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**THE COMPANY FOR  
COOPERATIVE INSURANCE  
(A SAUDI JOINT STOCK COMPANY)**

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

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**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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Dr. Mohamed Al-Amri & Co.  
Accountants & Consultants

## INDEPENDENT AUDITORS' REPORT

To the shareholders of The Company for Cooperative Insurance

### SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of The Company for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at December 31, 2016, and the related statement of income - insurance operations and accumulated surplus, statements of comprehensive income for insurance operations and shareholders operations, the related statement of changes in shareholders' equity and the statements of cash flows for insurance operations 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 (IFRS), 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 from material misstatement. An audit also 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:

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

### EMPHASIS OF MATTER:

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

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19 Jumada Al-Awal, 1438H  
16 February, 2017



**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2016**

|  | Notes | 2016<br>SAR '000  | 2015              |
|--|-------|-------------------|-------------------|
| <b><u>ASSETS - INSURANCE OPERATIONS</u></b>    |       |                   |                   |
| Property and equipment, net                    | 4     | 298,406           | 312,251           |
| Investment property                            |       | 9,861             | 9,861             |
| Investments in associates                      | 5     | 12,691            | 13,602            |
| Available-for-sale investments                 | 6     | 3,155,586         | 3,220,442         |
| Prepaid expenses and other assets              | 7     | 282,796           | 549,991           |
| Deferred policy acquisition costs              | 8     | 218,100           | 209,244           |
| Reinsurers' share of outstanding claims        | 8, 9  | 2,102,745         | 1,827,909         |
| Reinsurers' share of unearned premiums         | 8     | 553,813           | 629,974           |
| Receivables, net                               | 10    | 2,326,988         | 1,943,579         |
| Murabaha deposits                              | 12    | 411,000           | 182,621           |
| Bank balances and cash                         | 12    | 968,402           | 579,247           |
| <b>Total assets - Insurance operations</b>     |       | <b>10,340,388</b> | <b>9,478,721</b>  |
| <b><u>ASSETS - SHAREHOLDERS OPERATIONS</u></b> |       |                   |                   |
| Statutory deposit                              | 11    | 100,000           | 100,000           |
| Accrued income on statutory deposit            |       | 1,711             | 1,042             |
| Investments in associates                      | 5     | 94,958            | 80,402            |
| Available-for-sale investments                 | 6     | 1,377,991         | 2,178,923         |
| Due from Insurance operations                  |       | 539,326           | 46,326            |
| Murabaha deposits                              | 12    | 905,150           | 16,067            |
| Bank balances and cash                         | 12    | 116,597           | 45,746            |
| <b>Total assets - Shareholders operations</b>  |       | <b>3,135,733</b>  | <b>2,468,506</b>  |
| <b>TOTAL ASSETS</b>                            |       | <b>13,476,121</b> | <b>11,947,227</b> |

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

**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF FINANCIAL POSITION (Continued)**  
**AS AT DECEMBER 31, 2016**

|  | Notes | 2016<br>SAR '000  | 2015              |
|--|-------|-------------------|-------------------|
| <b><u>LIABILITIES AND SURPLUS - INSURANCE OPERATIONS</u></b>   |       |                   |                   |
| <b>Liabilities - Insurance operations:</b>                     |       |                   |                   |
| Reserve for discontinued operations                            | 15    | 1,621             | 11,211            |
| Surplus distribution payable                                   |       | 76,651            | 100,176           |
| Claims payable, accrued expenses and other liabilities         | 14    | 1,500,543         | 1,440,959         |
| Reserve for takaful activities                                 |       | 12,902            | 13,467            |
| Gross outstanding claims and reserves                          | 8, 16 | 3,577,820         | 3,182,367         |
| Unearned commission income                                     | 8     | 54,439            | 51,024            |
| Gross unearned premiums  | 8     | 4,390,229         | 4,233,561         |
| Reinsurers' balances payable                                   |       | 177,828           | 502,579           |
| Due to Shareholders' operations                                |       | 539,326           | 46,326            |
|  |       | <u>10,331,359</u> | <u>9,581,670</u>  |
| Fair value reserve for available-for-sale investments          |       | 9,029             | (102,949)         |
| <b>Total liabilities and surplus - Insurance operations</b>    |       | <u>10,340,388</u> | <u>9,478,721</u>  |
| <b><u>LIABILITIES AND EQUITY - SHAREHOLDERS OPERATIONS</u></b> |       |                   |                   |
| <b>Shareholders operations liabilities:</b>                    |       |                   |                   |
| Accrued expenses and other liabilities                         |       | -                 | 647               |
| Return payable on statutory deposit                            |       | 1,711             | 1,042             |
| Dividends payable  |       | 6,054             | 5,643             |
| Zakat  | 17    | 200,443           | 152,106           |
| <b>Total liabilities - Shareholders operations</b>             |       | <u>208,208</u>    | <u>159,438</u>    |
| <b>Shareholders' equity:</b>                                   |       |                   |                   |
| Share capital  | 18    | 1,000,000         | 1,000,000         |
| Legal reserve  | 19    | 1,000,000         | 883,465           |
| Fair value reserve for available-for-sale investments          |       | (71,182)          | (56,861)          |
| Retained earnings  |       | 998,707           | 482,464           |
| <b>Total Shareholders' equity</b>                              |       | <u>2,927,525</u>  | <u>2,309,068</u>  |
| <b>Total Shareholders operations liabilities and equity</b>    |       | <u>3,135,733</u>  | <u>2,468,506</u>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>              |       | <u>13,476,121</u> | <u>11,947,227</u> |

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

**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

|  | Notes | 2016<br>SAR '000 | 2015             |
|--|-------|------------------|------------------|
| <b>REVENUES</b>  |       |                  |                  |
| Gross premiums written   |       | 8,055,135        | 7,545,268        |
| Less: Reinsurance ceded  |       | (981,686)        | (1,123,816)      |
| Net premiums written   | 8     | 7,073,449        | 6,421,452        |
| Changes in unearned premiums, net  |       | (232,829)        | (756,627)        |
| Net premiums earned  | 8     | 6,840,620        | 5,664,825        |
| Reinsurance commissions  | 8     | 103,066          | 93,623           |
| Other income, net  |       | 58,386           | 45,886           |
| <b>Total revenues</b>  |       | <b>7,002,072</b> | <b>5,804,334</b> |
| <b>COSTS AND EXPENSES</b>  |       |                  |                  |
| Gross claims paid  |       | 5,327,532        | 4,999,478        |
| Less: Reinsurance share  |       | (343,851)        | (747,772)        |
| Net claims paid  | 8     | 4,983,681        | 4,251,706        |
| Changes in outstanding claims and reserves, net                            |       | 120,617          | (107,796)        |
| Net claims incurred  | 8     | 5,104,298        | 4,143,910        |
| Policy acquisition costs   | 8     | 516,898          | 436,588          |
| Excess of loss expenses  |       | 29,867           | 24,427           |
| Changes in reserve for takaful activities                                  |       | (565)            | (2,873)          |
| Other underwriting expenses  |       | 133,340          | 146,352          |
| Manafeth insurance share distribution                                      | 20    | 106,674          | 49,087           |
| Operating and selling expenses   | 22    | 357,360          | 461,690          |
| Other general and administrative expenses                                  | 23    | 78,192           | 82,902           |
| <b>Total costs and expenses</b>  |       | <b>6,326,064</b> | <b>5,342,083</b> |
| <b>Operating surplus</b>   |       | <b>676,008</b>   | <b>462,251</b>   |
| Investment income, net   | 21    | 140,543          | 88,251           |
| Impairment of available-for-sale investments                               | 30    | (50,036)         | (17,696)         |
| <b>Surplus from Insurance operations</b>                                   |       | <b>766,515</b>   | <b>532,806</b>   |
| Shareholders' appropriation from surplus                                   | 1     | (689,864)        | (479,525)        |
| <b>Surplus from Insurance operations after Shareholders' appropriation</b> |       | <b>76,651</b>    | <b>53,281</b>    |
| Distribution of surplus  |       | (76,651)         | (53,281)         |
| <b>ACCUMULATED SURPLUS, END OF THE YEAR</b>                                |       | <b>-</b>         | <b>-</b>         |


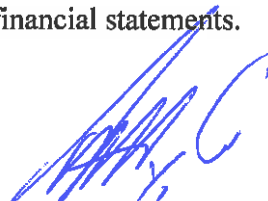
The accompanying notes 1 to 33 form an integral part of these financial statements.

**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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|  | <u>Note</u> | <u>2016</u>     | <u>2015</u>     |
|--|-------------|-----------------|-----------------|
|  |             | <u>SAR '000</u> |                 |
| Surplus from Insurance operations after Shareholders' appropriation      |             | 76,651          | 53,281          |
| <b>Other comprehensive income / (loss):</b>                              |             |                 |                 |
| <i>To be recycled back to statement of income in subsequent periods:</i> |             |                 |                 |
| Changes in fair value of available-for-sale investments                  | 6           | 111,978         | (108,303)       |
| <b>Total comprehensive income / (loss) for the year</b>                  |             | <u>188,629</u>  | <u>(55,022)</u> |

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

**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

|  | Notes | 2016<br>SAR'000 | 2015           |
|--|-------|-----------------|----------------|
| Appropriation of surplus from Insurance operations                       | 1     | 689,864         | 479,525        |
| Investment income, net   | 21    | 114,484         | 180,386        |
| Share of profit from investments in associates, net                      | 5     | 19,153          | 19,444         |
| Impairment of available-for-sale investments                             | 30    | (22,034)        | (36,032)       |
| Other expenses, net  |       | (520)           | (1,020)        |
| <b>Income from operations before zakat</b>                               |       | <b>800,947</b>  | <b>642,303</b> |
| Zakat  | 17    | (68,169)        | (43,875)       |
| <b>Net income for the year</b>   |       | <b>732,778</b>  | <b>598,428</b> |
| <b>Other comprehensive loss:</b>   |       |                 |                |
| <i>To be recycled back to statement of income in subsequent periods:</i> |       |                 |                |
| Changes in fair value of available for sale investments                  | 6     | (14,321)        | (220,735)      |
| <b>Total comprehensive income for the year</b>                           |       | <b>718,457</b>  | <b>377,693</b> |
| <b>Earnings per share:</b>   |       |                 |                |
| Basic and diluted earnings per share (in SAR)                            | 24    | 7.33            | 5.98           |
| Weighted average number of shares in issue                               |       | 100,000,000     | 100,000,000    |

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



**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2016**

|   | Notes | Share capital    | Legal reserve    | Fair value reserve for available-for-sale investments<br>SAR'000 | Retained earnings | Total            |
|---|-------|------------------|------------------|--|-------------------|------------------|
| Balance at January 1, 2015                              |       | 1,000,000        | 763,779          | 163,874  | 148,722           | 2,076,375        |
| <b>Comprehensive income:</b>                            |       |                  |                  |  |                   |                  |
| Net income for the year                                 |       | -                | -                | -  | 598,428           | 598,428          |
| Changes in fair value of available-for-sale investments | 6     | -                | -                | (220,735)  | -                 | (220,735)        |
| <b>Total comprehensive income / (loss) for the year</b> |       | -                | -                | (220,735)  | 598,428           | 377,693          |
| Transfer to legal reserve                               | 19    | -                | 119,686          | -  | (119,686)         | -                |
| Dividend distribution                                   | 13    | -                | -                | -  | (145,000)         | (145,000)        |
| <b>Balance at December 31, 2015</b>                     |       | <b>1,000,000</b> | <b>883,465</b>   | <b>(56,861)</b>  | <b>482,464</b>    | <b>2,309,068</b> |
| Balance at January 1, 2016                              |       | <b>1,000,000</b> | <b>883,465</b>   | <b>(56,861)</b>  | <b>482,464</b>    | <b>2,309,068</b> |
| <b>Comprehensive income:</b>                            |       |                  |                  |  |                   |                  |
| Net income for the year                                 |       | -                | -                | -  | 732,778           | 732,778          |
| Changes in fair value of available-for-sale investments | 6     | -                | -                | (14,321)   | -                 | (14,321)         |
| <b>Total comprehensive income / (loss) for the year</b> |       | -                | -                | (14,321)   | 732,778           | 718,457          |
| Transfer to legal reserve                               | 19    | -                | 116,535          | -  | (116,535)         | -                |
| Dividend distribution                                   | 13    | -                | -                | -  | (100,000)         | (100,000)        |
| <b>Balance at December 31, 2016</b>                     |       | <b>1,000,000</b> | <b>1,000,000</b> | <b>(71,182)</b>  | <b>998,707</b>    | <b>2,927,525</b> |

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

**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

|  | 2016             | 2015           |
|--|------------------|----------------|
| Notes  | SAR '000         |                |
| <b>Operating activities:</b>   |                  |                |
| Surplus from Insurance operations after Shareholders' appropriation  | 76,651           | 53,281         |
| <u>Adjustments to reconcile surplus from Insurance operations to net cash (used in) / from operating activities:</u> |                  |                |
| Shareholders' appropriation from surplus   | 689,864          | 479,525        |
| Depreciation   | 17,689           | 13,938         |
| Loss on disposal of property and equipment   | 204              | -              |
| (Reversal) / provision for doubtful debts and write-offs   | (64,386)         | 65,763         |
| Gain on sale of available-for-sale investments   | (118,399)        | (76,521)       |
| Impairment on available-for-sale investments   | 50,036           | 17,696         |
| Share of loss / (profit) from investment in an associate   | 526              | (4,383)        |
| Operating surplus before changes in operating assets and liabilities   | 652,185          | 549,299        |
| <u>Changes in operating assets and liabilities:</u>  |                  |                |
| Prepaid expenses and other assets  | 267,195          | (120,974)      |
| Deferred policy acquisition costs  | (8,856)          | (35,611)       |
| Reinsurers' share of outstanding claims  | (274,836)        | (627,662)      |
| Reinsurers' share of unearned premiums   | 76,161           | (186,034)      |
| Receivables, net   | (319,023)        | (480,229)      |
| Reinsurers' balances payable   | (324,751)        | 188,679        |
| Gross unearned premiums  | 156,668          | 942,661        |
| Unearned commission income   | 3,415            | 9,470          |
| Gross outstanding claims and reserves  | 395,453          | 519,866        |
| Reserve for discontinued operations  | (9,590)          | -              |
| Reserve for takaful activities   | (565)            | (2,873)        |
| Claims payable, accrued expenses and other liabilities   | 59,584           | 144,696        |
| Due to Shareholders' operations  | (689,864)        | (479,525)      |
| Cash (used in) / from operating activities   | (16,824)         | 421,763        |
| Surplus paid to policyholders during the year  | (100,176)        | -              |
| Net cash (used in) / from operating activities   | (117,000)        | 421,763        |
| <b>Investing activities:</b>   |                  |                |
| Proceeds from sale of available-for-sale investments   | 3,642,778        | 3,483,518      |
| Purchase of available-for-sale investments   | (3,397,581)      | (3,884,438)    |
| Dividend received from investment in an associate  | 385              | 339            |
| Purchase of property and equipment   | (4,048)          | (52,329)       |
| Net cash from / (used in) investing activities   | 241,534          | (452,910)      |
| <b>Financing activity:</b>   |                  |                |
| Due to Shareholders operations   | 493,000          | 92,465         |
| <b>Net change in cash and cash equivalents</b>   | <b>617,534</b>   | <b>61,318</b>  |
| Cash and cash equivalents at the beginning of the year   | 761,868          | 700,550        |
| <b>Cash and cash equivalents at the end of the year</b>  | <b>1,379,402</b> | <b>761,868</b> |
| <b>Non-cash supplemental information:</b>  |                  |                |
| Changes in fair value of available-for-sale investments  | 111,978          | (108,303)      |

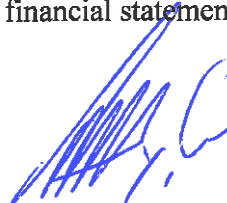
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**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF CASH FLOWS - SHAREHOLDERS OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

|  | Notes | 2016             | 2015          |
|--|-------|------------------|---------------|
|  |       | SAR '000         |               |
| <b>Operating activities:</b>   |       |                  |               |
| Net income for the year before zakat   |       | 800,947          | 642,303       |
| <u>Adjustments to reconcile net income before zakat to net cash from operating activities:</u> |       |                  |               |
| Appropriation of surplus from Insurance operations   |       | (689,864)        | (479,525)     |
| Impairment of available-for-sale investments   | 30    | 22,034           | 36,032        |
| Gain on sale of available-for-sale investments   | 30    | (43,191)         | (171,890)     |
| Share of profit from investment in associates, net   | 5     | (20,769)         | (12,981)      |
| Operating profit before changes in operating assets and liabilities                            |       | 69,157           | 13,939        |
| <u>Changes in operating assets and liabilities:</u>  |       |                  |               |
| Due from Insurance operations  |       | 689,864          | 479,525       |
| Accrued expenses and other liabilities   |       | (647)            | 255           |
| Cash from operating activities   |       | 758,374          | 493,719       |
| Zakat paid during the year   | 17    | (19,832)         | (16,395)      |
| Net cash from operating activities   |       | 738,542          | 477,324       |
| <b>Investing activities:</b>   |       |                  |               |
| Proceeds from sale of available-for-sale investments   |       | 6,018,367        | 2,621,992     |
| Purchase of available-for-sale investments   | 6     | (5,210,599)      | (2,833,672)   |
| Dividends received from investment in associates   | 5     | 6,213            | 12,422        |
| Net cash from / (used in) investing activities   |       | 813,981          | (199,258)     |
| <b>Financing activities:</b>   |       |                  |               |
| Dividends paid   |       | (99,589)         | (144,371)     |
| Due from Insurance operations  |       | (493,000)        | (92,465)      |
| Net cash used in financing activities  |       | (592,589)        | (236,836)     |
| <b>Net change in cash and cash equivalents</b>   |       | <b>959,934</b>   | <b>41,230</b> |
| Cash and cash equivalents at the beginning of the year   | 12    | 61,813           | 20,583        |
| <b>Cash and cash equivalents at the end of the year</b>  | 12    | <b>1,021,747</b> | <b>61,813</b> |
| <b>Non-cash supplemental information:</b>  |       |                  |               |
| Changes in fair value of available-for-sale investments  | 6     | (14,321)         | (220,735)     |

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





**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**1. GENERAL**

The Company for Cooperative Insurance (the "Company") is a Saudi joint stock company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/5 and incorporated on January 18, 1986 corresponding to Jumada Awal 8, 1406H under Commercial Registration No. 1010061695. The Company's head office is located on Thumamah Road (At Takhassusi) ArRabi District, P.O. Box 86959, Riyadh 11632, Kingdom of Saudi Arabia.

The purpose of the Company is to transact cooperative insurance operations and all related activities including reinsurance and agency activities. Its principal lines of business include medical, motor, marine, fire, engineering, energy, aviation, takaful and casualty insurance.

On July 31, 2003 corresponding to Jumada Thani 2, 1424H the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On December 1, 2004 corresponding to Shawwal 18, 1425H, the Saudi Arabian Monetary Authority ("SAMA") as the principal agency responsible for the application and administration of the Insurance Law and its implementing regulations, granted the Company a license to transact insurance activities in Saudi Arabia.

The Company conducts the business and advances funds to the insurance operations as required. On January 20, 2004 the Company amended its Articles of Association giving authority to the Board of Directors to determine the disposition of the surplus from insurance operations.

On March 20, 2004, the Board of Directors approved the disposition of the surplus from insurance operations in accordance with the implementing regulations issued by the SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders operation in full.

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

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

The Company presents its statement of financial position in order of liquidity. As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance and Shareholders operations and presents the financial statements accordingly. 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 as determined by the management and Board of Directors.

**b) Basis of measurement**

These financial statements are prepared under the historical cost basis except for the measurement at fair value of available-for-sale investments and investment in associates which is accounted for under the equity method.

**c) Functional and presentation currency**

These financial statements have been presented in Saudi Arabian Riyals (SAR), which is also the functional currency of the Company. All financial information presented in Saudi Arabian Riyal has been rounded to the nearest thousand, except where otherwise indicated.

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**2. BASIS OF PREPARATION (Continued)**

**d) Fiscal year**

The Company follows a fiscal year ending December 31.

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

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

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Following are the accounting judgments and estimates that are critical in preparation of these financial statements:

**i) Estimation of incurred but not reported claims**

The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

**ii) Impairment of available-for-sale financial assets**

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

**iii) Impairment of receivables**

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year except for the adoption of the amendments to existing standards mentioned below which has had no material impact on these financial statements on the current year or prior years and is expected to have an insignificant effect in future years:

- Amendments to IAS 1 - "Presentation of Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to:
  - The materiality requirements in IAS 1;
  - That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated;
  - That entities have flexibility as to the order in which they present the notes to financial statements; and
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

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

Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments are as follows:

- IFRS 5 - "Non-current Assets Held for Sale and Discontinued Operations", amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
- IFRS 7 - "Financial Instruments: Disclosures" has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
- IAS 19 - "Employee Benefits" - amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting years beginning on or after 1 January 2017 and is currently assessing their impact. Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after January 1, 2017:

- IFRS 9 - "Financial instruments", applicable for the annual periods beginning on or after 1 January 2018, and will be applied retrospectively with some exemptions. The new standard presents revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment. IASB had allowed temporary exemption for companies issuing insurance contracts until 2021 or until the new insurance contracts standard is applied, if that is earlier.
- 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.
- 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 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.

The significant accounting policies used in preparing these financial statements are set out below:

**a) Revenue Recognition**

*Recognition of premium and commission revenue*

Premiums and commission are recorded in the statement of income – insurance operations and accumulated surplus over the terms of the policies to which they relate on a pro-rata basis. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred based on the following methods:

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**a) Revenue Recognition (Continued)**

Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premium is taken to the statement of income of insurance operations and accumulated surplus in the same order that revenue is recognised over the period of risk.

*Investment income*

Investment income on available-for-sale investments and murabaha deposits are accounted for on an effective interest basis.

*Dividend income*

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

**b) Insurance contracts**

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

**c) Claims**

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and are charged to statement of income - insurance operations and accumulated surplus as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Further, the Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

**d) Salvage and subrogation reimbursement**

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

Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of the asset.

Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from the third party.



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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e) Reinsurance**

In the ordinary course of business, the Company cedes insurance risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. An asset or liability is recorded in the statement of financial position - insurance operations' representing premiums due to or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting 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 reinsurer can be measured reliably. The impairment loss is recorded in the statement of income - insurance operations and accumulated surplus as incurred.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

**f) Deferred policy acquisition costs**

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognized as an expense when incurred. Amortization is recorded in the statement of income - insurance operations and accumulated surplus.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income - insurance operations and accumulated surplus. Deferred policy acquisition costs are also considered in the liability adequacy test at each reporting date.

**g) Liability adequacy test**

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**h) Receivables**

Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in the statement of income - insurance operations and accumulated surplus. Receivable balances are derecognised when criteria for derecognition of financial assets is met.

**i) Available-for-sale investments**

Available-for-sale financial assets are those non-derivative financial assets that are neither classified as held for trading or held to maturity or loans and receivables, nor are designated at fair value through profit or loss. Such investments are initially recorded at cost, being the fair value of the consideration given including transaction cost and subsequently measured at fair value. Cumulative changes in fair value of such investments are recognized in other comprehensive income in the statement of comprehensive income - insurance operations or shareholders operations. Realized gains or losses on sale of these investments are reported in the related statements of income - insurance operations and accumulated surplus or statement of comprehensive income - shareholders operations.

Dividend, commission income and foreign currency gain/loss on available-for-sale investments are recognized in the related statements of income - insurance operations and accumulated surplus or statement of comprehensive income - shareholders operations, as part of the net investment income / loss.

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the related statement of comprehensive income - insurance operations and accumulated surplus or statement of comprehensive income - shareholders operations, as impairment charges.

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

For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

**j) Investments in associates**

An associate is an entity in which the Company has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the statement of financial position at cost, plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**j) Investments in associates (Continued)**

At each reporting date, the Company determines whether there is objective evidence that the investment in associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss in the statement of income - insurance operations and accumulated surplus or statement of comprehensive income - shareholders operations, as the case may be.

**k) De-recognition of financial instruments**

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

**l) Offsetting**

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

**m) 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.

**n) Impairment of financial assets**

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Impairment of financial assets (Continued)**

Evidence of impairment may include:

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

If there is objective evidence that an impairment loss on a financial asset exists, the impairment is determined as follows:

- For assets carried at fair value, impairment is the significant or prolonged decline in the fair value of the financial asset.
- For assets carried at amortized cost, impairment is based on estimated future cash flows that are discounted at the original effective commission rate.

For available-for-sale financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In making an assessment of whether an investment in debt instrument is impaired, the Company considers the factors such as market's assessment of creditworthiness as reflected in the bond yields, rating agencies' assessment of creditworthiness, country's ability to access the capital markets for new debt issuance and probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness. The amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**o) Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Land is not depreciated. The cost of other items of property and equipment is depreciated on the straight line method to allocate the cost over estimated useful lives, as follows:

|                        | Years |
|------------------------|-------|
| Buildings              | 33    |
| Furniture and fixtures | 10    |
| Computer equipment     | 4     |
| Vehicles               | 4     |

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. The carrying values of these assets are reviewed for impairment when event 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.

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

**p) Investment property**

Investment property represents land that is held for capital appreciation purposes. Land is stated at cost less recognized impairment loss, if any.

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

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

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

**r) Employees' end-of-service benefits**

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

**s) Provisions, accrued expenses and other liabilities**

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**t) Zakat**

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is accrued and charged to the statement of comprehensive income - shareholders operations.

**u) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and balances with banks including murabaha deposits with less than three months maturity from the date of acquisition.

**v) Foreign currencies**

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Saudi Riyals at the rate of exchange prevailing at the statement of financial position date. All differences are taken to the statements of income - insurance operations and accumulated surplus and shareholders' comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Foreign exchange gains or losses on available-for-sale investments are recognized in the statement of income - insurance operations and accumulated surplus and statement of comprehensive income - shareholders operations. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

**w) Operating segments**

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment), which is subject to risk and rewards that are different from those of other segments. For management purposes, the Company is organized into business units based on their products and services and has four reportable segments as follows:

- Medical - coverage for health insurance.
- Motor insurance.
- Property and Casualty - coverage for property, engineering, marine, aviation, energy and general accidents insurance.
- Manafeth – third party liability insurance for foreign vehicles and the profit of this segment is shared with other insurance companies.

Operating segments do not include shareholders operations of the Company. Income earned from investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The surplus or loss from the insurance operations is allocated to this segment on an appropriate basis.

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. No inter-segment transactions occurred during the year.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**x) Legal reserve**

In accordance with the Company's Articles of Association, the Company shall allocate 20% of its net income from shareholders operations each year to the legal reserve until it has built up a reserve equal to the share capital. The reserve is not available for distribution.

**y) Fair values**

The fair value of financial assets are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flow using commission for items with similar terms and risk characteristics.

For financial assets where there is no active market, fair value is determined by reference to the market value of a similar financial assets or where the fair values cannot be derived from active market, they are determined using a variety of valuation techniques. The inputs of this models is taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

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**4. PROPERTY AND EQUIPMENT, NET**

|                                  | Land    | Buildings | Furniture<br>and<br>fixtures | Computer<br>equipment | Vehicles | Capital<br>work in<br>progress | Total<br>2016 | Total<br>2015 |
|----------------------------------|---------|-----------|------------------------------|-----------------------|----------|--------------------------------|---------------|---------------|
|                                  | SAR'000 |           |                              |                       |          |                                |               |               |
| <b>Cost:</b>                     |         |           |                              |                       |          |                                |               |               |
| January 1                        | 53,036  | 199,302   | 80,541                       | 109,347               | 581      | 16,411                         | 459,218       | 406,889       |
| Additions                        | -       | -         | 1,222                        | 1,338                 | 248      | 1,240                          | 4,048         | 52,329        |
| Disposals                        | -       | (199)     | (11,713)                     | (5,167)               | -        | -                              | (17,079)      | -             |
| Transfers                        | -       | 1,498     | (6,506)                      | 9,725                 | -        | (4,717)                        | -             | -             |
| December 31                      | 53,036  | 200,601   | 63,544                       | 115,243               | 829      | 12,934                         | 446,187       | 459,218       |
| <b>Accumulated Depreciation:</b> |         |           |                              |                       |          |                                |               |               |
| January 1                        | -       | 8,611     | 60,227                       | 77,651                | 478      | -                              | 146,967       | 133,029       |
| Charge for the year              | -       | 6,510     | 2,952                        | 8,167                 | 60       | -                              | 17,689        | 13,938        |
| Disposals                        | -       | -         | (11,709)                     | (5,166)               | -        | -                              | (16,875)      | -             |
| December 31                      | -       | 15,121    | 51,470                       | 80,652                | 538      | -                              | 147,781       | 146,967       |
| <b>Net book value</b>            |         |           |                              |                       |          |                                |               |               |
| December 31, 2016                | 53,036  | 185,480   | 12,074                       | 34,591                | 291      | 12,934                         | 298,406       | -             |
| December 31, 2015                | 53,036  | 190,691   | 20,314                       | 31,696                | 103      | 16,411                         | -             | 312,251       |

**5. INVESTMENTS IN ASSOCIATES**

**i) Insurance Operations:**

|                                    | 2016    | 2015   |
|------------------------------------|---------|--------|
|                                    | SAR'000 |        |
| Balance, January 1                 | 13,602  | 9,558  |
| Share of (loss) / profit (Note 21) | (526)   | 4,383  |
| Dividends received                 | (385)   | (339)  |
| Balance, December 31               | 12,691  | 13,602 |

The Company's interest in associate, which is unquoted, is as follows along with summarized financial information:

**Najm Insurance Services**

| As of               | Country of<br>Incorporation | Assets  | Liabilities | Revenue | Profit | % Interest<br>Held |
|---------------------|-----------------------------|---------|-------------|---------|--------|--------------------|
|                     |                             | SAR'000 |             |         |        |                    |
| September 30, 2016* | Saudi Arabia                | 234,704 | 78,327      | 239,238 | 25,954 | 3.45%              |
| September 30, 2015* | Saudi Arabia                | 221,836 | 43,131      | 215,767 | 51,568 | 3.45%              |

\* Based on latest available management accounts.

The Company has significant influence over the financial and operating policy decision of the associate by way of representation on its board of directors.



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**5. INVESTMENTS IN ASSOCIATES (Continued)**

**ii) Shareholders Operations:**

|   | <u>2016</u>    | <u>2015</u>   |
|---|----------------|---------------|
|   | <u>SAR'000</u> |               |
| Balance, January 1                      | 80,402         | 79,843        |
| Share of profit                         | 19,153         | 19,444        |
| Dividends received                      | (6,213)        | (12,422)      |
| Unrealized gain / (loss) on investments | 1,616          | (6,463)       |
| Balance, December 31                    | <u>94,958</u>  | <u>80,402</u> |

The Company's interest in associates, which are unquoted, is as follows along with summarized financial information:

**a) United Insurance Company**

| As of               | Country of Incorporation | Assets  | Liabilities | Revenue | Profit | % Interest Held |
|---------------------|--------------------------|---------|-------------|---------|--------|-----------------|
| <u>SAR'000</u>      |                          |         |             |         |        |                 |
| November 30, 2016 * | Bahrain                  | 235,337 | 102,594     | 74,436  | 28,988 | 50%             |
| November 30, 2015 * | Bahrain                  | 208,492 | 93,192      | 70,307  | 27,890 | 50%             |

\* Based on latest available management accounts.

**b) Waseel Application Services Provider**

| As of               | Country of Incorporation | Assets | Liabilities | Revenue | Profit | % Interest Held |
|---------------------|--------------------------|--------|-------------|---------|--------|-----------------|
| <u>SAR'000</u>      |                          |        |             |         |        |                 |
| November 30, 2016 * | Saudi Arabia             | 68,060 | 8,850       | 31,781  | 15,300 | 45%             |
| November 30, 2015 * | Saudi Arabia             | 51,532 | 3,941       | 28,389  | 12,697 | 45%             |

\* Based on latest available management accounts.

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**6. AVAILABLE-FOR-SALE INVESTMENTS**

**i) Insurance operations:**

Available-for-sale investments of the insurance operations comprise the following:

|   | 2016             | 2015             |
|---|------------------|------------------|
|   | SAR'000          |                  |
| Local / regional funds and fixed income investments | 2,799,658        | 2,258,711        |
| Local / regional equity                             | 63,564           | 582,916          |
| Foreign funds and fixed income investments          | 292,364          | 378,815          |
| <b>Total</b>  | <b>3,155,586</b> | <b>3,220,442</b> |

Movements in available-for-sale investments are as follows:

|                                      | Quoted<br>securities | Unquoted<br>securities | Total            |
|--------------------------------------|----------------------|------------------------|------------------|
|                                      | SAR'000              |                        |                  |
| As at January 1, 2015                | 459,423              | 2,409,577              | 2,869,000        |
| Purchases                            | 362,176              | 3,522,262              | 3,884,438        |
| Disposals                            | (188,344)            | (3,218,653)            | (3,406,997)      |
| Impairment of investments            | (17,696)             | -                      | (17,696)         |
| Changes in fair value of investments | (32,643)             | (75,660)               | (108,303)        |
| As at December 31, 2015              | <u>582,916</u>       | <u>2,637,526</u>       | <u>3,220,442</u> |
| As of January 1, 2016                | <b>582,916</b>       | <b>2,637,526</b>       | <b>3,220,442</b> |
| Purchases                            | 837,724              | 2,559,857              | 3,397,581        |
| Disposals                            | (1,038,095)          | (2,486,284)            | (3,524,379)      |
| Impairment of investments            | (50,036)             | -                      | (50,036)         |
| Changes in fair value of investments | 70,119               | 41,859                 | 111,978          |
| As at December 31, 2016              | <u>402,628</u>       | <u>2,752,958</u>       | <u>3,155,586</u> |

The movement of changes in fair value of investments is as follows:

|  | 2016           | 2015             |
|--|----------------|------------------|
|  | SAR'000        |                  |
| Net change in fair value   | 180,341        | (49,478)         |
| Net amount transferred to statement of income - insurance operations | (118,399)      | (76,521)         |
| Impairment on available-for-sale investments                         | 50,036         | 17,696           |
|  | <u>111,978</u> | <u>(108,303)</u> |

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**6. AVAILABLE-FOR-SALE INVESTMENTS (Continued)**

**ii) Shareholders Operations:**

Shareholders operations available-for-sale investments comprise the following:

|   | 2016             | 2015             |
|---|------------------|------------------|
|   | SAR'000          |                  |
| Local / regional funds and fixed income investments | 1,145,607        | 1,882,673        |
| Local / regional equity                             | 43,683           | 246,636          |
| Foreign funds and fixed income investments          | 188,701          | -                |
| Foreign equity                                      | -                | 49,614           |
| <b>Total</b>  | <b>1,377,991</b> | <b>2,178,923</b> |

Movements in available-for-sale investments are as follows:

|                                      | Quoted<br>securities | Unquoted<br>securities  | Total                   |
|--------------------------------------|----------------------|-------------------------|-------------------------|
|                                      | SAR'000              |                         |                         |
| As at January 1, 2015                | 290,130              | 1,761,990               | 2,052,120               |
| Purchases                            | 382,213              | 2,451,459               | 2,833,672               |
| Disposals                            | (360,495)            | (2,089,607)             | (2,450,102)             |
| Impairment of investments            | (36,032)             | -                       | (36,032)                |
| Changes in fair value of investments | (29,180)             | (191,555)               | (220,735)               |
| As at December 31, 2015              | <u>246,636</u>       | <u>1,932,287</u>        | <u>2,178,923</u>        |
| As at January 1, 2016                | <b>246,636</b>       | <b>1,932,287</b>        | <b>2,178,923</b>        |
| Purchases                            | <b>547,063</b>       | <b>4,663,536</b>        | <b>5,210,599</b>        |
| Disposals                            | <b>(748,666)</b>     | <b>(5,226,510)</b>      | <b>(5,975,176)</b>      |
| Impairment of investments            | <b>(22,034)</b>      | -                       | <b>(22,034)</b>         |
| Changes in fair value of investments | <b>35,066</b>        | <b>(49,387)</b>         | <b>(14,321)</b>         |
| As at December 31, 2016              | <u><b>58,065</b></u> | <u><b>1,319,926</b></u> | <u><b>1,377,991</b></u> |

The movement of changes in fair value of investments is as follows:

|   | 2016            | 2015             |
|---|-----------------|------------------|
|   | SAR'000         |                  |
| Net change in fair value  | 6,836           | (84,877)         |
| Net amount transferred to statement of income - shareholders operations | (43,191)        | (171,890)        |
| Impairment on available-for-sale investments                            | 22,034          | 36,032           |
|   | <u>(14,321)</u> | <u>(220,735)</u> |

The available-for-sale investments mainly comprise of mutual funds, sukuks and equities issued by corporate and financial institutions in the Kingdom of Saudi Arabia. Such investments are unrated since credit ratings by reputable external agencies were not available at the reporting date.

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**7. PREPAID EXPENSES AND OTHER ASSETS**

|  | 2016           | 2015           |
|--|----------------|----------------|
|  | SAR'000        |                |
| Advances to medical service providers and others | 194,394        | 414,493        |
| Prepaid expenses                                 | 46,870         | 79,008         |
| Excess of loss premium deposits                  | 12,972         | 11,640         |
| Other assets                                     | 28,560         | 44,850         |
| Total  | <u>282,796</u> | <u>549,991</u> |

**8. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS**

**a) Deferred policy acquisition costs**

|                           | 2016           | 2015           |
|---------------------------|----------------|----------------|
|                           | SAR'000        |                |
| Balance, January 1        | 209,244        | 173,633        |
| Incurred during the year  | 525,754        | 472,199        |
| Amortized during the year | (516,898)      | (436,588)      |
| Balance, December 31      | <u>218,100</u> | <u>209,244</u> |

**b) Unearned commission income**

|                                     |               |               |
|-------------------------------------|---------------|---------------|
| Balance, January 1                  | 51,024        | 41,554        |
| Commission received during the year | 106,481       | 103,093       |
| Commission earned during the year   | (103,066)     | (93,623)      |
| Balance, December 31                | <u>54,439</u> | <u>51,024</u> |

**c) Unearned premiums**

|                                  | 2016             |                      |                  | 2015             |                      |                  |
|----------------------------------|------------------|----------------------|------------------|------------------|----------------------|------------------|
|                                  | Gross            | Reinsurers'<br>share | Net              | Gross            | Reinsurers'<br>share | Net              |
|                                  | SAR'000          |                      |                  | SAR'000          |                      |                  |
| Balance, January 1               | 4,233,561        | (629,974)            | 3,603,587        | 3,290,901        | (443,941)            | 2,846,960        |
| Premiums written during the year | 8,055,135        | (981,686)            | 7,073,449        | 7,545,268        | (1,123,816)          | 6,421,452        |
| Premiums earned during the year  | (7,898,467)      | 1,057,847            | (6,840,620)      | (6,602,608)      | 937,783              | (5,664,825)      |
| Balance, December 31             | <u>4,390,229</u> | <u>(553,813)</u>     | <u>3,836,416</u> | <u>4,233,561</u> | <u>(629,974)</u>     | <u>3,603,587</u> |

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**8. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS (Continued)**

**d) Outstanding claims and reserves**

|                                  | 2016        |                  |             | 2015        |                  |             |
|----------------------------------|-------------|------------------|-------------|-------------|------------------|-------------|
|                                  | Gross       | Reinsurers share | Net         | Gross       | Reinsurers share | Net         |
|                                  | SAR'000     |                  |             | SAR'000     |                  |             |
| Balance, January 1               | 3,182,367   | (1,827,909)      | 1,354,458   | 2,662,501   | (1,200,247)      | 1,462,254   |
| Claims paid                      | (5,327,532) | 343,851          | (4,983,681) | (4,999,478) | 747,772          | (4,251,706) |
| Claims incurred                  | 5,722,985   | (618,687)        | 5,104,298   | 5,519,344   | (1,375,434)      | 4,143,910   |
| Balance, December 31             | 3,577,820   | (2,102,745)      | 1,475,075   | 3,182,367   | (1,827,909)      | 1,354,458   |
| Outstanding claims               | 2,254,192   | (1,764,393)      | 489,799     | 1,860,957   | (1,495,909)      | 365,048     |
| Salvage and subrogation          | (123,100)   | -                | (123,100)   | (88,643)    | -                | (88,643)    |
| Incurred but not reported claims | 1,446,728   | (338,352)        | 1,108,376   | 1,410,053   | (332,000)        | 1,078,053   |
| Balance, December 31             | 3,577,820   | (2,102,745)      | 1,475,075   | 3,182,367   | (1,827,909)      | 1,354,458   |

**9. REINSURERS' SHARE OF OUTSTANDING CLAIMS, NET**

Reinsurers' share of outstanding claims comprise net amounts due from the following:

|  | 2016             | 2015             |
|--|------------------|------------------|
|  | SAR'000          |                  |
| Reinsurers' share of insurance liabilities | 2,104,267        | 1,829,059        |
| Impairment provision                       | (1,522)          | (1,150)          |
|  | <u>2,102,745</u> | <u>1,827,909</u> |

Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the date of the statement of financial position. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern. Reinsurance arrangements are made with counterparties with sound credit ratings under Standard and Poor's ratings methodology and ratings as per other reputable agencies.

Amounts due from reinsurers relating to claims already paid by the Company are included in receivables, net (Note 10).

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**10. RECEIVABLES, NET**

Receivables comprise net amounts due from the following:

|                                    | 2016                    | 2015                    |
|------------------------------------|-------------------------|-------------------------|
|                                    | SAR'000                 |                         |
| Policyholders                      | 1,890,619               | 1,399,860               |
| Brokers and agents                 | 318,076                 | 293,446                 |
| Related parties (Note 25)          | 165,494                 | 197,714                 |
|                                    | <u>2,374,189</u>        | <u>1,891,020</u>        |
| Receivables from reinsurers        | 32,489                  | 202,269                 |
| Administrative service plan        | 24,070                  | 18,436                  |
|                                    | <u>2,430,748</u>        | <u>2,111,725</u>        |
| Provision for doubtful receivables | (103,760)               | (168,146)               |
| Receivables, net                   | <u><u>2,326,988</u></u> | <u><u>1,943,579</u></u> |

Movement in provision for doubtful debts during the year was as follows:

|  | 2016                  | 2015                  |
|--|-----------------------|-----------------------|
|  | SAR'000               |                       |
| Balance, January 1                         | 168,146               | 102,383               |
| (Reversal) / charge for the year (Note 22) | (61,208)              | 65,763                |
| Write-offs                                 | (3,178)               | -                     |
| Balance, December 31                       | <u><u>103,760</u></u> | <u><u>168,146</u></u> |

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

|             | Total            | Neither past<br>due nor<br>impaired | Past due but not impaired |                 |                 | Past due and impaired |                   |                          |
|-------------|------------------|-------------------------------------|---------------------------|-----------------|-----------------|-----------------------|-------------------|--------------------------|
|             |                  |                                     | Less than<br>30 days      | 31 - 60<br>days | 61 - 90<br>days | 91 - 180<br>days      | 181 - 360<br>days | More<br>than 360<br>days |
| <b>2016</b> | <u>2,430,748</u> | <u>1,411,972</u>                    | <u>391,701</u>            | <u>358,901</u>  | <u>71,025</u>   | <u>76,629</u>         | <u>28,110</u>     | <u>92,410</u>            |
| <b>2015</b> | <u>2,111,725</u> | <u>1,365,621</u>                    | <u>355,094</u>            | <u>144,751</u>  | <u>21,050</u>   | <u>78,176</u>         | <u>29,130</u>     | <u>117,903</u>           |

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

Receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia and reinsurance companies mainly outside the Kingdom of Saudi Arabia. Receivables include an amount of SAR 51 million (2015: SAR 23 million) due in foreign currencies, mainly in US dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of the transaction. Arrangements with reinsurers normally require settlement within a certain agreed period.

The five largest customers accounts for 34% (31 December 2015: 25%) of the premiums receivable as at 31 December 2016.

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**11. STATUTORY DEPOSIT**

In compliance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company had deposited 10% percent of its share capital, amounting to SAR 100 million in a bank designated by SAMA. The statutory deposit is maintained with the National Commercial Bank and can be withdrawn only with the consent of SAMA.

**12. CASH AND CASH EQUIVALENTS**

**i) Insurance operations:**

|                         | 2016      | 2015    |
|-------------------------|-----------|---------|
|                         | SAR'000   |         |
| Murabaha deposits       | 411,000   | 182,621 |
| Banks balances and cash | 968,402   | 579,247 |
|                         | 1,379,402 | 761,868 |

**ii) Shareholders operations:**

|                         |           |        |
|-------------------------|-----------|--------|
| Murabaha deposits       | 905,150   | 16,067 |
| Banks balances and cash | 116,597   | 45,746 |
|                         | 1,021,747 | 61,813 |

Murabaha deposits are maintained with financial institutions and have a maturity of three months or less from the date of acquisition. These earn commission at an average rate of 3.2% per annum as at 31 December 2016 (2015: 1.8% per annum).

Bank balances and cash under insurance operations includes call account balance of SAR 483 million (2015: SAR nil). Both bank balances and murabaha deposits (including off-balance sheet exposures) are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology.

**13. INSURANCE OPERATIONS' SURPLUS AND DIVIDENDS DECLARED**

**Insurance Operations' surplus**

The insurance operations' invests its surplus funds in investments as disclosed in Notes 5, 6 and 12. Changes in the fair value of available-for-sale investments at December 31, 2016 are not considered as part of the net surplus available for distribution to policyholders. At the time such investments are sold or gains and losses are realized, they will be included in the statement of income - insurance operations and accumulated surplus.

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**13. INSURANCE OPERATIONS' SURPLUS AND DIVIDENDS DECLARED (Continued)**

**Dividends declared**

On February 15, 2017, corresponding to Jumada Al-Awal 18, 1438H the Company's Board of Directors proposed to pay cash dividend for the year ended December 31, 2016 of SAR 5 per share amounting to SAR 500 million (2015: SAR 100 million) to its shareholders.

Further on February 15, 2017, corresponding to Jumada Al-Awal 18, 1438H the Company's Board of Directors proposed a bonus issue of 25 million shares of SAR 10 each, amounting to SAR 250 million (2015: nil) to its shareholders.

The proposed dividend will be subject to the approval of the shareholders at the General Assembly meeting.

**14. CLAIMS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

|   | 2016             | 2015             |
|---|------------------|------------------|
|   | <u>SAR'000</u>   |                  |
| Payables to policyholders                     | 679,713          | 656,252          |
| Payable - General Authority of Zakat and Tax  | 336,377          | 339,055          |
| Accrued expenses                              | 112,417          | 139,880          |
| Marketing representative commissions          | 108,640          | 123,113          |
| Manafeth share of profit distribution payable | 106,674          | 49,087           |
| Employee end of service benefits              | 98,677           | 81,349           |
| Provision for leave encashment                | 12,613           | 15,934           |
| Employees' savings plan                       | 9,605            | 11,749           |
| Other liabilities                             | 35,827           | 24,540           |
|   | <u>1,500,543</u> | <u>1,440,959</u> |

**15. RESERVE FOR DISCONTINUED OPERATIONS**

The reserve for discontinued operations comprise the following in relation to one of the Company's divisions which was discontinued during 1998:

|                    |              |               |
|--------------------|--------------|---------------|
| Outstanding claims | 1,425        | 3,203         |
| Reserve for losses | 196          | 8,008         |
| Total              | <u>1,621</u> | <u>11,211</u> |



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**16. CLAIMS DEVELOPMENT TABLE**

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments.

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

| 2016  |                   |             |             |             |             |             |                  |
|---|-------------------|-------------|-------------|-------------|-------------|-------------|------------------|
| Accident year   | 2011 &<br>Earlier | 2012        | 2013        | 2014        | 2015        | 2016        | Total            |
|   | SAR '000          |             |             |             |             |             |                  |
| <b>Estimate of ultimate claims cost:</b>                |                   |             |             |             |             |             |                  |
| At the end of   |                   |             |             |             |             |             |                  |
| accident year   | 18,719,531        | 2,971,986   | 4,917,107   | 3,669,909   | 4,862,126   | 4,996,477   |                  |
| One year later  | 18,746,068        | 3,978,907   | 5,596,818   | 4,120,395   | 5,580,212   |             |                  |
| Two years later   | 18,717,890        | 4,016,792   | 5,522,532   | 4,149,345   |             |             |                  |
| Three years later                                       | 18,526,306        | 4,021,777   | 5,508,628   |             |             |             |                  |
| Four years later  | 18,500,906        | 4,025,411   |             |             |             |             |                  |
| Five years later  | 18,488,430        |             |             |             |             |             |                  |
| Current estimate of cumulative claims                   | 18,488,430        | 4,025,411   | 5,508,628   | 4,149,345   | 5,580,212   | 4,996,477   | 42,748,503       |
| Cumulative payments to date                             | (18,309,955)      | (3,995,338) | (5,387,195) | (3,890,033) | (4,660,503) | (4,251,287) | (40,494,311)     |
| Liability recognized in statement of financial position | 178,475           | 30,073      | 121,433     | 259,312     | 919,709     | 745,190     | 2,254,192        |
| Salvage and subrogation                                 |                   |             |             |             |             |             | (123,100)        |
| Incurred but not reported claims                        |                   |             |             |             |             |             | 1,446,728        |
| Outstanding claims and reserves                         |                   |             |             |             |             |             | <u>3,577,820</u> |

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**16. CLAIMS DEVELOPMENT TABLE (Continued)**

| 2015  |                   |             |             |             |             |             |              |
|---|-------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Accident year   | 2010 &<br>Earlier | 2011        | 2012        | 2013        | 2014        | 2015        | Total        |
|   | SAR '000          |             |             |             |             |             |              |
| <b>Estimate of ultimate claims cost:</b>                |                   |             |             |             |             |             |              |
| At the end of   |                   |             |             |             |             |             |              |
| accident year   | 15,976,733        | 2,521,919   | 2,971,986   | 4,917,107   | 3,669,909   | 4,862,126   |              |
| One year later  | 16,197,612        | 2,914,308   | 3,978,907   | 5,596,818   | 4,120,395   |             |              |
| Two years later   | 15,831,760        | 2,896,367   | 4,016,792   | 5,522,532   |             |             |              |
| Three years later                                       | 15,821,523        | 2,910,080   | 4,021,777   |             |             |             |              |
| Four years later  | 15,616,226        | 2,908,120   |             |             |             |             |              |
| Five years later  | 15,592,786        |             |             |             |             |             |              |
| Current estimate of cumulative claims                   | 15,592,786        | 2,908,120   | 4,021,777   | 5,522,532   | 4,120,395   | 4,862,126   | 37,027,736   |
| Cumulative payments to date                             | (15,412,355)      | (2,857,827) | (3,967,181) | (5,350,381) | (3,832,149) | (3,746,886) | (35,166,779) |
| Liability recognized in statement of financial position | 180,431           | 50,293      | 54,596      | 172,151     | 288,246     | 1,115,240   | 1,860,957    |
| Salvage and subrogation                                 |                   |             |             |             |             |             | (88,643)     |
| Incurred but not reported claims                        |                   |             |             |             |             |             | 1,410,053    |
| Outstanding claims and reserves                         |                   |             |             |             |             |             | 3,182,367    |

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**17. ZAKAT**

The current year's provision is based on the following:

|  | 2016      | 2015        |
|--|-----------|-------------|
|  | SAR'000   |             |
| Share capital                                      | 1,000,000 | 1,000,000   |
| Reserves, opening provisions and other adjustments | 1,598,458 | 1,007,026   |
| Book value of long term assets                     | (703,074) | (1,025,674) |
|  | 1,895,384 | 981,352     |
| Zakatable income for the year                      | 831,374   | 773,636     |
| Zakat base   | 2,726,758 | 1,754,988   |
| Zakat due at 2.5%                                  | 68,169    | 43,875      |

As the zakat base for the year is higher than the zakatable income, the zakat for the year is calculated at 2.5% on the zakat base for the year.

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

|                          |          |          |
|--------------------------|----------|----------|
| Balance, January 1       | 152,106  | 124,626  |
| Provided during the year | 68,169   | 43,875   |
| Payments during the year | (19,832) | (16,395) |
| Balance, December 31     | 200,443  | 152,106  |

**Status of Assessments**

The Company had filed Zakat returns with the General Authority of Zakat and Tax ("GAZT") for the years from 2005 to 2015. In relation to 2005 and 2006, the final assessments had been finalized and the Company had filed an appeal against the assessments of GAZT which is raised to Board of Grievances. In relation to 2007 to 2013, GAZT had raised assessments and management had subsequently filed their response. Further, GAZT has yet to commence its review for the years 2014 and 2015. Based on advice from zakat consultant, appropriate provisions have been made and management believes that finalization of the above mentioned assessments is not expected to have a material impact on the financial statements.

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**18. SHARE CAPITAL**

The authorized, issued and paid up capital of the Company is SAR 1 billion at December 31, 2016 (2015: SAR 1 billion) consisting of 100 million shares of SAR 10 each.

|   | 2016                  |                  |                  |
|---|-----------------------|------------------|------------------|
|   | Authorized and issued |                  | Paid up          |
|   | No. of Shares         | SAR'000          |                  |
| Held by the public                        | 53,370,407            | 533,704          | 533,704          |
| Public Pension Agency                     | 23,790,148            | 237,901          | 237,901          |
| General Organization for Social Insurance | 22,839,445            | 228,395          | 228,395          |
|   | <b>100,000,000</b>    | <b>1,000,000</b> | <b>1,000,000</b> |

|   | 2015                  |                  |                  |
|---|-----------------------|------------------|------------------|
|   | Authorized and issued |                  | Paid up          |
|   | No. of Shares         | SAR'000          |                  |
| Held by the public                        | 53,370,407            | 533,704          | 533,704          |
| Public Pension Agency                     | 23,790,148            | 237,901          | 237,901          |
| General Organization for Social Insurance | 22,839,445            | 228,395          | 228,395          |
|   | <b>100,000,000</b>    | <b>1,000,000</b> | <b>1,000,000</b> |

**19. LEGAL RESERVE**

In accordance with the Articles of Association of the Company and in compliance with Article 70(2)(g) of the Insurance Implementing Regulations issued by SAMA, the Company is required to allocate 20% of its net income for the year to the legal reserve until it equals the value of share capital, which was reached in 2016. This transfer is only made at the year end. The legal reserve is not available for distribution to Shareholders until liquidation of the Company.

**20. MANAFETH SHARED AGREEMENT**

On 13 January 2015 together with 25 related insurance companies, the Company signed the Manafeth shared agreement relating to third party liability motor insurance which is effective from 1 January 2015. The agreement relates to motor insurance for vehicles entering the Kingdom of Saudi Arabia.

The main terms of the above mentioned agreement are as follows:

- The Company obtains 15% management fee of the net result of the Manafeth portfolio;
- The Company obtains 4.25% of Manafeth's gross premiums written to cover the related indirect expenses; and
- The net result of the Manafeth portfolio after deducting the two above mentioned items is due to be shared equally by the Company and its related insurers.

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**21. INVESTMENT INCOME, NET**

|   | 2016           | 2015           |
|---|----------------|----------------|
|   | <u>SAR'000</u> |                |
| <b>Insurance Operations</b>                           |                |                |
| Available-for-sale:                                   |                |                |
| - Dividend income                                     | 4,813          | 4,906          |
| - Commission income                                   | 19,254         | 6,459          |
| - Realized gain on sale (Note 30)                     | 118,399        | 76,521         |
| - Investment fees                                     | (1,397)        | (4,018)        |
| Share of profit from investment in associate (Note 5) | (526)          | 4,383          |
| <b>Investment income, net</b>                         | <u>140,543</u> | <u>88,251</u>  |
| <br><b>Shareholders Operations</b>                    |                |                |
| Available-for-sale:                                   |                |                |
| - Dividend income                                     | 23,219         | 5,088          |
| - Commission income                                   | 50,291         | 2,557          |
| - Foreign currency exchange (loss) / gain             | (79)           | 2,910          |
| - Realized gain on sale (Note 30)                     | 43,191         | 171,890        |
| - Investment fees                                     | (2,138)        | (2,059)        |
| <b>Investment income, net</b>                         | <u>114,484</u> | <u>180,386</u> |

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**22. OPERATING AND SELLING EXPENSES**

|   | <u>2016</u>    | <u>2015</u>    |
|---|----------------|----------------|
|   | <u>SAR'000</u> |                |
| Salaries and benefits                                     | 364,046        | 335,516        |
| Advertising   | 15,124         | 17,603         |
| Insurance, utilities and maintenance                      | 10,788         | 11,602         |
| Rent  | 6,240          | 5,118          |
| Depreciation  | 5,373          | 6,629          |
| Communications  | 3,788          | 3,390          |
| Office supplies and printing                              | 762            | 1,174          |
| Training and education                                    | 619            | 4,911          |
| (Reversal) / provision for doubtful receivables (Note 10) | (61,208)       | 65,763         |
| Others  | 11,828         | 9,984          |
|   | <u>357,360</u> | <u>461,690</u> |

**23. OTHER GENERAL AND ADMINISTRATIVE EXPENSES**

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| Professional fees                    | 16,237        | 19,236        |
| Depreciation                         | 12,316        | 7,309         |
| Insurance, utilities and maintenance | 10,666        | 8,995         |
| Indirect cost charge of Manafeth     | 10,015        | 8,302         |
| License and other charges            | 8,716         | 12,795        |
| Communications                       | 6,150         | 7,623         |
| Rent                                 | 1,874         | 1,873         |
| Office supplies and printing         | 1,414         | 2,286         |
| Training and education               | 978           | 7,486         |
| Others                               | 9,826         | 6,997         |
|                                      | <u>78,192</u> | <u>82,902</u> |

**24. EARNINGS PER SHARE**

Basic and diluted earnings per share have been calculated by dividing the net income for the year ended December 31, 2016 and 2015 by 100 million shares.

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**25. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors. The following are the details of the major related party transactions during the year and the related balances at December 31:

|  | Amount of transactions for the year ended SAR'000 |         | Balance receivable / (payable) as at SAR'000 |         |
|--|---|---------|--|---------|
|  | 2016  | 2015    | 2016   | 2015    |
| <b><u>Major shareholders</u></b>   |   |         |  |         |
| Amount of claims paid to hospitals owned by major shareholders                                       | 69,133  | 62,286  | 5,488  | (4,259) |
| Medical insurance premiums written   | 33,351  | 39,996  | 1,985  | 3,277   |
| <b><u>Associates</u></b>   |   |         |  |         |
| Insurance premium written  | 41,500  | 792     | 22,328                                       | -       |
| Rent expenses paid   | 1,662   | 1,852   | -  | -       |
| Najm fees paid   | 31,199  | 41,291  | 20,980                                       | 4,252   |
| Waseel fees paid   | 12,780  | 14,589  | (1,115)                                      | -       |
| United Insurance Co. fees and claims, net  | 8,436   | 8,490   | 1,223  | 3,663   |
| <b><u>Entities controlled, jointly controlled or significantly influenced by related parties</u></b> |   |         |  |         |
| Insurance premiums written   | 504,682   | 250,366 | 141,181                                      | 194,437 |
| Reinsurance transactions (Chedid Reinsurance)  | 8,056   | 8,119   | (5,125)                                      | (2,068) |

In accordance with the Company's Articles of Association, the Board of Directors is entitled each year to remuneration up to 10% of the remaining profit from shareholders operations, as defined, based on a decision by the General Assembly.

**Remuneration and compensation of BOD Members and Top Executives**

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and five top executives for the year ended December 31, 2016 and 2015:

| 2016                       | BOD members (Executives) | BOD members (Non-Executive) (SAR'000) | Top Executives including the CEO and CFO |
|----------------------------|--------------------------|---------------------------------------|--|
| Salaries and compensation  | -                        | -                                     | 6,180                                    |
| Allowances                 | -                        | 762                                   | 2,858                                    |
| Motivational plans         | -                        | -                                     | 88                                       |
| Annual remuneration        | -                        | 1,800                                 | 3,382                                    |
| End of service indemnities | -                        | -                                     | 597                                      |
| <b>Total</b>               | <b>-</b>                 | <b>2,562</b>                          | <b>13,105</b>                            |

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**25. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**

| 2015                       | BOD members<br>(Executives) | BOD members<br>(Non-Executive)<br>(SAR'000) | Top Executives<br>including the<br>CEO and CFO |
|----------------------------|-----------------------------|---|--|
| Salaries and compensation  | -                           | -   | 5,397  |
| Allowances                 | -                           | 744   | 1,889  |
| Motivational plans         | -                           | -   | 365  |
| Annual remuneration        | -                           | 1,794                                       | 3,250  |
| End of service indemnities | -                           | -   | 1,843  |
| <b>Total</b>               |                             | <b>2,538</b>                                | <b>12,744</b>                                  |

**26. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

**Determination of fair value and fair value hierarchy**

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

- Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.
- Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.
- Level 3: valuation techniques for which any significant input is not based on observable market data.

The table below presents the available-for-sale investments based on the fair value hierarchy:

| 2016                            | (SAR'000)      |          |                  |                  |
|---------------------------------|----------------|----------|------------------|------------------|
|                                 | Level 1        | Level 2  | Level 3          | Total            |
| Available-for- sale investments |                |          |                  |                  |
| - Insurance operations          | 402,628        | -        | 2,752,958        | 3,155,586        |
| - Shareholders operations       | 58,065         | -        | 1,319,926        | 1,377,991        |
| <b>Total</b>                    | <b>460,693</b> | <b>-</b> | <b>4,072,884</b> | <b>4,533,577</b> |
| <hr/>                           |                |          |                  |                  |
| 2015                            |                |          |                  |                  |
| Available-for-sale investments  |                |          |                  |                  |
| - Insurance operations          | 582,916        | -        | 2,637,526        | 3,220,442        |
| - Shareholders operations       | 246,636        | -        | 1,932,287        | 2,178,923        |
| <b>Total</b>                    | <b>829,552</b> | <b>-</b> | <b>4,569,813</b> | <b>5,399,365</b> |



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**26. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)**

The valuation of each publicly traded investment is based upon the closing market price of that stock as of the valuation date, less a discount if the security is restricted. Fair values of private equity investments classified in Level 3 are determined based on the investees' latest reported net assets values as at the date of statement of financial position, which approximate the fair values. Fair values of other investments (including sukuks) classified in Level 3 are determined based on discounted cash flows, which incorporate assumptions regarding an appropriate credit spread. There were no transfers in between levels during the year ended December 31, 2016.

**Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy**

|                          |                  |                                     |                    |                   |                                  | (SAR'000)        |
|--------------------------|------------------|-------------------------------------|--------------------|-------------------|----------------------------------|------------------|
|                          | Balance          | Total gain or loss<br>recognized in |                    |                   | Balance                          |                  |
| <b>December 31, 2016</b> | January 1        | Purchases                           | Sales              | Profit or<br>loss | Other<br>comprehensive<br>income | December<br>31   |
| Insurance operations     | 2,637,526        | 2,559,857                           | (2,633,588)        | (147,304)         | 336,467                          | 2,752,958        |
| Shareholders             | 1,932,287        | 4,663,536                           | (5,286,641)        | (60,131)          | 70,875                           | 1,319,926        |
| <b>Total</b>             | <b>4,569,813</b> | <b>7,223,393</b>                    | <b>(7,920,229)</b> | <b>(207,435)</b>  | <b>407,342</b>                   | <b>4,072,884</b> |
| <hr/>                    |                  |                                     |                    |                   |                                  |                  |
| December 31, 2015        |                  |                                     |                    |                   |                                  |                  |
| Insurance operations     | 2,409,577        | 3,522,262                           | (3,240,593)        | 21,940            | (75,660)                         | 2,637,526        |
| Shareholders             | 1,761,990        | 2,451,459                           | (2,146,146)        | 56,539            | (191,555)                        | 1,932,287        |
| <b>Total</b>             | <b>4,171,567</b> | <b>5,973,721</b>                    | <b>(5,386,739)</b> | <b>78,479</b>     | <b>(267,215)</b>                 | <b>4,569,813</b> |

**Sensitivity analysis of Level 3 investments**

An increase or decrease of 100 basis points in pricing of investments would result in a change in the loss or gain for the year of SAR 40.73 million (2015: SAR 45.70 million).

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**27. OPERATING SEGMENTS**

Consistent with the Company's internal reporting process; operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker. Operating segments do not include shareholders operations of the Company.

Segment assets do not include insurance operations' property and equipment, prepayments and other assets, receivables, net and cash and cash equivalents. Accordingly, they are included in unallocated assets. Segment liabilities do not include reserve for discontinued operations, surplus distribution payable, due to shareholders operations, reinsurance balances payable, claims payable, accrued expenses and other liabilities and fair value reserve for available-for-sale investments. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premiums receivable and depreciation on the property and equipments) are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

| Operating Segments                                      | For the year ended December 31, 2016 |                |                |                     | Total            |
|---|--------------------------------------|----------------|----------------|---------------------|------------------|
|   | Medical                              | Motor          | Manafeth       | Property & casualty |                  |
|   | SAR' 000                             |                |                |                     |                  |
| Gross premiums written:                                 |                                      |                |                |                     |                  |
| Compulsory  | 4,421,272                            | -              | -              | -                   | -                |
| Non - compulsory  | 809,815                              | -              | -              | -                   | -                |
| Total gross premiums written                            | 5,231,087                            | 1,512,411      | 235,643        | 1,075,994           | 8,055,135        |
| Net premiums written                                    | 5,195,999                            | 1,512,411      | 235,643        | 129,396             | 7,073,449        |
| Net premiums earned                                     | 4,992,831                            | 1,475,708      | 233,578        | 138,503             | 6,840,620        |
| Reinsurance commissions                                 | 6,355                                | 31             | -              | 96,680              | 103,066          |
| Net claims incurred                                     | (3,996,114)                          | (1,019,049)    | (43,557)       | (45,578)            | (5,104,298)      |
| Policy acquisition costs                                | (257,442)                            | (173,389)      | (35,975)       | (50,092)            | (516,898)        |
| Excess of loss expenses                                 | -                                    | (18,059)       | (3,248)        | (8,560)             | (29,867)         |
| Changes in reserve for takaful activities               | 565                                  | -              | -              | -                   | 565              |
| Other underwriting expenses                             | (98,458)                             | (7,781)        | (20,756)       | (6,345)             | (133,340)        |
| <b>Income from Insurance operations</b>                 | <b>647,737</b>                       | <b>257,461</b> | <b>130,042</b> | <b>124,608</b>      | <b>1,159,848</b> |
| General, administrative, operating and selling expenses |                                      |                |                |                     | (435,552)        |
| Investment income, net                                  |                                      |                |                |                     | 140,543          |
| Impairment on available-for-sale investments            |                                      |                |                |                     | (50,036)         |
| Other income, net                                       |                                      |                |                |                     | 58,386           |
| Manafeth insurance share distribution                   |                                      |                |                |                     | (106,674)        |
| <b>Surplus from Insurance operations</b>                |                                      |                |                |                     | <b>766,515</b>   |

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**27. OPERATING SEGMENTS (Continued)**

| Operating Segments                                      | For the year ended December 31, 2015 |                  |                |                     | Total            |
|---|--------------------------------------|------------------|----------------|---------------------|------------------|
|   | Medical                              | Motor            | Manafeth       | Property & casualty |                  |
|   | SAR' 000                             |                  |                |                     |                  |
| Gross premiums written:                                 |                                      |                  |                |                     |                  |
| Compulsory  | 4,111,028                            | -                | -              | -                   | -                |
| Non - compulsory  | 801,778                              | -                | -              | -                   | -                |
| <b>Total gross premiums written</b>                     | <b>4,912,806</b>                     | <b>1,294,864</b> | <b>195,352</b> | <b>1,142,246</b>    | <b>7,545,268</b> |
| Net premiums written                                    | 4,798,758                            | 1,294,864        | 195,352        | 132,478             | 6,421,452        |
| Net premiums earned                                     | 4,287,836                            | 1,080,815        | 157,550        | 138,624             | 5,664,825        |
| Reinsurance commissions                                 | 194                                  | (4,391)          | -              | 97,820              | 93,623           |
| Net claims incurred                                     | (3,313,344)                          | (751,661)        | (53,818)       | (25,087)            | (4,143,910)      |
| Policy acquisition costs                                | (225,775)                            | (141,696)        | (24,129)       | (44,988)            | (436,588)        |
| Excess of loss expenses                                 | -                                    | (12,612)         | (2,330)        | (9,485)             | (24,427)         |
| Changes in reserve for takaful                          | 2,873                                | -                | -              | -                   | 2,873            |
| Other underwriting expenses                             | (103,657)                            | (14,075)         | (9,986)        | (18,634)            | (146,352)        |
| <b>Income from Insurance Operations</b>                 | <b>648,127</b>                       | <b>156,380</b>   | <b>67,287</b>  | <b>138,250</b>      | <b>1,010,044</b> |
| General, administrative, operating and selling expenses |                                      |                  |                |                     | (544,592)        |
| Investment income, net                                  |                                      |                  |                |                     | 88,251           |
| Impairment on available-for-sale investments            |                                      |                  |                |                     | (17,696)         |
| Other income, net                                       |                                      |                  |                |                     | 45,886           |
| Manafeth insurance share distribution                   |                                      |                  |                |                     | (49,087)         |
| <b>Surplus from Insurance Operations</b>                |                                      |                  |                |                     | <b>532,806</b>   |

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**27. OPERATING SEGMENTS (Continued)**

| Operating Segments                                    | As at December 31, 2016 |         |          |                     |                   |
|---|-------------------------|---------|----------|---------------------|-------------------|
|   | Medical                 | Motor   | Manafeth | Property & casualty | Total             |
|   | SAR' 000                |         |          |                     |                   |
| <b>Assets - Insurance operations</b>                  |                         |         |          |                     |                   |
| Reinsurer's share of unearned premiums                | 6,204                   | 22      | -        | 547,587             | 553,813           |
| Reinsurer's share of outstanding claims               | 3,553                   | 18,843  | 3,213    | 2,077,136           | 2,102,745         |
| Deferred policy acquisition costs                     | 117,411                 | 77,369  | 1,831    | 21,489              | 218,100           |
| Investments (including investment property)           |                         |         |          |                     | 3,178,138         |
| Receivables, net                                      |                         |         |          |                     | 2,326,988         |
| Unallocated assets                                    |                         |         |          |                     | 1,960,604         |
| <b>Total assets</b>                                   |                         |         |          |                     | <b>10,340,388</b> |
| <b>Liabilities and surplus - Insurance operations</b> |                         |         |          |                     |                   |
| Gross unearned premiums                               | 2,980,156               | 720,978 | 39,867   | 649,228             | 4,390,229         |
| Gross outstanding claims and reserves                 | 894,254                 | 398,883 | 30,657   | 2,254,026           | 3,577,820         |
| Unearned commission income                            | 4,657                   | 6       | -        | 49,776              | 54,439            |
| Reserve for takaful activities                        | 12,902                  | -       | -        | -                   | 12,902            |
| Unallocated liabilities and surplus                   |                         |         |          |                     | 2,304,998         |
| <b>Total liabilities and surplus</b>                  |                         |         |          |                     | <b>10,340,388</b> |

| Operating Segments                                    | As at December 31, 2015 |         |          |                     |                  |
|---|-------------------------|---------|----------|---------------------|------------------|
|   | Medical                 | Motor   | Manafeth | Property & casualty | Total            |
|   | SAR' 000                |         |          |                     |                  |
| <b>Assets - Insurance operations</b>                  |                         |         |          |                     |                  |
| Reinsurer's share of unearned premiums                | 89,377                  | 11,329  | -        | 529,268             | 629,974          |
| Reinsurer's share of outstanding claims               | 24,377                  | 25,025  | -        | 1,778,507           | 1,827,909        |
| Deferred policy acquisition costs                     | 120,725                 | 64,964  | 1,600    | 21,955              | 209,244          |
| Investments (including investment property)           |                         |         |          |                     | 3,243,905        |
| Receivables, net                                      |                         |         |          |                     | 1,943,579        |
| Unallocated assets                                    |                         |         |          |                     | 1,624,110        |
| <b>Total assets</b>                                   |                         |         |          |                     | <b>9,478,721</b> |
| <b>Liabilities and surplus - Insurance operations</b> |                         |         |          |                     |                  |
| Gross unearned premiums                               | 2,860,161               | 695,582 | 37,802   | 640,016             | 4,233,561        |
| Gross outstanding claims and reserves                 | 930,415                 | 287,895 | 24,542   | 1,939,515           | 3,182,367        |
| Unearned commission income                            | 6,241                   | 24      | -        | 44,759              | 51,024           |
| Reserve for takaful activities                        | 13,467                  | -       | -        | -                   | 13,467           |
| Unallocated liabilities and surplus                   |                         |         |          |                     | 1,998,302        |
| <b>Total liabilities and surplus</b>                  |                         |         |          |                     | <b>9,478,721</b> |

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**28. RISK MANAGEMENT**

**(a) Insurance risk**

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

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.

Significant portion of reinsurance business ceded is placed on treaty and facultative basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

**Frequency and severity of claims**

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its exposure to catastrophic and riot events by use of reinsurance arrangements.

**Concentration of insurance risk**

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in medical segment.

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

Since the Company operates majorly in Saudi Arabia, hence, all the insurance risks relate to policies written in Saudi Arabia.

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**28. RISK MANAGEMENT (Continued)**

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

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the statement of financial position date.

**Process used to decide on assumptions**

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

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

**Sensitivity analysis**

The Company believes that the claim liabilities under insurance contracts outstanding at the year end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process.

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**28. RISK MANAGEMENT (Continued)**

However, the sensitivity to changes in claim reserves net of reinsurance by 10% percent is analysed separately for each class of business while keeping all other assumptions constant.

|   | Surplus from insurance operations before zakat |         | Shareholders' equity |         |
|---|--|---------|----------------------|---------|
|   | 2016   | 2015    | 2016                 | 2015    |
| Impact of change in claim reserves by + / - 10% |  |         |                      |         |
| Medical   | <b>89,070</b>                                  | 90,604  | <b>86,843</b>        | 88,339  |
| Motor and Manafeth                              | <b>40,748</b>                                  | 28,741  | <b>39,729</b>        | 28,022  |
| Property and casualty                           | <b>17,689</b>                                  | 16,101  | <b>17,247</b>        | 15,698  |
|   | <b>147,507</b>                                 | 135,446 | <b>143,819</b>       | 132,059 |

**(b) Reinsurance risk**

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

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

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

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance of the reinsurers, wherever applicable, are thoroughly reviewed by the Company and agreed to pre-set requirements of the Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business. As at 31 December 2016 and 2015, there is no significant concentration of reinsurance balances.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

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**28. RISK MANAGEMENT (Continued)**

**(c) Market Risk**

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market commission rates or the market price of securities or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

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

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

*Currency Risk*

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

The currency exposures of available-for-sale investments are set out below:

**Insurance Operations**

|   | <u>2016</u>             | <u>2015</u>      |
|---|-------------------------|------------------|
|   | <u>SAR'000</u>          |                  |
| Saudi Arabian Riyals and GCC currencies | <b>1,658,097</b>        | 2,841,627        |
| US Dollars                              | <b>1,497,489</b>        | 378,815          |
|   | <b><u>3,155,586</u></b> | <u>3,220,442</u> |

**Shareholders Operations**

|   | <u>2016</u>             | <u>2015</u>      |
|---|-------------------------|------------------|
|   | <u>SAR'000</u>          |                  |
| Saudi Arabian Riyals and GCC currencies | <b>805,530</b>          | 2,129,309        |
| US Dollars                              | <b>572,461</b>          | 25,145           |
| Euros                                   | -                       | 6,161            |
| Other currencies                        | -                       | 18,308           |
|   | <b><u>1,377,991</u></b> | <u>2,178,923</u> |

The Company's transactions are principally in Saudi Arabian Riyals and US Dollar. Management monitors the fluctuations in currency exchange rates and acts accordingly and believes that the foreign currency risk is not significant.

*Commission Rate Risk*

The Company invests in securities and has deposits that are subject to commission rate risk. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates and by investing in floating rate instruments.



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**28. RISK MANAGEMENT (Continued)**

An increase or decrease of 100 basis points in interest yields would result in a change in the loss or gain for the year of SAR 44.26 million (2015: SAR 44.98 million).

The commission and non-commission bearing investments of the Company and their maturities as at December 31 are as follows:

|                                | Less than 1<br>year | More than<br>1 year | Non-commission<br>bearing | Total            |
|--------------------------------|---------------------|---------------------|---------------------------|------------------|
| <b>Insurance Operations</b>    | <b>SAR'000</b>      |                     |                           |                  |
| <b>2016</b>                    | <b>233,377</b>      | <b>2,858,645</b>    | <b>63,564</b>             | <b>3,155,586</b> |
| 2015                           | 376,299             | 2,253,541           | 590,602                   | 3,220,442        |
| <b>Shareholders Operations</b> |                     |                     |                           |                  |
| <b>2016</b>                    | <b>542,782</b>      | <b>791,526</b>      | <b>43,683</b>             | <b>1,377,991</b> |
| 2015                           | 650,000             | 1,217,714           | 311,209                   | 2,178,923        |

*Other Price Risk*

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

The Company's investments amounting to SAR 107.25 million (2015: SAR 879.17 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

The impact of hypothetical change of a 10% increase and 10% decrease in the market prices of investments on Company's profit would be as follows:

|                  | Fair value<br>change | Effect on<br>Company's<br>profit<br>(SAR'000) |
|------------------|----------------------|---|
| 31 December 2016 | + / - 10%            | + / - 10,725                                  |
| 31 December 2015 | + / - 10%            | + / - 87,917                                  |

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2016 and 2015. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

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**28. RISK MANAGEMENT (Continued)**

**(d) Credit Risk**

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

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

|  | <u>2016</u>             | <u>2015</u>      |
|--|-------------------------|------------------|
|  | <u>SAR'000</u>          |                  |
| <b><u>ASSETS - INSURANCE OPERATIONS</u></b>    |                         |                  |
| Cash and cash equivalents (Note 12)            | <b>1,379,402</b>        | 761,868          |
| Receivables, net                               | <b>2,326,988</b>        | 1,943,579        |
| Available-for-sale investments                 | <b>3,155,586</b>        | 3,220,442        |
| Reinsurers' share of outstanding claims, net   | <b>2,102,745</b>        | 1,827,909        |
| Total  | <b><u>8,964,721</u></b> | <u>7,753,798</u> |
|  | <u>2016</u>             | <u>2015</u>      |
|  | <u>SAR'000</u>          |                  |
| <b><u>ASSETS - SHAREHOLDERS OPERATIONS</u></b> |                         |                  |
| Cash and cash equivalents (Note 12)            | <b>1,021,747</b>        | 61,813           |
| Available-for-sale investments                 | <b>1,377,991</b>        | 2,178,923        |
| Statutory deposit (including accrued income)   | <b>101,711</b>          | 101,042          |
| Total  | <b><u>2,501,449</u></b> | <u>2,341,778</u> |

*Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Approximately 99% (2015: approximately 99%) of the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk. Also refer Note 10 for details.

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**28. RISK MANAGEMENT (Continued)**

**(e) Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations and commitments associated with financial liabilities. The Company has a proper cash management system, where daily cash collections and payments are strictly monitored and reconciled on regular basis. The Company manages liquidity risk by maintaining maturities of financial assets and financial liabilities and investing in liquid financial assets.

The table below summarizes the maturities of the Company's undiscounted contractual obligations relating to financial liabilities:

| <b>Maturity Profile</b>                                | <b>2016</b>      |                  |                  | <b>2015</b>      |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
|  | <b>SAR '000</b>  |                  |                  | <b>SAR '000</b>  |                  |                  |
|  | <b>Less than</b> | <b>More than</b> | <b>Total</b>     | <b>Less than</b> | <b>More than</b> | <b>Total</b>     |
|  | <b>one year</b>  | <b>one year</b>  |                  | <b>one year</b>  | <b>one year</b>  |                  |
| <b><u>LIABILITIES</u></b>                              |                  |                  |                  |                  |                  |                  |
| <b><u>INSURANCE OPERATIONS</u></b>                     |                  |                  |                  |                  |                  |                  |
| Reinsurers' balances payable                           | 177,828          | -                | 177,828          | 502,579          | -                | 502,579          |
| Gross outstanding claims and reserves                  | 3,577,820        | -                | 3,577,820        | 3,182,367        | -                | 3,182,367        |
| Reserve for discontinued operations                    | 1,621            | -                | 1,621            | 11,211           | -                | 11,211           |
| Reserve for takaful activities                         | 12,902           | -                | 12,902           | 13,467           | -                | 13,467           |
| Claims payable, accrued expenses and other liabilities | 1,401,866        | 98,677           | 1,500,543        | 1,359,610        | 81,349           | 1,440,959        |
| Surplus distribution payable                           | 76,651           | -                | 76,651           | 100,176          | -                | 100,176          |
| <b>Total</b>   | <b>5,248,688</b> | <b>98,677</b>    | <b>5,347,365</b> | <b>5,169,410</b> | <b>81,349</b>    | <b>5,250,759</b> |

|  | <b>2016</b>      |                  |              | <b>2015</b>      |                  |              |
|--|------------------|------------------|--------------|------------------|------------------|--------------|
|  | <b>SAR '000</b>  |                  |              | <b>SAR '000</b>  |                  |              |
|  | <b>Less than</b> | <b>More than</b> | <b>Total</b> | <b>Less than</b> | <b>More than</b> | <b>Total</b> |
|  | <b>one year</b>  | <b>one year</b>  |              | <b>one year</b>  | <b>one year</b>  |              |
| <b><u>LIABILITIES</u></b>              |                  |                  |              |                  |                  |              |
| <b><u>SHAREHOLDERS OPERATIONS</u></b>  |                  |                  |              |                  |                  |              |
| Dividends payable                      | 6,054            | -                | 6,054        | 5,643            | -                | 5,643        |
| Accrued expenses and other liabilities | -                | -                | -            | 647              | -                | 647          |
| <b>Total</b>                           | <b>6,054</b>     | <b>-</b>         | <b>6,054</b> | <b>6,290</b>     | <b>-</b>         | <b>6,290</b> |

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

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**28. RISK MANAGEMENT (Continued)**

**(f) Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Company's activities.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- Requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Ethical and business standards; and
- Risk mitigation policies and procedures.

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

**29. CAPITAL MANAGEMENT**

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

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

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

The Company is in compliance with all externally imposed capital requirements.

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**30. REALIZED GAINS ON FINANCIAL ASSETS, NET**

| <u>INSURANCE OPERATIONS</u>                           | <u>2016</u>          | <u>2015</u>           |
|---|----------------------|-----------------------|
|   | <u>SAR'000</u>       |                       |
| Realized gains on available-for-sale financial assets | 118,399              | 76,521                |
| Impairment on available-for-sale financial assets     | <u>(50,036)</u>      | <u>(17,696)</u>       |
| <b>Realized gain on financial assets, net</b>         | <b><u>68,363</u></b> | <b><u>58,825</u></b>  |
| <br>  |                      |                       |
| <u>SHAREHOLDERS OPERATIONS</u>                        |                      |                       |
| Realized gains on available-for-sale financial assets | 43,191               | 171,890               |
| Impairment on available-for-sale financial assets     | <u>(22,034)</u>      | <u>(36,032)</u>       |
| <b>Realized gain on financial assets, net</b>         | <b><u>21,157</u></b> | <b><u>135,858</u></b> |

**31. CONTINGENT LIABILITIES**

- a) As at December 31, 2016, the Company was contingently liable for letters of credit and guarantees issued on its behalf by the banks, amounting to SAR 175 million (December 31, 2015: SAR 163 million) occurring in the normal course of business.
- b) The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. The Company based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

**32. RECLASSIFICATION OF COMPARATIVE FIGURES**

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year. These changes were made for better presentation of balances and transactions in the financial statements of the Company.

**33. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on Jumada Al-Awal 8, 1438H, corresponding to February 5, 2017.