
STATEMENT OF CASH FLOWS - REINSURANCE OPERATIONS	7
STATEMENT OF CASH FLOWS - SHAREHOLDERS OPERATIONS	8
NOTES TO THE FINANCIAL STATEMENTS	9 – 48

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)****SCOPE OF AUDIT**

We have audited the accompanying statement of financial position of Saudi Re for Cooperative Reinsurance Company (A Saudi Joint Stock Company) (the "Company") as at 31 December 2016, the related statement of comprehensive income - reinsurance operations and accumulated surplus, statement of income - shareholders' operations, statement of comprehensive income - shareholders' operations, statement of changes in shareholders' equity, statement of cash flows - reinsurance and shareholders' operations for the year then ended and the related notes 1 to 33 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 as issued by the Saudi Organization for Certified Public Accountants.

PKF Al-Bassam & Al-Nemer
Allied AccountantsP. O. Box 28355
Riyadh 11437
Kingdom of Saudi Arabia
Abdul Mohsen M. Al Nemer
Certified Public Accountant
License No. 399**KPMG Al Fozan & Partners**
Certified Public AccountantsP. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Khalil Ibrahim Al Sedais
Certified Public Accountant
Licence No. 3713 Jumada' II 1438H
2 March 2017

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	31 December 2016 SR	31 December 2015 SR
REINSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	6	42,891,784	61,025,692
Time deposits	14	67,551,600	35,218,332
Accrued special commission income from time deposits		1,070,010	72,199
Premium receivables	7	181,957,594	195,141,907
Investments held at fair value through income statement	8	93,447,337	73,707,373
Accrued insurance premiums	15	262,339,842	440,823,628
Retroceded share of unearned premiums	11	3,758,101	7,363,459
Deferred excess of loss premiums		17,516,594	17,389,664
Retroceded share of outstanding claims	9	110,649,986	60,496,840
Deferred acquisition costs	12	81,705,133	94,148,447
Prepaid expenses and other assets	10	49,276,087	91,221,256
Due from shareholders' operations		152,144,139	130,783,161
Property and equipment	13	3,402,655	5,455,845
TOTAL REINSURANCE OPERATIONS' ASSETS		1,067,710,862	1,212,847,803
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	6	27,950,269	31,917,275
Time deposits	14	112,456,507	118,849,000
Accrued special commission income from time deposits		2,191,242	540,411
Accrued special commission income from bonds and Sukuk		4,143,727	2,220,485
Investments held at fair value through income statement	8	724,579,017	687,580,266
Prepaid expenses and other assets	10	45,178	405,990
Statutory deposit	26	100,000,000	100,000,000
Return on investment of statutory deposit	26	10,242,145	7,592,394
Property and equipment	13	32,110,109	32,998,857
TOTAL SHAREHOLDERS' ASSETS		1,013,718,194	982,104,678
TOTAL ASSETS		2,081,429,056	2,194,952,481
REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Accounts payable		18,217,139	10,101,722
Retrocession balances payable		51,919,382	14,927,181
Accrued retroceded premiums		75,603	354,467
Gross unearned premiums	11	306,479,380	502,998,272
Gross outstanding claims	9	680,013,941	674,119,737
Unearned commission income	16	848,245	1,806,605
Accrued expenses and other liabilities	17	3,906,248	4,185,212
Employees' end of service benefits		3,958,044	3,164,713
TOTAL REINSURANCE OPERATIONS' LIABILITIES		1,065,417,982	1,211,657,909
REINSURANCE OPERATIONS' SURPLUS		2,292,880	1,189,894
TOTAL REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS		1,067,710,862	1,212,847,803
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Provision for Zakat and income tax	19 (c)	39,728,370	39,418,724
Due to reinsurance operations		152,144,139	130,783,161
Accrued expenses and other liabilities	17	6,302,569	2,173,675
Deferred return on investment of statutory deposit	26	10,242,145	7,592,394
TOTAL SHAREHOLDERS' LIABILITIES		208,417,223	179,967,954
SHAREHOLDERS' EQUITY			
Share capital	20	1,000,000,000	1,000,000,000
Statutory reserve	21	6,070,924	6,070,924
Accumulated deficit		(200,769,953)	(203,934,200)
TOTAL SHAREHOLDERS' EQUITY		805,300,971	802,136,724
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		1,013,718,194	982,104,678
TOTAL REINSURANCE OPERATIONS' LIABILITIES, SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY		2,081,429,056	2,194,952,481

Managing Director / Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME - REINSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For the year ended 31 December 2016

	Notes	2016 SR	2015 SR
Gross written premiums		985,510,354	804,825,788
Retroceded premiums		(5,582,043)	(12,177,198)
Excess of loss expenses		(41,744,005)	(37,856,616)
Net written premiums	11	938,184,306	754,791,974
Change in net unearned premiums	11	192,913,534	(259,256,614)
Net earned premiums	11	1,131,097,840	495,535,360
Net claims paid	28	(952,890,160)	(230,562,501)
Change in net outstanding claims	9	44,258,942	(108,920,252)
Net claims incurred		(908,631,218)	(339,482,753)
Gross acquisition costs and profit commission	12	(164,692,446)	(114,532,891)
Commissions earned on retroceded business	16	2,982,263	2,773,928
Supervision and inspection fees		(4,927,552)	(4,024,129)
Net acquisition costs		(166,637,735)	(115,783,092)
Surplus from reinsurance operations		55,828,887	40,269,515
Special commission income from time deposits		2,105,663	201,992
Realized gains/ (losses) on investments held at fair value through income statement	8(iii)	98,858	(73,118)
Unrealized gains on investments held at fair value through income statement	8(iii)	2,352,103	1,324,820
Other income		921,733	216,469
Investment management expenses		(344,216)	(315,456)
General and administrative expenses	22	(38,058,515)	(36,545,448)
Foreign exchange translation losses		(11,874,657)	(2,500,599)
Net surplus from reinsurance operations		11,029,856	2,578,175
Shareholders' appropriation from reinsurance operations' surplus	2	(9,926,870)	(2,320,358)
Reinsurance operations' surplus after shareholders' appropriation		1,102,986	257,817
Accumulated surplus at the beginning of the year		1,189,894	932,077
Accumulated surplus at the end of the year		2,292,880	1,189,894
Other comprehensive income		--	--
Total comprehensive income for the year from reinsurance operations		1,102,986	257,817


Managing Director / Chief Executive
Officer


Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF INCOME – SHAREHOLDERS’ OPERATIONS**For the year ended 31 December 2016**

	Notes	2016 SR	2015 SR
Special commission income from time deposits		3,740,243	582,899
Special commission income from bonds and Sukuk		2,980,537	5,283,305
Realized gains on investments held at fair value through income statement	8(iii)	433,532	60,267
Dividend income		2,693,101	3,687,500
Unrealized gains/ (losses) on investments held at fair value through income statement	8(iii)	12,819,617	(7,851,967)
Realized gains on investments held to maturity		--	6,032,940
Other income		--	2,716
Total investment income		22,667,030	7,797,660
General and administrative expenses	22	(9,851,144)	(5,271,929)
Investment management expenses		(2,802,742)	(3,000,497)
Board of directors’ remuneration, meeting fees and expenses	23	(1,576,144)	(1,647,862)
Foreign exchange translation gains / (losses)		99,954	(91,415)
Shareholders’ appropriation from reinsurance operations’ surplus	27	9,926,870	2,320,358
Net income for the year		18,463,824	106,315
Basic and diluted earnings per share for the year	25	0.185	0.001
Weighted average number of issued and outstanding shares		100,000,000	100,000,000


 Managing Director / Chief Executive Officer


 Chief Financial Officer


The accompanying notes 1 to 33 form an integral part of these financial statements.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS**For the year ended 31 December 2016**

	<u>2016</u> <u>SR</u>	<u>2015</u> <u>SR</u>
Net income for the year	18,463,824	106,315
Other comprehensive income	--	--
Total comprehensive income for the year	<u>18,463,824</u>	<u>106,315</u>



Managing Director / Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2016

	GCC Shareholders and General Public					Non – GCC Shareholders					Total		
	Notes	Share capital	Statutory reserve	Accumulated deficit	SR	Share capital	Statutory reserve	Retained earnings/ (Accumulated deficit)	SR	Share capital	Statutory reserve	Accumulated deficit	Total
		SR	SR	SR		SR	SR	SR		SR	SR		
Balance as at 1 January 2015		974,152,000	5,914,003	(189,235,211)		25,848,000	156,921	589,505		1,000,000,000	6,070,924	(188,645,706)	817,425,218
Transfer during the year		1,926,306	11,694	--		(1,926,306)	(11,694)	--		--	--	--	--
Total comprehensive income for the year		--	--	103,773		--	--	2,542		--	--	106,315	106,315
Zakat and income tax	19	--	--	(15,376,199)		--	--	(18,610)		--	--	(15,394,809)	(15,394,809)
Balance as at 31 December 2015		976,078,306	5,925,697	(204,507,637)		23,921,694	145,227	573,437		1,000,000,000	6,070,924	(203,934,200)	802,136,724
Transfer during the year		(5,187,906)	(31,495)	1,086,968		5,187,906	31,495	(1,086,968)		--	--	--	--
Total comprehensive income for the year		--	--	17,926,342		--	--	537,482		--	--	18,463,824	18,463,824
Zakat and income tax	19	--	--	(15,229,023)		--	--	(70,554)		--	--	(15,299,577)	(15,299,577)
Balance as at 31 December 2016		970,890,400	5,894,202	(200,723,350)		29,109,600	176,722	(46,603)		1,000,000,000	6,070,924	(200,769,953)	805,300,971


Managing Director / Chief Executive Officer



Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

SAUDI RE FOR COOPERTATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS – REINSURANCE OPERATIONS

For the year ended 31 December 2016

	Notes	2016 SR	2015 SR
OPERATING ACTIVITIES			
Reinsurance operations' surplus after shareholders' appropriation		1,102,986	257,817
<i>Adjustments to reconcile reinsurance operations' surplus after shareholders' appropriation to net cash from operating activities:</i>			
Employees' end of service benefits		1,174,484	1,179,626
Depreciation	13 a	2,349,025	2,388,828
Allocated depreciation from shareholders' operations	13 b	888,748	808,506
Realized (gains) / losses on investments held at fair value through income statement	8(iii)	(98,858)	73,118
Unrealized gains on investments held at fair value through income statement	8(iii)	(2,352,103)	(1,324,820)
Profit from disposal of property and equipment		--	(86,998)
Retroceded share of unearned premiums	11	3,605,358	(5,283,019)
Provision / (reversal) for doubtful debts	7	2,330,630	(934,952)
Gross unearned premiums	11	(196,518,892)	264,539,633
Shareholders' appropriation from reinsurance operations' surplus		9,926,870	2,320,358
Operating cash flows before changes in operating assets and liabilities		(177,591,752)	263,938,097
Changes in operating assets and liabilities:			
Premiums receivable, gross		10,853,683	(81,467,857)
Accrued insurance premiums		178,483,786	(220,637,375)
Retroceded share of outstanding claims	9	(50,153,146)	44,642,806
Deferred acquisition costs		12,443,314	(30,635,866)
Deferred excess of loss premiums		(126,930)	(77,849)
Prepaid expenses and other assets		41,945,169	(63,180,321)
Accounts payable		8,115,417	(12,515,934)
Retrocession balances payable		36,992,201	10,754,121
Accrued retroceded premiums		(278,864)	(774,786)
Gross outstanding claims	9	5,894,204	64,277,446
Unearned commission income		(958,360)	1,056,823
Accrued expenses and other liabilities		(278,964)	1,705,550
Cash from/ (used in) operations		65,339,758	(22,915,145)
Employees' end of service benefits paid		(381,153)	(495,914)
Net cash from/ (used in) operating activities		64,958,605	(23,411,059)
INVESTING ACTIVITIES			
Purchase of property and equipment	13a	(295,835)	(1,575,633)
Additions in investments held at fair value through income statement	8(iii)	(39,232,824)	(55,437,973)
Proceeds from disposal of property plant and equipment		--	86,998
Accrued special commission income on time deposits		(997,811)	--
Proceeds from investments held at fair value through income statement	8(iii)	21,943,821	107,894,039
Time deposits		(32,333,268)	(22,093,332)
Net cash (used in)/ from investing activities		(50,915,917)	28,874,099
FINANCING ACTIVITY			
Net movement in due (from) / to shareholders' operations		(32,176,596)	54,107,788
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(18,133,908)	59,570,828
Cash and cash equivalents at the beginning of the year	6	61,025,692	1,454,864
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	42,891,784	61,025,692
Non-cash transaction:			
Allocation of depreciation by shareholders' operations	13a	888,748	808,506

Managing Director / Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS – SHAREHOLDERS’ OPERATIONS

For the year ended 31 December 2016

	Note	2016 SR	2015 SR
OPERATING ACTIVITIES			
Net income for the year		18,463,824	106,315
<i>Adjustments to reconcile net income to net cash used in operating activities:</i>			
Realized gains on investments held at fair value through income statement	8(iii)	(433,532)	(60,267)
Unrealized (gains) / losses on investments held at fair value through income statement	8(iii)	(12,819,617)	7,851,967
Income on statutory deposit		(2,649,751)	(7,592,394)
Shareholders’ appropriation from reinsurance operations’ surplus		(9,926,870)	(2,320,358)
Operating cash flows before changes in operating assets and liabilities		(7,365,946)	(2,014,737)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		360,812	6,694,723
Accrued expenses and other liabilities		4,128,894	(6,045,389)
Deferred return on investment of statutory deposit		2,649,751	7,592,394
Cash (used in) / from operations		(226,489)	6,226,991
Zakat and income tax paid	19(c)	(14,989,931)	(11,417,727)
Net cash used in operating activities		(15,216,420)	(5,190,736)
INVESTING ACTIVITIES			
Purchase of property and equipment	13b	--	(285,861)
Accrued special commission income from time deposits		(1,650,831)	(470,376)
Accrued special commission income from bonds and sukuk		(1,923,242)	1,483,281
Additions in investments held at fair value through income statement	8(iii)	(149,522,772)	(219,579,979)
Proceeds from investments held at fair value through income statement	8(iii)	125,777,170	256,879,577
Time deposits		6,392,493	(118,849,000)
Proceeds from held to maturity investments		--	145,470,427
Net cash (used in)/ from investing activities		(20,927,182)	64,648,069
FINANCING ACTIVITY			
Net movement in due to / (from) shareholders’ operations		32,176,596	(54,107,788)
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(3,967,006)	5,349,545
Cash and cash equivalents at the beginning of the year	6	31,917,275	26,567,730
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	27,950,269	31,917,275


 Managing Director / Chief Executive Officer


 Chief Financial Officer

The accompanying notes 1 to 33 form and integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Reinsurance Company (the “Company”) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010250125 dated 12 Jumad Al-Awal 1429H (corresponding to 17 May 2008) with a branch in the Federal Territory of Labuan, Malaysia with license number IS2014146. The address of the Company’s registered office is at P.O. Box 300259, Riyadh 11372, Al Wadi, Northern Ring Road West, Exit 7, Building 4130, Riyadh, Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative reinsurance and related activities inside and outside the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the measurement of investments held at fair value through income statement.

Statement of compliance

The financial statements of the Company for the year ended 31 December 2016 have been prepared by the management in accordance with International Financial Reporting Standards (IFRS).

Basis of presentation

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for reinsurance operations and shareholders’ operations. The physical custody of all assets related to the reinsurance 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 reinsurance operations to policyholders and the remaining 90% to the shareholders of the Company in accordance with the Insurance Law and Implementation Regulations issued by SAMA. Any deficit arising on reinsurance 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 Rajab 1437H (corresponding to 2 May 2016). The Company has to amend its Articles of Association for any changes to align the Articles to the provisions of the law. Consequently, the Company shall present the amended Articles of Association to the shareholders in their Extraordinary General Assembly meeting for their ratification. The full compliance with The Law is expected not later than 24 Rajab 1438H (corresponding to 21 April 2017).

Functional and presentational currency

The functional and presentational currency of the Company is Saudi Riyal.

3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of the following new standards and other amendments to existing standards mentioned below:

New and amended standards issued and adopted

Annual improvements to IFRSs 2012 – 2014

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

Disclosure initiative (Amendments to IAS 1)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS (Continued)

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 is 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.

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

Retrocession

The Company uses retrocession agreements to reduce its exposure to catastrophic losses on risks assumed to increase its aggregate underwriting capacity. The ceding of risk to retrocessionaires does not relieve the Company from its direct obligations to its ceding companies. An impairment review of amounts recoverable under retrocession agreements is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. 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 retrocessionaire can be

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

measured reliably. The impairment loss is recorded in the statement of comprehensive income-reinsurance operations and accumulated surplus.

Premiums and claims are presented on a gross basis for both assumed reinsurance and retroceded business.

Retrocession liabilities represent balances due to retrocessionaires. Amounts payable are estimated in a manner consistent with the associated retrocession contract. Retroceded assets and liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Cash and cash equivalents

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

Dividend income

Dividend income is recognised when the right to receive payment is established, which is generally when shareholders approve the dividend.

Deferred acquisition costs (DAC)

Direct costs incurred during the financial period arising from the writing or renewing of reinsurance contracts are deferred to the extent that these costs are recoverable out of future premiums. Subsequent to initial recognition, deferred costs are amortized using the same basis as for unearned premiums. Amortization is recorded in the statement of comprehensive income- reinsurance operations and accumulated surplus. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate.

An impairment review is performed at each 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 recognized in the statement of comprehensive income- reinsurance operations and accumulated surplus. DAC is also considered in the liability adequacy test for each reporting period.

Deferred policy acquisition costs are derecognised when the related contracts are either settled or disposed off.

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 statement of comprehensive income-reinsurance operations and accumulated surplus and statement of comprehensive income- shareholders' operations as they are consumed or expire with the passage of time.

Property and equipment

Property and equipment is stated at cost net of accumulated depreciation and any impairment in value. When significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in statement of comprehensive income- reinsurance operations and accumulated surplus and statement of comprehensive income- shareholders' operations as incurred. Freehold land and capital work in progress are not depreciated.

The cost of all other property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets as follows:

Building	33 Years
Computers and equipment	3-5 Years
Furniture and fixtures	5 Years
Motor vehicles	4 Years
Leasehold improvements	10 Years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of these assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income- reinsurance operations and accumulated surplus and statement of comprehensive income- shareholders' operations or taken into income in the year the asset is derecognised.

Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. 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 can be measured reliably. If such evidence exists, any impairment loss is recognized in the statement of Comprehensive income-reinsurance operations and accumulated surplus or the statement of comprehensive income-shareholders' operations.

Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of reinsurance operations and accumulated surplus or the statement of shareholders' operations;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective special commission rate.

Gross written premiums

Gross written premiums comprise of total premiums in relation to contracts incepting during the financial year irrespective of whether they relate in whole or in part to a later accounting period. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Company at the statement of financial position date. Pipeline premiums are reported as accrued insurance premiums in the statement of financial position.

Where contract terms require the reinstatement of coverage after a ceding company's loss, the mandatory reinstatement premiums are calculated in accordance with the contract terms.

Premiums earned and commission income

Premiums and commission income are earned over the periods to which they relate to cover the reinsurance risk. Unearned premiums and commission income represent the portion of premiums written and commission income relating to the unexpired period of coverage and are deferred based on the following methods:

- Actual number of days for facultative reinsurance and non-proportional reinsurance treaties and portfolio transferred from insurance companies.
- For proportional reinsurance treaties under consideration of the underlying exposure in relation to the line of business as follows:

<u>Line of business</u>	<u>Years</u>
Engineering	4
Others	2
Special contracts	Based on underlying terms and nature

The change in the provision for unearned premiums and commission income is taken to the statement of comprehensive income- reinsurance operations and accumulated surplus in order to recognize revenue over the period to cover the reinsurance risks.

Claims

Claims, comprise of amounts of claims estimates notified by ceding companies under reinsurance contracts and related loss adjustment expenses, net of recoveries and are charged to statement of comprehensive income- reinsurance operations and accumulated surplus.

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. The ultimate liability may be in excess of or less than the amount provided.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the statement of reinsurance operations for that year. The Company does not discount its liabilities for unpaid claims as substantially most claims are expected to be paid within one year of the financial reporting date.

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 ratios 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 gross basis and the related share of retroceded is shown separately.

Liability adequacy test

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

Premiums receivable

Premiums receivable are recognized when due and measured on initial recognition at the fair value of the considerations received or receivable. Subsequently, it is measured at amortized cost. The carrying value of premiums 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 reinsurance operations and accumulated surplus. Premiums receivable are derecognized when the derecognition criteria for financial assets have been met.

Accounts payable and accruals

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

Special commission income

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

Investments held at fair value through income statement

Investments held at fair value through income statement are investments designated at fair value through income statement at inception. For investments designated as fair value through income statement, the following criteria must be met:

- This designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on a different basis, or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, such assets and liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are measured at fair value.

Fair value adjustments and realised gains and losses are recognized in the statement of reinsurance operations and accumulated surplus and the statement of shareholders' operations.

General and administrative expenses

All expenses incurred during the fiscal year not directly relating to underwriting are classified as general and administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the respective statements of comprehensive income-reinsurance operations and accumulated surplus or shareholders' operations.

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 GCC shareholders and general public and to income tax attributable to the non GCC 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 accumulated deficits. Income tax charged to the accumulated deficits, in excess to the proportion of the Saudi shareholders' zakat per share, is recovered from the foreign shareholders and credited to retained earnings.

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

Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) 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.

Offsetting financial assets and financial liabilities

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 recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statements of comprehensive income-reinsurance operations and accumulated surplus and shareholders' operations unless required or permitted by any accounting standard or interpretation.

Trade date accounting

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

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:

- Engineering is a comprehensive insurance cover that is available to the insured in respect of contingencies which may happen on a construction or erection site. It provides an all risks cover for the works as well as a liability cover towards third parties for material damage or injury sustained as a result of the work being undertaken. The cover is also available for machinery.
- Fire insurance pays for specific losses when a property is damaged due to fire, flood, earthquake and other external perils. It may also provide indemnity for loss of profit in case of an industrial or commercial activity.
- Marine insurance covers the loss or damage to cargo, terminals and or damage of ships or other means of transport of cargo by which property is transferred between the points of origin and final destination

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Motor insurance pays for loss or damage to own motor vehicles involved in accidents. It also pays for losses caused by its use to third party properties and bodily injuries
- Term life insurance is used to provide financial aid for dependents in case of death and in certain cases of illness or disability. It can be an individual or a group policy with set duration limit on the coverage with the option to renew the policy or not. Credit life insurance is used to pay off a borrower's debt if that borrower dies, with set duration limit on coverage with the option to renew the policy or not.
- General accident covers a variety of events/properties such as money, liabilities and personal accident whether for individual or group.

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

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

Deferred Excess of Loss Premiums

The company uses non-proportional excess of loss retrocession agreements on loss occurring basis to reduce its exposure arising from per risk and catastrophic losses on risks assumed and to manage underwriting capacity. The costs related to these agreements are amortized over the period of underwriting contracts and charged to statement of comprehensive income- reinsurance operations and accumulated surplus.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the 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 next financial year are discussed below.

The ultimate liability arising from claims made under reinsurance contracts

The estimation of the ultimate liability arising from claims made under reinsurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that are needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the statement of financial position date, for which the insured event has occurred prior to the end of financial reporting date.

The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis. The Risk and Underwriting Committee, in conjunction with the Company's external actuaries, compares the changes in the technical reserves, to determine whether the change is reasonable.

Impairment losses on receivables

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

Deferred acquisition costs

Commission and other costs directly and indirectly related to the acquisition and renewal of reinsurance contracts are recorded as deferred acquisition costs (DAC) and are amortized in the statement of reinsurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortization of these costs could be accelerated and this may also require additional impairment.

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 between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

The Investment Committee, in conjunction with the Company's external fund managers, evaluates the performance of each investment to determine whether the same is reasonable in comparison to the market.

The Company's management, evaluates the changes in the fair value of each of the other assets and liabilities, to determine whether the applied methodology is reasonable.

Accrued insurance premium

Estimates have to be made for expected future premium from policies already written but not reported at the reporting date. Due to the nature of reinsurance business, it takes a significant period of time before all premiums are reported for a given underwriting period. Therefore considerable judgement, experience and knowledge of the business is required by management in the estimation of accrued premiums due from contract holders. Actual results may differ resulting in positive or negative change in estimated accrued premium income.

The accrued premium estimates are reviewed regularly by the management by using various methods. Primarily using historical reporting trends as a base for assessing future premium amounts. Historical premiums developments are mainly analysed by underwriting year, by type and line of business.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

6. CASH AND CASH EQUIVALENTS

	2016		2015	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
	SR	SR	SR	SR
Cash on hand	20,000	--	20,000	--
Cash at bank- current account	15,721,020	27,950,269	11,005,692	5,667,500
Cash at bank- short time deposit	27,150,764	--	50,000,000	26,249,775
	<u>42,891,784</u>	<u>27,950,269</u>	<u>61,025,692</u>	<u>31,917,275</u>

Time deposits are placed with banks which have credit ratings in line with Company's investment policy and have maturity period of less than three months from the date of original placement. Average effective interest rate for these deposits is 0.95% (2015: 2.01%)

Cash at banks are placed with counterparties which have investment grade credit ratings.

7. PREMIUMS RECEIVABLES

	2016	2015
	SR	SR
Premiums receivable, gross	186,910,560	197,764,243
Less: Provision for doubtful debts	(4,952,966)	(2,622,336)
Premium receivable	<u>181,957,594</u>	<u>195,141,907</u>

The movement in provision for doubtful debts is as follows:

	2016	2015
	SR	SR
Opening balance	2,622,336	3,557,288
Charge / (reversal) for the year	2,330,630	(934,952)
Closing balance	<u>4,952,966</u>	<u>2,622,336</u>

As at 31 December, the ageing of gross premiums receivables is as follows:

	Neither past due nor impaired	Past due but not impaired			Past due and impaired	Total
	SR	Less than 90 days	91 to 180 days	More than 180 days	SR	SR
2016	114,165,810	36,198,090	13,092,430	18,501,264	4,952,966	186,910,560
2015	138,023,334	25,943,800	19,011,324	12,163,449	2,622,336	197,764,243

Premium receivables include premium deposits of SR 58,032,495 (2015: SR 83,812,885) and claims deposits of SR 16,148,346 (2015: SR 13,661,124). These deposits are retained by the cedants as per the terms of reinsurance treaties and are of rolling nature. These deposits are released within 12 months after the inception of the reinsurance treaty.

In addition, premium receivables include a sum of SR 43,362,901 (2015: SR 40,429,430) which is for premiums not yet due as per credit terms agreed with the cedants.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

8. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT

i. Investments held at fair value through income statement consist of the following:

	Reinsurance operations		Shareholders' operations	
	2016	2015	2016	2015
	SR	SR	SR	SR
Money Market Funds	39,245,084	21,844,963	85,410,773	36,280,976
Investment Funds	--	--	50,000,000	25,000,000
Equities	--	--	142,975,208	175,235,360
Fixed-Rate Bonds and Sukuks	52,685,763	49,380,880	378,817,260	396,373,680
Floating-Rate Bonds and Sukuks	1,516,490	2,481,530	67,375,776	54,690,250
	<u>93,447,337</u>	<u>73,707,373</u>	<u>724,579,017</u>	<u>687,580,266</u>

ii. The analysis of the composition of investments for shareholders' operations is as follows:

	2016		
	Quoted	Unquoted	Total
	SR	SR	SR
Money Market Funds	85,410,773	--	85,410,773
Investment Funds	--	50,000,000	50,000,000
Equities	142,975,208	--	142,975,208
Fixed-Rate Bonds and Sukuks	321,252,746	57,564,514	378,817,260
Floating-Rate Bonds and Sukuks	27,375,776	40,000,000	67,375,776
	<u>577,014,503</u>	<u>147,564,514</u>	<u>724,579,017</u>
	2015		
	Quoted	Unquoted	Total
	SR	SR	SR
Money Market Funds	36,280,976	--	36,280,976
Investment Funds	--	25,000,000	25,000,000
Equities	175,235,360	--	175,235,360
Fixed-Rate Bonds and Sukuks	356,336,611	40,037,069	396,373,680
Floating-Rate Bonds and Sukuks	54,690,250	--	54,690,250
	<u>622,543,197</u>	<u>65,037,069</u>	<u>687,580,266</u>

As at 31 December 2016 and 31 December 2015, all financial instruments under reinsurance operations which are measured at fair value are, are quoted and classified as Level 1 instruments. The following table shows an analysis of financial instruments under shareholders' operations measured at fair value by level of the fair value hierarchy:

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

8. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT (CONTINUED)

	2016			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Money Market Funds	85,410,773	--	--	85,410,773
Investment Funds	--	50,000,000	--	50,000,000
Equities	142,975,208	--	--	142,975,208
Fixed-Rate Bonds and Sukuks	321,252,746	57,564,514	--	378,817,260
Floating-Rate Bonds and Sukuks	27,375,776	40,000,000	--	67,375,776
	<u>577,014,503</u>	<u>147,564,514</u>	<u>--</u>	<u>724,579,017</u>
	2015			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Money Market Funds	36,280,976	--	--	36,280,976
Investment Funds	--	25,000,000	--	25,000,000
Equities	175,235,360	--	--	175,235,360
Fixed-Rate Bonds and Sukuks	298,924,502	77,500,000	--	376,424,502
Floating-Rate Bonds and Sukuks	54,639,428	20,000,000	--	74,639,428
	<u>565,080,266</u>	<u>122,500,000</u>	<u>--</u>	<u>687,580,266</u>

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 during the year ended 31 December 2016 and year ended 31 December 2015.

Investments under reinsurance and shareholders' operations include cash component of SR 1.5 million and SR 17 million respectively as at 31 December 2016 (31 December 2015: SR 4.1 million and SR 17.2 million respectively) available with external fund managers within the agreed investment guidelines.

iii. The movement of investments held at fair value through income statement is as follows:

	2016 SR		2015 SR	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
Opening balance	73,707,373	687,580,266	124,911,737	732,671,564
Additions	39,232,824	149,522,772	55,437,973	219,579,979
Disposals	(21,943,821)	(125,777,170)	(107,894,039)	(256,879,577)
Unrealized gains / (losses)	2,352,103	12,819,617	1,324,820	(7,851,967)
Realized gains/ (losses)	98,858	433,532	(73,118)	60,267
Closing balance	<u>93,447,337</u>	<u>724,579,017</u>	<u>73,707,373</u>	<u>687,580,266</u>

iv. The geographical split of investments held at fair value through income statement is as follows:

	Domestic		International		Total	
	2016 SR	2015 SR	2016 SR	2015 SR	2016 SR	2015 SR
Reinsurance operations						
Money Market Funds	39,245,084	21,844,963	--	--	39,245,084	21,844,963
Fixed-Rate Bonds and Sukuks	--	3,913,426	52,685,763	45,467,454	52,685,763	49,380,880
Floating-Rate Bonds and Sukuks	--	--	1,516,490	2,481,530	1,516,490	2,481,530
Total	<u>39,245,084</u>	<u>25,758,389</u>	<u>54,202,253</u>	<u>47,948,984</u>	<u>93,447,337</u>	<u>73,707,373</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

8 INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT (CONTINUED)

	Domestic		International		Total	
	2016	2015	2016	2015	2016	2015
	SR	SR	SR	SR	SR	SR
Shareholders' operations						
Money Market Funds	85,410,773	36,280,976	--	--	85,410,773	36,280,976
Investment Funds	50,000,000	25,000,000	--	--	50,000,000	25,000,000
Equities	50,756,270	78,742,056	92,218,938	96,493,304	142,975,208	175,235,360
Fixed-Rate Bonds and Sukuks	40,000,000	49,110,657	338,817,260	347,263,023	378,817,260	396,373,680
Floating-Rate Bonds and Sukuks	40,000,000	20,000,000	27,375,776	34,690,250	67,375,776	54,690,250
Total	266,167,043	209,133,689	458,411,974	478,446,577	724,579,017	687,580,266

v. The analysis of investments by counter-party is as follows:

	Reinsurance operations		Shareholders' operations	
	2016	2015	2016	2015
	SR	SR	SR	SR
Fixed income counterparties				
Saudi Government	8,455,551	3,915,612	82,048,223	51,060,721
Non Saudi Government	34,364,229	34,711,511	280,267,121	236,649,185
Corporate and financial institutions	11,382,473	13,235,287	83,877,692	163,354,024
	54,202,253	51,862,410	446,193,036	451,063,930
Others				
Money Market Funds	39,245,084	21,844,963	85,410,773	36,280,976
Investment Funds	--	--	50,000,000	25,000,000
Equities	--	--	142,975,208	175,235,360
	39,245,084	21,844,963	278,385,981	236,516,336
Total	93,447,337	73,707,373	724,579,017	687,580,266

9. OUTSTANDING CLAIMS

	2016		
	Gross	Retroceded	Net
	SR	share	SR
Opening balance	674,119,737	(60,496,840)	613,622,897
Outstanding claims provided during the year	35,047,589	(47,656,047)	(12,608,458)
Claims incurred but not reported provided during the year	(29,153,385)	(2,497,099)	(31,650,484)
Change in outstanding claims	5,894,204	(50,153,146)	(44,258,942)
Closing balance	680,013,941	(110,649,986)	569,363,955
	2015		
	Gross	Retroceded	Net
	SR	share	SR
Opening balance	609,842,291	(105,139,646)	504,702,645
Outstanding claims provided during the year	(4,460,109)	31,061,608	26,601,499
Claims incurred but not reported provided during the year	68,737,555	13,581,198	82,318,753
Change in outstanding claims	64,277,446	44,642,806	108,920,252
Closing balance	674,119,737	(60,496,840)	613,622,897

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

10. PREPAID EXPENSES AND OTHER ASSETS

	2016		2015	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Refundable deposits	103,233	--	42,138,543	--
Guarantee deposits (Note 31b)	47,250,000	--	47,250,000	--
Advances to employees	543,418	--	456,271	--
Advance payments	281,387	--	275,042	--
Prepaid insurance	303,769	45,178	271,977	55,867
Special commission received on statutory deposit	--	--	--	350,123
Others	794,280	--	829,423	--
	<u>49,276,087</u>	<u>45,178</u>	<u>91,221,256</u>	<u>405,990</u>

11. UNEARNED PREMIUMS

	2016		
	Gross SR	Retroceded share SR	Net SR
Opening balance	502,998,272	(7,363,459)	495,634,813
Premiums written during the year	985,510,354	(47,326,048)	938,184,306
Premium earned	(1,182,029,246)	50,931,406	(1,131,097,840)
Change in unearned premiums	(196,518,892)	3,605,358	(192,913,534)
Closing balance	<u>306,479,380</u>	<u>(3,758,101)</u>	<u>302,721,279</u>

	2015		
	Gross SR	Retroceded share SR	Net SR
Opening balance	238,458,639	(2,080,440)	236,378,199
Premiums written during the year	804,825,788	(50,033,814)	754,791,974
Premiums earned	(540,286,155)	44,750,795	(495,535,360)
Change in unearned premiums	264,539,633	(5,283,019)	259,256,614
Closing balance	<u>502,998,272</u>	<u>(7,363,459)</u>	<u>495,634,813</u>

12. DEFERRED ACQUISITION COSTS

	2016 SR	2015 SR
Opening balance	94,148,447	63,512,581
Incurred during the year	152,249,132	145,168,757
Charged for the year	(164,692,446)	(114,532,891)
Closing balance	<u>81,705,133</u>	<u>94,148,447</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

13. PROPERTY AND EQUIPMENT

a) Reinsurance operations:

	Computers and Equipment SR	Furniture and Fixtures SR	Motor Vehicles SR	Leasehold Improvements SR	Work in Progress* SR	Total SR
Cost:						
As at 1 January 2016	11,539,160	362,469	723,661	368,834	136,576	13,130,700
Additions during the year	253,667	--	--	--	42,168	295,835
Disposals during the year	--	--	--	--	--	--
As at 31 December 2016	11,792,827	362,469	723,661	368,834	178,744	13,426,535
Accumulated depreciation:						
As at 1 January 2016	7,275,493	180,727	198,590	20,045	--	7,674,855
Charged for the year	2,051,066	52,315	192,741	52,903	--	2,349,025
Disposals during the year	--	--	--	--	--	--
As at 31 December 2016	9,326,559	233,042	391,331	72,948	--	10,023,880
Net book value						
As at 31 December 2016	2,466,268	129,427	332,330	295,886	178,744	3,402,655
As at 31 December 2015	4,263,667	181,742	525,071	348,789	136,576	5,455,845

* Work in progress represents certain advances for the IT infrastructure.

Following is the depreciation charge for reinsurance operations:

	2016 SR	2015 SR
Depreciation charge for the year	2,349,025	2,388,828
Allocated from shareholders' operations	888,748	808,506
	3,237,773	3,197,334

b) Shareholders' operations:

	Land SR	Building SR	Furniture and Fixtures SR	Total SR
Cost:				
As at 1 January 2016	18,329,960	11,454,040	4,706,907	34,490,907
Additions during the year	--	--	--	--
As at 31 December 2016	18,329,960	11,454,040	4,706,907	34,490,907
Accumulated depreciation:				
As at 1 January 2016	--	665,260	826,790	1,492,050
Charged for the year	--	349,891	538,857	888,748
As at 31 December 2016	--	1,015,151	1,365,647	2,380,798
Net book value:				
As at 31 December 2016	18,329,960	10,438,889	3,341,260	32,110,109
As at 31 December 2015	18,329,960	10,788,780	3,880,117	32,998,857

14. TIME DEPOSITS

	2016		2015	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Deposits with banks	67,551,600	112,456,507	35,218,332	118,849,000

Time deposits are placed with banks which have credit ratings in line with Company's investment policy and have maturity period of more than three months from the date of original placement. Such deposits earn special commission at an average effective commission rate of 2.93% per annum (31 December 2015: 1.74% per annum).

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

15. ACCRUED INSURANCE PREMIUMS

The gross written premiums (GWP) of proportional treaty reinsurance contracts include estimates of premiums due to the company but not yet reported by the cedant. This portion of GWP is considered as pipeline premium and accounted in the Statement of Financial Position as 'Accrued insurance premiums' net of related acquisition costs. These pipeline/accrued premiums are estimated at the inception of the reinsurance contract based on cedants / brokers forecasts and management's evaluation of these forecasts. Management reviews and evaluates all premium estimates, comparing actual premiums to expected ultimate premiums on a quarterly basis and any adjustments to these estimates are recorded in the financial statements as and when updated information comes to light the same.

16. UNEARNED COMMISSION INCOME

	2016	2015
	SR	SR
Opening balance	1,806,605	749,782
Commission received on retroceded business during the year	2,023,903	3,830,751
Commission earned on retroceded business during the year	(2,982,263)	(2,773,928)
Closing balance	848,245	1,806,605

17. ACCRUED EXPENSES AND OTHER LIABILITIES

	2016		2015	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Consultancy fees	--	4,371,910	--	--
Employees' bonus	2,074,019	--	2,092,008	--
Withholding tax payable	683,920	--	605,811	--
Professional fees payable	853,008	1,531,172	401,006	1,281,246
Meeting fees and expenses	--	399,487	--	542,306
Others	295,301	--	1,086,387	350,123
	3,906,248	6,302,569	4,185,212	2,173,675

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31 December 2016****18. CLAIMS DEVELOPMENT TABLE**

The following table shows the estimates of cumulative incurred claims, including both claims notified and incurred but not reported for each successive underwriting year at each reporting date, together with cumulative payments to date. The development of reinsurance 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 reinsurance 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 underwriting years. In order to maintain adequate reserves, the Company will transfer much of this release to the future underwriting years' reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Gross reinsurance contract outstanding claims provision for 2016:

Underwriting year	2008 SR	2009 SR	2010 SR	2011 SR	2012 SR	2013 SR	2014 SR	2015 SR	2016 SR	Total SR
At end of underwriting year	--	14,520,676	30,798,975	63,230,532	69,164,521	150,462,724	187,143,372	244,219,320	166,623,103	--
One year later	1,793,121	35,897,707	99,353,485	85,920,289	240,626,386	345,533,036	363,013,230	1,077,604,859	--	--
Two years later	1,853,185	35,972,815	106,903,280	128,607,311	271,155,615	290,774,616	352,024,496	--	--	--
Three years later	1,213,702	35,209,077	109,830,417	136,476,277	261,439,051	290,304,834	--	--	--	--
Four years later	2,223,459	40,669,444	113,760,058	138,517,833	261,215,205	--	--	--	--	--
Five years later	2,125,379	37,570,485	108,556,720	127,676,417	--	--	--	--	--	--
Six years later	1,909,542	35,605,945	109,359,577	--	--	--	--	--	--	--
Seven years later	2,226,105	35,030,375	--	--	--	--	--	--	--	--
Eight years later	1,901,072	--	--	--	--	--	--	--	--	--
Current estimate of cumulative claims incurred	1,901,072	35,030,375	109,359,577	127,676,417	261,215,205	290,304,834	352,024,496	1,077,604,859	166,623,103	2,421,739,938
Cumulative payments to date	(1,761,091)	(32,938,398)	(101,965,473)	(112,311,592)	(224,398,803)	(227,894,518)	(262,245,047)	(783,481,842)	5,270,767	(1,741,725,997)
Total gross outstanding claims provision per the statement of financial position	139,981	2,091,977	7,394,104	15,364,825	36,816,402	62,410,316	89,779,449	294,123,017	171,893,870	680,013,941

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31 December 2016****18. CLAIMS DEVELOPMENT TABLE (CONTINUED)**

Gross reinsurance contract outstanding claims provision for 2015:

Underwriting year	2008 SR	2009 SR	2010 SR	2011 SR	2012 SR	2013 SR	2014 SR	2015 SR	Total SR
At end of underwriting year	--	14,604,225	36,202,623	63,269,242	69,508,746	151,085,137	189,635,345	246,424,970	--
One year later	1,793,149	35,936,856	102,016,518	85,963,070	241,296,822	346,110,228	366,004,953	--	--
Two years later	1,853,224	36,042,601	107,053,285	128,651,851	272,147,397	292,007,747	--	--	--
Three years later	1,215,210	35,215,559	110,002,720	136,558,005	262,332,461	--	--	--	--
Four years later	2,224,879	40,678,650	113,907,968	138,614,511	--	--	--	--	--
Five years later	2,125,404	37,570,689	108,691,503	--	--	--	--	--	--
Six years later	1,909,555	35,606,498	--	--	--	--	--	--	--
Seven years later	2,226,110	--	--	--	--	--	--	--	--
Current estimate of cumulative claims incurred	2,226,110	35,606,498	108,691,503	138,614,511	262,332,461	292,007,747	366,004,953	246,424,970	1,451,908,753
Cumulative payments to date	(1,727,631)	(31,389,394)	(98,346,204)	(96,311,609)	(202,319,159)	(186,394,385)	(158,785,413)	(2,515,221)	(777,789,016)
Total gross outstanding claims provision per the statement of financial position	498,479	4,217,104	10,345,299	42,302,902	60,013,302	105,613,362	207,219,540	243,909,749	674,119,737

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31 December 2016****18 CLAIMS DEVELOPMENT TABLE (CONTINUED)**

Net reinsurance contract outstanding claims provision for 2016:

Underwriting year	2008 SR	2009 SR	2010 SR	2011 SR	2012 SR	2013 SR	2014 SR	2015 SR	2016 SR	Total SR
At end of underwriting year	--	5,644,026	10,222,278	42,015,295	69,164,521	150,682,714	159,049,462	232,617,786	165,447,892	--
One year later	424,914	14,694,016	28,449,960	29,726,072	196,212,903	333,386,920	319,593,960	994,792,461	--	--
Two years later	402,926	14,350,363	27,861,307	79,016,403	231,170,766	282,989,674	324,313,173	--	--	--
Three years later	317,592	11,797,348	35,120,821	90,768,394	225,736,815	277,802,280	--	--	--	--
Four years later	466,832	13,214,443	35,156,433	95,157,209	222,427,436	--	--	--	--	--
Five years later	470,127	12,411,591	36,115,945	88,613,263	--	--	--	--	--	--
Six years later	334,269	11,536,274	35,707,566	--	--	--	--	--	--	--
Seven years later	544,577	11,379,205	--	--	--	--	--	--	--	--
Eight years later	371,376	--	--	--	--	--	--	--	--	--
Current estimate of cumulative claims incurred	371,376	11,379,205	35,707,566	88,613,263	222,427,436	277,802,280	324,313,173	994,792,461	165,447,892	2,120,854,652
Net cumulative payments to date	(353,895)	(10,806,225)	(33,421,451)	(76,749,150)	(186,564,467)	(225,310,469)	(244,019,492)	(779,536,317)	5,270,769	(1,551,490,697)
Total net outstanding claims provision per the statement of financial position	17,481	572,980	2,286,115	11,864,113	35,862,969	52,491,811	80,293,681	215,256,144	170,718,661	569,363,955

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31 December 2016****18 CLAIMS DEVELOPMENT TABLE (CONTINUED)**

Net reinsurance contract outstanding claims provision for 2015:

Underwriting year	2008 SR	2009 SR	2010 SR	2011 SR	2012 SR	2013 SR	2014 SR	2015 SR	Total SR
At end of underwriting year	--	4,851,120	11,079,822	37,148,105	69,508,746	151,021,927	161,541,449	235,003,521	--
One year later	422,605	11,785,718	28,523,423	30,088,892	196,881,317	333,963,928	329,631,138	--	--
Two years later	415,190	12,114,279	28,493,982	79,420,790	232,160,401	278,846,717	--	--	--
Three years later	326,270	11,797,996	36,357,710	91,025,099	226,683,216	--	--	--	--
Four years later	465,274	13,217,765	36,021,874	98,693,297	--	--	--	--	--
Five years later	468,318	12,404,776	34,030,735	--	--	--	--	--	--
Six years later	334,271	11,519,781	--	--	--	--	--	--	--
Seven years later	542,580	--	--	--	--	--	--	--	--
Current estimate of cumulative claims incurred	542,580	11,519,781	34,030,735	98,693,297	226,683,216	278,846,717	329,631,138	235,003,521	1,214,950,985
Net cumulative payments to date	(348,340)	(10,498,463)	(31,953,334)	(68,047,685)	(170,138,025)	(178,052,969)	(140,776,163)	(1,513,109)	(601,328,088)
Total net outstanding claims provision per the statement of financial position	194,240	1,021,318	2,077,401	30,645,612	56,545,191	100,793,748	188,854,975	233,490,412	613,622,897

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

19. ZAKAT AND INCOME TAX

a) Zakat

Zakat charge for the year of SR 15,229,023 (2015: SR 15,376,199) is based on the following :

	2016	2015
	SR	SR
Share Capital	1,000,000,000	1,000,000,000
Statutory reserve – beginning of the year	6,070,924	6,070,924
Accumulated deficit – beginning of the year	(203,934,200)	(188,645,706)
Adjusted net Income for the year	12,290,605	5,749,393
Provisions	30,215,839	30,062,203
	844,643,168	853,236,814
Deductions:		
Statutory deposit	(100,000,000)	(100,000,000)
Others non-current assets	(117,217,897)	(132,603,150)
Zakat base	627,425,271	620,633,664
Zakat base for Saudi shareholders 97.09% (2015: 99.1%)	609,160,921	615,047,961
Zakat provision for the year (Zakat base * 2.5%)	15,229,023	15,376,199

b) Income tax

Income tax for the year of SR 70,554 (2015: SR 18,610) is based on the following:

	2016	2015
	SR	SR
Net income for the year	19,566,810	364,132
Adjusted profit	12,290,605	5,749,393
Portion of net taxable Income for non-Saudi shareholders 2.911% (2015: 0.9%)	357,780	51,745
Non-GCC share in Losses carried forward up to 25% of their share from the portion of taxable income	89,445	12,936
KSA operations' income tax base	268,335	38,809
Labuan Branch Income tax Base	6,664,129	361,589

c) The movement of the provision for zakat and income tax is as follows:

	2016	2015
	SR	SR
Opening balance	39,418,724	35,441,642
Income tax provision for the year	70,554	18,610
Zakat provision for the year	15,229,023	15,376,199
Paid during the year	(14,989,931)	(11,417,727)
Closing balance	39,728,370	39,418,724

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

19. ZAKAT AND INCOME TAX (CONTINUED)

d) Status of assessments

The Company has filed its Zakat returns for the years ended 31 December 2009 to 2015 with the General Authority of Zakat and Income Tax (GAZT) and the assessments for these years are still outstanding. The Company has not yet received related final assessments from GAZT.

Zakat and income tax provisions are calculated based on the Company's best understanding of the GAZT instructions. Additional zakat and income tax provisions are accounted for to cover any differences that may arise on the final Zakat and income tax assessments when received from GAZT and the Company's current provision for Zakat and income tax

e) Status of appeals

The Company has filed appeals against the GAZT's assessment of additional withholding tax and delay fines for the years 2009 to 2012. The appeal for the year 2013 is under process. The Company has also filed appeals against the zakat, tax and delay fines assessments for the years 2008, 2009, 2010, 2012 and 2013. The appeal committee has not yet fixed up the hearing date for the said appeals.

20. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 1 billion divided into 100 million shares of SR 10 each for the years 2016 and 2015.

21. STATUTORY RESERVE

In accordance with the Company's by-laws and Article 70 (2g) of the Insurance Implementing Regulations of SAMA, a minimum of 20% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Company. This reserve is not available for distribution. Due to accumulated losses, no such transfer has been made for the year ended 31 December 2016.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2016		2015	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
	SR	SR	SR	SR
Salaries and related benefits	23,729,442	2,617,311	24,374,978	2,862,384
Others	6,629,531	1,068,557	2,504,833	424,944
Depreciation (note 13)	3,237,773	--	3,197,334	--
Professional fees	1,651,015	1,432,171	1,835,706	1,134,378
Travelling expenses	1,013,193	231,731	1,396,206	276,604
Rent and premises expenses	873,102	--	847,951	--
Advertising	346,967	30,660	1,814,731	35,960
Withholding tax	327,284	20,714	95,038	4,163
Consulting fees	159,656	4,050,000	332,083	133,500
Licensing fees	90,552	400,000	146,588	399,996
	<u>38,058,515</u>	<u>9,851,144</u>	<u>36,545,448</u>	<u>5,271,929</u>

23. BOARD OF DIRECTORS' REMUNERATION, MEETING FEE AND EXPENSES

	2016	2015
	SR	SR
Board of directors' remuneration	1,020,000	1,020,000
Meeting fees and expenses	556,144	627,862
	<u>1,576,144</u>	<u>1,647,862</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31 December 2016****24. 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.

Details of transactions and balances with related parties during the year other than those which have been disclosed elsewhere in these financial statements are disclosed below:

Related party	Nature of transactions	Amount of transactions for the year ended 31 December		Balance as at 31 December	
		2016 SR	2015 SR	2016 SR	2015 SR
Board of directors (BOD)	Consulting fees	330,233	332,083	--	--
	Remuneration, Meeting fees and expenses	1,576,144	1,647,862	250,500	249,000
Key management personnel	Short term benefits	8,534,209	8,414,996	1,096,000	961,500
	End of service benefits	427,429	362,841	1,434,572	1,007,143
Companies represented by the BOD members	Gross written premiums	2,936,227	11,481,091	2,018,548	2,987,653
	Claims incurred	4,221,407	3,086,625	2,285,317	6,378,454
	Commission	2,453,122	2,954,614	--	--
	HSBC Custodian fees	130,000	155,212	21,821	--

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.

Balances with related parties are included in premium receivables, accrued expenses and other liabilities shown in the statement of financial position.

25. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2016 and 31 December 2015 have been calculated by dividing net income for the year by the average ordinary issued and outstanding shares at the end of the year.

26. STATUTORY DEPOSIT

The Company has deposited an amount of SR 100 million (31 December 2015: SR 100 million) with a local bank, which has been rated "A+" (by Moody's Ratings Services) representing the statutory deposit of 10% of its paid-up capital as required by the Implementing Regulations of the "Law On Supervision of Cooperative Insurance Companies" issued by the Saudi Arabian Monetary Agency (SAMA). This statutory deposit cannot be withdrawn without the consent of the SAMA. Further, the statutory deposit generates special commission income. This special commission income is shown as a separate line item in the Statement of Financial Position. The accrued commission on the deposit as at 31 December 2016 is SR 10,242,125 (31 December 2015: SR 7,592,394) and has been disclosed in assets as return on investment of statutory deposit.

27. NET SURPLUS / (DEFICIT) FROM REINSURANCE OPERATIONS

Net surplus / (deficit) from reinsurance operations has been charged to the statement of shareholders' operations. The total (deficit) / surplus charged from the date of incorporation of the Company to 31 December 2016 is as follows:

	SR
For the period from 1 May 2008 to 31 December 2008 - deficit	(11,925,491)
For the year ended 31 December 2009 – deficit	(20,545,633)
For the year ended 31 December 2010 – deficit	(21,935,456)
For the year ended 31 December 2011 – deficit	(37,083,139)
For the year ended 31 December 2012 - surplus	8,388,698
For the year ended 31 December 2013 – deficit	(139,604,488)
For the year ended 31 December 2014 – deficit	(9,397,008)
For the year ended 31 December 2015 – surplus	2,320,358
For the year ended 31 December 2016 – surplus	9,926,870
Net deficits	(219,855,289)

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

28. NET CLAIMS PAID

	2016	2015
	SR	SR
Gross claims paid	963,922,862	282,426,046
Retroceded share of claims paid	(11,032,702)	(51,863,545)
Net claims paid	952,890,160	230,562,501

Net claims paid include all amounts paid and amounts received from insurance companies.

29. SEGMENTAL INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess its performance. Consistent with the Company's internal reporting process, business and geographical segments have been approved by the Management Committee in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include realized and unrealized gains on investments held at fair value through income statement, other income, investment management expenses and all general and administrative expenses except depreciation.

Segment assets do not include cash and cash equivalents of reinsurance operations, time deposits, investments held at fair value through income statement, prepaid expenses and other assets, due from shareholders' operations and property and equipment.

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

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

29. SEGMENTAL INFORMATION (CONTINUED)

29.1 Business segments

The Company revises periodically its estimated gross written premiums and related retroceded premium upon receipt of actual information from cedants. In some business segments, this results in negative gross written premiums, positive retroceded premiums and negative net written premiums for the year when the revision took place.

	Engineering SR	Fire SR	Marine SR	Motor SR	General Accident SR	Life SR	Speciality SR	Others SR	Total SR
For the year ended									
31 December 2016									
Reinsurance operations' results									
Gross written premiums	81,356,986	142,787,631	32,853,630	530,948,695	42,053,610	48,467,274	44,594,512	62,448,016	985,510,354
Retroceded premiums	(4,077,436)	(240,986)	(446,534)	--	(355,261)	(10,382)	--	(451,444)	(5,582,043)
Excess of loss expenses	(6,988,481)	(27,897,489)	(1,266,923)	(144,284)	(1,761,713)	(2,225,130)	--	(1,459,985)	(41,744,005)
Net written premiums	70,291,069	114,649,156	31,140,173	530,804,411	39,936,636	46,231,762	44,594,512	60,536,587	938,184,306
Change in net unearned premiums	1,170,244	1,802,430	2,481,552	214,665,691	(5,424,070)	(2,946,255)	(17,058,188)	(1,777,870)	192,913,534
Net earned premiums	71,461,313	116,451,586	33,621,725	745,470,102	34,512,566	43,285,507	27,536,324	58,758,717	1,131,097,840
Net claims paid	(35,247,783)	(116,710,202)	(14,706,799)	(687,464,532)	(14,530,308)	(53,625,838)	--	(30,604,698)	(952,890,160)
Change in net outstanding claims	16,214,600	20,965,511	3,849,265	31,924,634	(5,130,804)	(6,283,167)	(16,314,440)	(966,657)	44,258,942
Net claims incurred	(19,033,183)	(95,744,691)	(10,857,534)	(655,539,898)	(19,661,112)	(59,909,005)	(16,314,440)	(31,571,355)	(908,631,218)
Gross acquisition costs	(23,067,687)	(34,677,103)	(10,925,141)	(67,316,937)	(10,166,640)	(3,074,342)	(9,959,543)	(5,505,053)	(164,692,446)
Commissions on retroceded business	1,352,829	603,521	498,388	--	369,987	--	--	157,538	2,982,263
Supervision and inspection fees	(406,784)	(713,938)	(164,268)	(2,654,743)	(210,268)	(242,336)	(222,973)	(312,242)	(4,927,552)
Net acquisition costs	(22,121,642)	(34,787,520)	(10,591,021)	(69,971,680)	(10,006,921)	(3,316,678)	(10,182,516)	(5,659,757)	(166,637,735)
Net underwriting results	30,306,488	(14,080,625)	12,173,170	19,958,524	4,844,533	(19,940,176)	1,039,368	21,527,605	55,828,887

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016
29. SEGMENTAL INFORMATION (CONTINUED)
29.1 Business segments (continued)

	Engineering SR	Fire SR	Marine SR	Motor SR	General Accident SR	Life SR	Speciality SR	Others SR	Total SR
For the year ended 31 December 2015									
Reinsurance operations' results									
Gross written premiums	83,384,547	159,616,826	54,195,792	330,907,553	38,920,956	42,681,280	44,879,611	50,239,223	804,825,788
Retroceded premiums	(6,265,653)	(2,857,165)	(617,950)	(4,435)	(1,748,711)	(365,105)	--	(318,179)	(12,177,198)
Excess of loss expenses	(8,147,137)	(24,308,240)	(1,107,703)	(1,894)	(699,533)	(1,720,052)	--	(1,872,057)	(37,856,616)
Net written premiums	68,971,757	132,451,421	52,470,139	330,901,224	36,472,712	40,596,123	44,879,611	48,048,987	754,791,974
Change in net unearned premiums	(5,303,415)	(6,162,448)	(101,679)	(215,275,502)	(3,281,786)	6,521,166	(29,919,740)	(5,733,210)	(259,256,614)
Net earned premiums	63,668,342	126,288,973	52,368,460	115,625,722	33,190,926	47,117,289	14,959,871	42,315,777	495,535,360
Net claims paid	(16,520,162)	(96,523,235)	(19,664,025)	(12,115,787)	(8,527,419)	(62,344,267)	--	(14,867,606)	(230,562,501)
Change in net outstanding claims	(17,237,221)	17,159,168	1,142,403	(71,542,417)	(7,962,240)	(17,491,382)	(8,527,126)	(4,461,437)	(108,920,252)
Net claims incurred	(33,757,383)	(79,364,067)	(18,521,622)	(83,658,204)	(16,489,659)	(79,835,649)	(8,527,126)	(19,329,043)	(339,482,753)
Gross acquisition costs and profit commission	(23,552,492)	(39,133,850)	(19,432,374)	(10,400,196)	(11,846,954)	366,590	(7,117,461)	(3,416,154)	(114,532,891)
Commissions earned on retroceded business	1,474,234	279,973	568,892	443	314,344	46,076	--	89,966	2,773,928
Supervision and inspection fees	(416,923)	(798,084)	(270,979)	(1,654,538)	(194,605)	(213,406)	(224,398)	(251,196)	(4,024,129)
Net acquisition costs	(22,495,181)	(39,651,961)	(19,134,461)	(12,054,291)	(11,727,215)	199,260	(7,341,859)	(3,577,384)	(115,783,092)
Net underwriting results	7,415,778	7,272,945	14,712,377	19,913,227	4,974,052	(32,519,100)	(909,114)	19,409,350	40,269,515
	Engineering SR	Fire SR	Marine SR	Motor SR	General Accident SR	Life SR	Speciality SR	Others SR	Total SR
As at 31 December 2016									
Segment assets	<u>97,515,523</u>	<u>206,539,934</u>	<u>44,825,423</u>	<u>117,899,804</u>	<u>30,386,493</u>	<u>41,682,958</u>	<u>72,758,483</u>	<u>46,318,632</u>	<u>657,927,250</u>
Segment liabilities	<u>192,370,204</u>	<u>368,517,655</u>	<u>58,172,724</u>	<u>128,029,379</u>	<u>59,915,278</u>	<u>78,946,082</u>	<u>71,948,354</u>	<u>99,654,015</u>	<u>1,057,553,691</u>
As at 31 December 2015									
Segment assets	<u>106,940,078</u>	<u>170,843,942</u>	<u>56,307,032</u>	<u>319,475,324</u>	<u>34,351,600</u>	<u>51,594,334</u>	<u>38,406,599</u>	<u>37,445,036</u>	<u>815,363,945</u>
Segment liabilities	<u>218,456,484</u>	<u>336,859,146</u>	<u>65,174,883</u>	<u>345,834,695</u>	<u>48,548,043</u>	<u>67,886,450</u>	<u>39,178,870</u>	<u>82,369,413</u>	<u>1,204,307,984</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

29. SEGMENTAL INFORMATION (CONTINUED)

29.2 Geographical segments

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Other territories SR	Total SR
For the year ended 31 December 2016						
Reinsurance operations' results						
Gross written premiums	702,452,897	87,071,260	17,931,558	133,460,127	44,594,512	985,510,354
Retroceded premiums	(4,430,035)	(920,990)	(226,945)	(4,073)	--	(5,582,043)
Excess of loss expenses	(17,095,674)	(16,944,897)	(2,569,415)	(5,134,019)	--	(41,744,005)
Net written premiums	680,927,188	69,205,373	15,135,198	128,322,035	44,594,512	938,184,306
Change in net unearned premiums	217,201,159	1,537,374	7,756,877	(16,523,688)	(17,058,188)	192,913,534
Net earned premiums	898,128,347	70,742,747	22,892,075	111,798,347	27,536,324	1,131,097,840
Net claims paid	(803,908,888)	(66,052,412)	(17,880,463)	(65,048,397)	--	(952,890,160)
Change in net outstanding claims	50,917,078	2,552,786	9,372,373	(2,268,852)	(16,314,443)	44,258,942
Net claims incurred	(752,991,810)	(63,499,626)	(8,508,090)	(67,317,249)	(16,314,443)	(908,631,218)
Gross acquisition costs and profit commission	(105,273,362)	(19,878,017)	(6,786,710)	(22,794,814)	(9,959,543)	(164,692,446)
Commissions earned on retroceded business	2,741,542	159,369	54,528	26,824	--	2,982,263
Supervision and inspection fees	(3,512,263)	(435,356)	(89,658)	(667,302)	(222,973)	(4,927,552)
Net acquisition costs	(106,044,083)	(20,154,004)	(6,821,840)	(23,435,292)	(10,182,516)	(166,637,735)
Net underwriting results	39,092,454	(12,910,883)	7,562,145	21,045,806	1,039,365	55,828,887

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Other territories SR	Total SR
For the year ended 31 December 2015						
Reinsurance operations' results						
Gross written premiums	519,344,661	89,983,990	28,450,565	122,166,961	44,879,611	804,825,788
Retroceded premiums	(12,304,249)	(174,828)	317,972	(16,093)	--	(12,177,198)
Excess of loss expenses	(24,695,867)	(4,734,621)	(3,479,564)	(4,946,564)	--	(37,856,616)
Net written premiums	482,344,545	85,074,541	25,288,973	117,204,304	44,879,611	754,791,974
Change in net unearned premiums	(222,850,124)	(7,268,717)	324,041	457,924	(29,919,738)	(259,256,614)
Net earned premiums	259,494,421	77,805,824	25,613,014	117,662,228	14,959,873	495,535,360
Net claims paid	(127,655,456)	(40,176,105)	(26,349,668)	(36,381,272)	--	(230,562,501)
Change in net outstanding claims	(67,293,607)	6,890,156	(10,961,436)	(29,028,243)	(8,527,122)	(108,920,252)
Net claims incurred	(194,949,063)	(33,285,949)	(37,311,104)	(65,409,515)	(8,527,122)	(339,482,753)
Gross acquisition costs and profit commission	(49,810,386)	(22,796,421)	(6,856,574)	(27,952,048)	(7,117,462)	(114,532,891)
Commissions earned on retroceded business	2,797,983	24,041	(47,302)	(794)	--	2,773,928
Supervision and inspection fees	(2,596,723)	(449,920)	(142,253)	(610,835)	(224,398)	(4,024,129)
Net acquisition costs	(49,609,126)	(23,222,300)	(7,046,129)	(28,563,677)	(7,341,860)	(115,783,092)
Net underwriting results	14,936,232	21,297,575	(18,744,219)	23,689,036	(909,109)	40,269,515

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

29. SEGMENTAL INFORMATION (CONTINUED)

29.2 Geographical segments

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Other territories SR	Total SR
As at 31 December 2016						
Reinsurance operations						
Segment assets	<u>303,889,027</u>	<u>132,456,294</u>	<u>25,800,492</u>	<u>123,353,877</u>	<u>72,427,560</u>	<u>657,927,250</u>
Segment liabilities	<u>471,717,637</u>	<u>225,540,076</u>	<u>42,737,516</u>	<u>246,044,546</u>	<u>71,513,916</u>	<u>1,057,553,691</u>
As at 31 December 2015						
Segment assets	<u>521,641,051</u>	<u>102,642,399</u>	<u>37,943,900</u>	<u>115,342,681</u>	<u>37,793,914</u>	<u>815,363,945</u>
Segment liabilities	<u>716,934,291</u>	<u>172,026,457</u>	<u>57,757,256</u>	<u>219,458,638</u>	<u>38,131,342</u>	<u>1,204,307,984</u>

30. RISK MANAGEMENT

Risk governance

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

Risk management structure

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

Board of Directors

The apex of risk governance is the centralized 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.

The risks faced by the Company and the way these risks are mitigated by Management are as follows:

30.1 Reinsurance risk

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

The variability of risks is improved by the diversification of the risks written and the build-up of a large portfolio of reinsurance contracts, (inward business) as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by a careful selection of inward business, by the underwriting guidelines as well as the use of retrocession protection. The Company's underwriting strategy includes, but is not limited to, the following:

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

30. RISK MANAGEMENT (CONTINUED)

30.1 Reinsurance risk (continued)

- Diversification in the type of accepted risks, and within each of these categories to achieve sufficiently large population of risks to reduce the variability of the expected outcome.
- Diversification of the underwriting risks in terms of type and amount of risk, industry and geographical location.

In order to minimize its financial exposure arising from large claims, the Company in the normal course of business, enters into retrocession agreements with other parties. Such retrocession agreements provide for higher underwriting capacity, and allow management to contain exposure with the risk appetite of the Company. The retrocession is effected under proportional treaties such as quota share and surplus and non-proportional treaties such as excess of loss for risk and catastrophe to ensure its net retention is aligned with its risk tolerance.

Although the Company has retrocession agreements, it is not relieved of its direct obligations to its ceding companies and thus a credit exposure exists with respect to its retrocessionaires, to the extent that any retrocessionaire is unable to meet its obligations assumed under such retrocession agreements.

Geographical concentration of risk

The Company accepts reinsurance business from insurance companies in the Kingdom of Saudi Arabia, the Middle East, Africa and Asia. The written premiums are distributed geographically as follows:

	For the year ended 31 December 2016	
	Amount	
	SR	Percentage
Kingdom of Saudi Arabia	702,452,897	71%
Other Middle Eastern Countries	87,071,260	9%
Africa	17,931,558	2%
Asia	133,460,127	14%
Others	44,594,512	4%
	985,510,354	100%
	For the year ended 31 December 2015	
	Amount	
	SR	Percentage
Kingdom of Saudi Arabia	519,344,661	65%
Other Middle Eastern Countries	89,983,990	11%
Africa	28,450,565	4%
Asia	122,166,961	15%
Others	44,879,611	5%
	804,825,788	100%

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

Key assumptions

The key assumptions underlying the liability estimates are the Company's estimated ultimate loss ratio. The ultimate loss ratio was determined using actuarial methods.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

30 RISK MANAGEMENT (CONTINUED)

30.1 Reinsurance risk (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio with all other assumptions held constant showing the impact on net liabilities and net income as follows:

31 December 2016

	Change in assumptions	Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+10%	113,109,784	113,109,784
	-10%	(113,109,784)	(113,109,784)

31 December 2015

	Change in assumptions	Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+10%	49,553,536	49,553,536
	-10%	(49,553,536)	(49,553,536)

30.2 Retrocession risk

In order to minimize its financial exposure arising from large claims, the Company in the normal course of business, enters into retrocession agreements with other parties. Amounts recoverable from retrocessionaire are estimated and recognized in a manner consistent with the amounts associated with the underlying accepted policy benefits and in accordance with the terms of the respective retrocession treaties and are presented in the statement of financial position as reinsurance assets

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

Retrocessionaires are selected using the following parameters and guidelines set by the Company's Board of Directors and Risk and Underwriting Committee. The criteria may be summarized as follows:

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

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

Retrocession contracts do not relieve the Company from its obligations to ceding companies and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the retrocessionaire fails to meet the obligations under the retrocession agreements. The net credit exposure in this connection is SR 58.7 million (2015: SR 45.5 million).

30.3 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 such as capital adequacy to minimize the risk of default and insolvency on the part of the reinsurance companies and to enable them to meet unforeseen liabilities as these arise.

30.4 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.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

30. RISK MANAGEMENT (CONTINUED)

30.4 Claims management risk (continued)

The Company's claims teams are focused on delivering quality, reliability and speed of service the ceding companies un reinsurance contracts. 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.

30.5 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, the Company actuarial team uses a range of recognised techniques to project ultimate claims, 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.

30.6 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation related to a financial instrument 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. 43% of the Company's receivables is due from one ceding and three broker companies as at 31 December 2016 (31 December 2015: 45%). However, the following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- To minimize its exposure to significant losses from retrocessionaires insolvencies, the Company evaluates the financial condition of its retrocessionaires counterparties. Accordingly, as a pre-requisite, the parties with whom retrocession is effected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company, with respect to credit risk arising from other financial assets, only deals with commercial banks with strong financial position and credit ratings.
- The Company enters into inward insurance contracts with recognized, creditworthy third parties. In addition, receivables from ceding companies are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to ceding companies through monitoring outstanding receivables.

The table below shows the maximum exposure to credit risk for the assets of the statements of financial position.

	31 December 2016		31 December 2015	
	SR		SR	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
Cash and cash equivalents	42,891,784	27,950,269	61,025,692	31,917,275
Time deposits	67,551,600	112,456,507	35,218,332	118,849,000
Accrued special commission income from time deposits	1,070,010	2,191,242	72,199	540,411
Premiums receivable	181,957,594	--	195,141,907	--
Retroceded share of outstanding claims	110,649,986	--	60,496,840	--
Accrued special commission income from bonds and sukuk	--	4,143,727	--	2,220,485
Statutory deposit	--	100,000,000	--	100,000,000
Return on investment of statutory deposit	--	10,242,145	--	7,592,394
	404,120,974	256,983,890	351,954,970	261,119,565

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

30. RISK MANAGEMENT (CONTINUED)

30.6 Credit risk

The used rating grades for investments are being adopted by Standard & Poors.

The credit quality for investments held at fair value through income statement is as follows:

Credit quality	Credit Rating Agency	Financial Instruments	Reinsurance operations		Shareholders' operations	
			2016 SR	2015 SR	2016 SR	2015 SR
AAA/Aaa	S&P/ Moody's/Fitch	Bonds / Sukuks	1,550,185	4,055,040	65,000,816	60,644,199
AA/Aa	S&P/ Moody's/Fitch	Bonds / Sukuks	16,472,067	14,053,070	69,799,741	103,931,906
A	S&P/ Moody's/Fitch	Bonds / Sukuks	36,180,001	33,754,300	180,991,581	110,047,147
BBB/Baa	S&P/ Moody's/Fitch	Bonds / Sukuks	--	--	76,935,963	139,721,492
BB/Ba & below	S&P/ Moody's/Fitch	Bonds / Sukuks	--	--	30,049,328	3,109,095
Unrated		Bonds / Sukuks	--	--	23,837,244	33,610,091
Unrated		Money Market Funds/ Investment Funds/Equities	39,245,084	21,844,963	277,964,344	236,516,336
			93,447,337	73,707,373	724,579,017	687,580,266

30.7 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

All time deposits held by the Company at the statement of financial position date had original maturity periods less than five years.

Maturity profiles

The table below summarizes the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations. Maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums have been excluded from the analysis as they are not contractual obligations. Employees' end of service benefits do not have any fixed maturity.

	31 December 2016					
	Reinsurance' operations			Shareholders' operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
LIABILITIES						
Accounts payable	18,217,139	--	18,217,139	--	--	--
Retrocession balances payable	51,919,382	--	51,919,382	--	--	--
Accrued retroceded premiums	75,603	--	75,603	--	--	--
Gross outstanding claims	680,013,941	--	680,013,941	--	--	--
Provision for zakat and income tax	--	--	--	39,728,370	--	39,728,370
Accrued expenses and other liabilities	3,906,248	--	3,906,248	6,302,569	--	6,302,569
Deferred return on investment of statutory deposit	--	--	--	--	10,242,145	10,242,145
	754,132,313	--	754,132,313	46,030,939	10,242,145	56,273,084

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

30 RISK MANAGEMENT (CONTINUED)

30.7 Liquidity risk (continued)

Maturity profiles (continued)

	31 December 2015					
	Reinsurance operations			Shareholders' operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
LIABILITIES						
Accounts payable	10,101,722	--	10,101,722	--	--	--
Retrocession balances payable	14,927,181	--	14,927,181	--	--	--
Accrued retroceded premiums	354,467	--	354,467	--	--	--
Gross outstanding claims	674,119,737	--	674,119,737	--	--	--
Provision for zakat and income tax	--	--	--	39,418,724	--	39,418,724
Accrued expenses and other liabilities	4,185,212	--	4,185,212	2,173,675	--	2,173,675
Deferred return on investment of statutory deposit	--	--	--	--	7,592,394	7,592,394
	703,688,319	--	703,688,319	41,592,399	7,592,394	49,184,793

Liquidity profile

None of the liabilities shown in the statement of financial position are based on discounted cash flows as they are all payable within twelve months of the statement of financial position date.

Maturity analysis on expected maturity bases

	31 December 2016					
	Reinsurance' operations			Shareholders' operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
ASSETS						
Cash and cash equivalents	42,891,784	--	42,891,784	27,950,269	--	27,950,269
Time Deposits	67,551,600	--	67,551,600	112,456,507	--	112,456,507
Premium receivables	181,957,594	--	181,957,594	--	--	--
Investments held at fair value through income statement	93,447,337	--	93,447,337	724,579,017	--	724,579,017
Accrued insurance premiums	262,339,842	--	262,339,842	--	--	--
Retroceded share of unearned premiums	3,758,101	--	3,758,101	--	--	--
Deferred excess of loss premiums	17,516,594	--	17,516,594	--	--	--
Retroceded share of outstanding claims	110,649,986	--	110,649,986	--	--	--
Deferred acquisition costs	81,705,133	--	81,705,133	--	--	--
Prepaid expenses and other assets	2,026,087	47,250,000	49,276,087	45,178	--	45,178
Due from shareholders' operations	152,144,139	--	152,144,139	--	--	--
Property and equipment	--	3,402,655	3,402,655	--	32,110,109	32,110,109
Accrued special commission income from time deposits	1,070,010	--	1,070,010	2,191,242	--	2,191,242
Accrued special commission income from bonds and sukuk	--	--	--	4,143,727	--	4,143,727
Statutory deposit	--	--	--	--	100,000,000	100,000,000
Return on investment of statutory deposit	--	--	--	--	10,242,145	10,242,145
	1,017,058,207	50,652,655	1,067,710,862	871,365,940	142,352,254	1,013,718,194

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

30 RISK MANAGEMENT (CONTINUED)

30.7 Liquidity risk (continued)

Liquidity profile (continued)

Maturity analysis on expected maturity bases

	31 December 2016					
	Reinsurance' operations			Shareholders' operations		
	Current SR	Non- current SR	Total SR	Current SR	Non-current SR	Total SR
LIABILITIES						
Accounts payable	18,217,139	--	18,217,139	--	--	--
Retrocession balances payable	51,919,382	--	51,919,382	--	--	--
Accrued retroceded premiums	75,603	--	75,603	--	--	--
Gross unearned premiums	306,479,380	--	306,479,380	--	--	--
Gross outstanding claims	680,013,941	--	680,013,941	--	--	--
Unearned commission income	848,245	--	848,245	--	--	--
Accrued expenses and other liabilities	3,906,248	--	3,906,248	6,302,569	--	6,302,569
Employees' end of service benefits	--	3,958,044	3,958,044	--	--	--
Provision for zakat and income tax	--	--	--	39,728,370	--	39,728,370
Due to reinsurance operations	--	--	--	152,144,139	--	152,144,139
Deferred return on investment of statutory deposit	--	--	--	--	10,242,145	10,242,145
	1,061,459,938	3,958,044	1,065,417,982	198,175,078	10,242,145	208,417,223

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

30 RISK MANAGEMENT (CONTINUED)

30.7 Liquidity risk (continued)

Maturity analysis on expected maturity bases (continued)

	31 December 2015					
	Reinsurance operations			Shareholders' operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
ASSETS						
Cash and cash equivalents	61,025,692	--	61,025,692	31,917,275	--	31,917,275
Time deposits	35,218,332	--	35,218,332	118,849,000	--	118,849,000
Premium receivables	195,141,907	--	195,141,907	--	--	--
Investments held at fair value through income statement	73,707,373	--	73,707,373	687,580,266	--	687,580,266
Accrued insurance premiums	440,823,628	--	440,823,628	--	--	--
Retroceded share of unearned premiums	7,363,459	--	7,363,459	--	--	--
Deferred excess of loss premiums	17,389,664	--	17,389,664	--	--	--
Retroceded share of outstanding claims	60,496,840	--	60,496,840	--	--	--
Deferred acquisition costs	94,148,447	--	94,148,447	--	--	--
Prepaid expenses and other assets	43,971,256	47,250,000	91,221,256	405,990	--	405,990
Due from shareholders' operations	130,783,161	--	130,783,161	--	--	--
Property and equipment	--	5,455,845	5,455,845	--	32,998,857	32,998,857
Accrued special commission income from time deposits	72,199	--	72,199	540,411	--	540,411
Accrued special commission income from bonds and sukuk	--	--	--	2,220,485	--	2,220,485
Statutory deposit	--	--	--	--	100,000,000	100,000,000
Return on investment of statutory deposit	--	--	--	--	7,592,394	7,592,394
	1,160,141,958	52,705,845	1,212,847,803	841,513,427	140,591,251	982,104,678
LIABILITIES						
Accounts payable	10,101,722	--	10,101,722	--	--	--
Retrocession balances payable	14,927,181	--	14,927,181	--	--	--
Accrued retroceded premiums	354,467	--	354,467	--	--	--
Gross unearned premiums	502,998,272	--	502,998,272	--	--	--
Gross outstanding claims	674,119,737	--	674,119,737	--	--	--
Unearned commission income	1,806,605	--	1,806,605	--	--	--
Accrued expenses and other liabilities	4,185,212	--	4,185,212	2,173,675	--	2,173,675
Employees' end of service benefits	--	3,164,713	3,164,713	--	--	--
Provision for zakat and income tax	--	--	--	39,418,724	--	39,418,724
Due to reinsurance operations	--	--	--	130,783,161	--	130,783,161
Deferred return on investment of statutory deposit	--	--	--	7,592,394	--	7,592,394
	1,208,493,196	3,164,713	1,211,657,909	179,967,954	--	179,967,954

30.8 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are carried out in local and foreign currencies. Management believes that there is no significant foreign currency exposure since most of the Company's transactions not denominated in Saudi Riyals were undertaken in foreign currencies which are pegged to the Saudi Riyal.

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

30. RISK MANAGEMENT (CONTINUED)
30.8 Currency risk (continued)

The table below represents the Company's assets and liabilities denominated in major currencies as follows:

31 December 2016	SR	USD	QAR	AED	EUR	KWD	INR	Other	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
ASSETS									
Reinsurance operations									
Cash and cash equivalents	14,577,812	27,552,304	--	641	17,539	--	--	743,488	42,891,784
Time Deposits	67,551,600	--	--	--	--	--	--	--	67,551,600
Accrued special commission income from time deposits	1,070,010	--	--	--	--	--	--	--	1,070,010
Premiums receivable	62,218,160	34,892,900	8,907,860	817,952	363,916	7,733,128	12,044,195	54,979,483	181,957,594
Investment held at fair value through income statement	39,245,085	54,202,252	--	--	--	--	--	--	93,447,337
Accrued Insurance Premiums	101,115,068	23,631,461	9,959,417	4,294,159	2,204,093	3,408,349	18,427,328	99,299,967	262,339,842
Retroceded share of unearned premiums	3,758,101	--	--	--	--	--	--	--	3,758,101
Deferred excess of loss Premium	17,516,594	--	--	--	--	--	--	--	17,516,594
Retroceded share of outstanding Claims	110,649,986	--	--	--	--	--	--	--	110,649,986
Deferred acquisition costs	27,073,901	7,856,704	3,127,012	2,332,453	661,440	1,352,534	3,158,243	36,142,846	81,705,133
Prepaid expenses and other assets	992,778	48,257,183	--	--	--	--	--	26,126	49,276,087
Due from shareholders' operations	152,144,139	--	--	--	--	--	--	--	152,144,139
Property and equipment	3,402,655	--	--	--	--	--	--	--	3,402,655
Shareholders' operations									
Cash and cash equivalent	26,841,627	805,517	--	--	--	--	--	303,125	27,950,269
Time Deposits	112,456,507	--	--	--	--	--	--	--	112,456,507
Accrued special commission income from time deposits	2,191,242	--	--	--	--	--	--	--	2,191,242
Accrued special commission income from bonds and Sukuks	3,416,471	727,256	--	--	--	--	--	--	4,143,727
Investment held at fair value through income statement	252,544,672	454,469,832	--	--	--	--	--	17,564,513	724,579,017
Prepaid expenses and other assets	45,178	--	--	--	--	--	--	--	45,178
Statutory Deposit	100,000,000	--	--	--	--	--	--	--	100,000,000
Return on investment of Statutory Deposit	10,242,145	--	--	--	--	--	--	--	10,242,145
Property and equipment, net	32,110,109	--	--	--	--	--	--	--	32,110,109
	<u>1,141,163,840</u>	<u>652,395,409</u>	<u>21,994,289</u>	<u>7,445,205</u>	<u>3,246,988</u>	<u>12,494,011</u>	<u>33,629,766</u>	<u>209,059,548</u>	<u>2,081,429,056</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016

30. RISK MANAGEMENT (CONTINUED)
30.8 Currency risk (continued)

31 December 2015	SR	USD	QAR	AED	EUR	KWD	INR	Other	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
ASSETS									
Reinsurance operations									
Cash and bank balances	55,187,027	2,717,553	--	351,075	1,721,532	--	--	1,048,505	61,025,692
Time deposits	17,000,000	18,218,332	--	--	--	--	--	--	35,218,332
Accrued special commission income from time deposits	72,199	--	--	--	--	--	--	--	72,199
Premiums receivable	90,002,345	27,559,312	4,940,379	4,714,504	287,839	9,721,349	10,159,944	47,756,235	195,141,907
Investments held at fair value through income statement	21,844,964	51,862,409	--	--	--	--	--	--	73,707,373
Accrued insurance premiums	308,333,776	32,272,707	14,327,566	1,477,791	2,343,113	1,469,825	15,760,446	64,838,404	440,823,628
Retroceded share of unearned premiums	7,363,459	--	--	--	--	--	--	--	7,363,459
Deferred excess of loss premiums	17,389,664	--	--	--	--	--	--	--	17,389,664
Retroceded share of outstanding Claims	60,496,840	--	--	--	--	--	--	--	60,496,840
Deferred acquisition costs	49,202,268	9,415,721	3,280,573	1,370,198	639,222	1,341,993	3,333,147	25,565,325	94,148,447
Prepaid expenses and other assets	1,635,316	275,027	--	--	--	--	--	89,310,913	91,221,256
Due from shareholders' operations	130,783,161	--	--	--	--	--	--	--	130,783,161
Property and equipment	5,455,845	--	--	--	--	--	--	--	5,455,845
Shareholders' operations									
Cash and bank balances	5,185,954	26,731,321	--	--	--	--	--	--	31,917,275
Time deposits	118,849,000	--	--	--	--	--	--	--	118,849,000
Accrued special commission income from time deposits	540,411	--	--	--	--	--	--	--	540,411
Accrued special commission income from bonds and sukuk	2,178,195	42,290	--	--	--	--	--	--	2,220,485
Investments held at fair value through income statement	182,800,977	449,714,775	--	--	--	--	--	55,064,514	687,580,266
Prepaid expenses and other assets	405,990	--	--	--	--	--	--	--	405,990
Statutory deposit	100,000,000	--	--	--	--	--	--	--	100,000,000
Return on investment of statutory deposit	7,592,394	--	--	--	--	--	--	--	7,592,394
Property and equipment	32,998,857	--	--	--	--	--	--	--	32,998,857
	<u>1,215,318,642</u>	<u>618,809,447</u>	<u>22,548,518</u>	<u>7,913,568</u>	<u>4,991,706</u>	<u>12,533,167</u>	<u>29,253,537</u>	<u>283,583,896</u>	<u>2,194,952,481</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31 December 2016****30. RISK MANAGEMENT (CONTINUED)****30.8 Currency risk (continued)**

31 December 2016	SR	USD	QAR	AED	EUR	KWD	INR	Other	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
LIABILITIES									
Reinsurance operations									
Accounts payable	6,787,828	2,966,944	42,291	(424,427)	100,262	23,339	52,630	8,668,272	18,217,139
Reinsurance balances payable	51,919,382	--	--	--	--	--	--	--	51,919,382
Accrued retroceded premiums	75,603	--	--	--	--	--	--	--	75,603
Gross unearned premiums	123,181,093	25,912,222	12,196,267	8,690,717	2,098,156	6,222,189	20,853,884	107,324,852	306,479,380
Gross outstanding claims	275,034,431	51,789,673	18,956,384	83,494,781	4,559,918	19,042,375	70,394,596	156,741,783	680,013,941
Unearned commission income	848,245	--	--	--	--	--	--	--	848,245
Accrued expenses and other liabilities	3,133,538	46,602	--	--	--	--	--	726,108	3,906,248
Employees end of service benefits	3,958,044	--	--	--	--	--	--	--	3,958,044
Accumulated surplus	2,292,880	--	--	--	--	--	--	--	2,292,880
Shareholders operations									
Provision for zakat and income tax	39,728,370	--	--	--	--	--	--	--	39,728,370
Due to reinsurance operations	152,144,139	--	--	--	--	--	--	--	152,144,139
Accrued expenses and other liabilities	1,225,252	5,077,317	--	--	--	--	--	--	6,302,569
Deferred return on investment of statutory deposit	10,242,145	--	--	--	--	--	--	--	10,242,145
	<u>670,570,950</u>	<u>85,792,758</u>	<u>31,194,942</u>	<u>91,761,071</u>	<u>6,758,336</u>	<u>25,287,903</u>	<u>91,301,110</u>	<u>273,461,015</u>	<u>1,276,128,085</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31 December 2016****30. RISK MANAGEMENT (CONTINUED)****30.8 Currency risk (continued)**

31 December 2015	SR	USD	QAR	AED	EUR	KWD	INR	Other	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
LIABILITIES									
Reinsurance operations									
Accounts payable	5,651,413	5,432,092	(485,506)	(150,664)	198,516	937,872	230,036	(1,712,037)	10,101,722
Retrocession balances payable	14,927,181	--	--	--	--	--	--	--	14,927,181
Accrued retrocession premiums	354,467	--	--	--	--	--	--	--	354,467
Gross unearned premiums	340,852,780	32,687,850	14,986,449	5,726,881	2,134,807	6,331,495	19,992,234	80,285,776	502,998,272
Gross outstanding claims	449,537,734	46,838,940	12,068,307	11,451,030	923,935	24,987,358	42,833,845	85,478,588	674,119,737
Unearned commission income	1,806,605	--	--	--	--	--	--	--	1,806,605
Accrued expenses and other liabilities	3,841,639	55,000	--	--	--	--	--	288,573	4,185,212
Employees' end of service benefits	3,164,713	--	--	--	--	--	--	--	3,164,713
Accumulated surplus	1,189,894	--	--	--	--	--	--	--	1,189,894
Shareholders operations									
Provision for zakat and income tax	39,418,724	--	--	--	--	--	--	--	39,418,724
Due to reinsurance operations	130,783,161	--	--	--	--	--	--	--	130,783,161
Accrued expenses and other liabilities	1,400,675	758,000	--	--	--	--	--	15,000	2,173,675
Deferred return on investment of statutory deposit	7,592,394	--	--	--	--	--	--	--	7,592,394
	<u>1,000,521,380</u>	<u>85,771,882</u>	<u>26,569,250</u>	<u>17,027,247</u>	<u>3,257,258</u>	<u>32,256,725</u>	<u>63,056,115</u>	<u>164,355,900</u>	<u>1,392,815,757</u>

SAUDI RE FOR COOPERATIVE REINSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

30. RISK MANAGEMENT (CONTINUED)

30.9 Special commission rate risk

The Company is exposed to special commission rate risk on its bonds and sukuk investments. Special Commission rate risk arises on bonds and sukuk which are exposed to the fluctuations in special commission rates.

The Company manages special commission rate risk by investing in various long and short duration financial assets, along with cash and cash equivalents. The investment committee monitors the duration of these assets on a regular basis. Duration of reinsurance operations and Shareholders operations' investments in bonds and sukuk portfolios as at 31 December 2016 is around 6.31 years and 5.33 years respectively (31 December 2015: 4.71 years and 5.25 year respectively). A hypothetical increase/decrease of 10 basis points in yield curve will entail decrease/increase in bond/sukuk portfolio values of reinsurance operations and Shareholders operations' investments by SR 0.34 million and SR 2.38 million as at 31 December 2016 (31 December 2015: SR 0.24 million SR 1.65 million respectively).

30.10 Market price risk

Market price risk is the risk that the fair value of a financial instrument will fluctuate caused by the factors (other than those arising from commission rate risk or currency risk), that affect all financial instruments traded in the market.

Efficient management of market price risk is key to the investment of company assets. Appropriate levels of investment risk is determined by risk/return profile of the assets. The Company has a diversified portfolio of investments, including investment in the listed equities securities. The Company manages the equity market price risk through diversification and by placing limits on individual and total equity instruments. A 5% change in the fair value of these investments, with all other variables held constant, would impact the statement of shareholders' operations by increase / decrease of SR 7,148,760 (2015: SR 8,761,771).

30.11 Capital management risk

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

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

The table below summarizes the minimum regulatory capital of the Company and the total capital held:

	2016	2015
	SR	SR
Total capital held	805,300,971	802,136,724
Minimum regulatory capital	200,000,000	200,000,000

In the opinion of the management, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

30.12 Fair value of financial instruments

Financial instruments consist of financial assets and financial liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The Company's financial assets consist of cash and cash equivalents, receivables, investments and accrued income and its financial liabilities consist of payables, accrued expenses and gross outstanding claims. The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2016

31. CONTINGENCIES AND COMMITMENTS

a) Legal proceedings and regulations

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

b) Bank Guarantees

As at 31 December 2016, the Company has deposited and pledged SR 47,250,000 (2015: SR 47,250,000) with local bank to obtain the Standby Letter of Credit for its participation in a Lloyds Syndicate for 2015 and 2016 underwriting years. Further, the office premises related refundable deposit amounts to SR 103,233 (2015: SR 103,750).

32. COMPARATIVE FIGURES

Certain figures for the prior year have been reclassified to conform to the presentation made in the current year, however the impact of such reclassifications was not material to the overall presentation of the financial statements.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 2 Jumada II 1438H corresponding to 1 March 2017.