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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, 2015**

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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, 2015**

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**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, 2015, and the related statement of income - insurance operations and accumulated surplus, statements of comprehensive income for insurance operations and shareholders, the related statement of changes in shareholders' equity and the statement of cash flows for insurance operations and shareholders for the year then ended and the related notes 1 to 34 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provision of Article 123 of the Regulation 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:

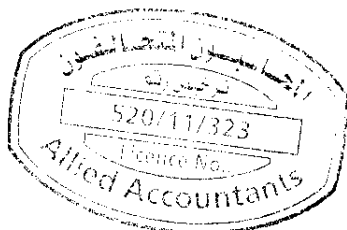
- present fairly, in all material respects, the financial position of the Company as at December 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and
- comply with the requirements of the Regulation for 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).

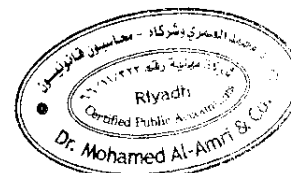
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February 17, 2016 (G)  
Jumada I 08, 1437 (H)

**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2015**

|                                             | Notes | <u>2015</u>              | 2014                    |
|---------------------------------------------|-------|--------------------------|-------------------------|
|                                             |       | <u>SR '000</u>           |                         |
| <b><u>ASSETS - INSURANCE OPERATIONS</u></b> |       |                          |                         |
| Due from shareholders' operations           |       | -                        | 46,139                  |
| Property and equipment, net                 | 4     | 312,251                  | 273,860                 |
| Investment property                         |       | 9,861                    | 9,861                   |
| Investment in associate                     | 5(i)  | 13,602                   | 9,558                   |
| Available-for-sale investments              | 6(i)  | 3,212,756                | 2,869,000               |
| Prepaid expenses and other assets           | 7     | 511,562                  | 429,017                 |
| Deferred policy acquisition costs           | 8     | 209,244                  | 173,633                 |
| Reinsurers' share of outstanding claims     | 8,9   | 1,495,909                | 1,200,247               |
| Reinsurers' share of unearned premiums      | 8     | 629,974                  | 443,940                 |
| Receivables, net                            | 10    | 1,943,579                | 1,529,113               |
| Cash and cash equivalents                   | 12    | 761,868                  | 700,550                 |
| <b>Total assets - Insurance operations</b>  |       | <b><u>9,100,606</u></b>  | <b><u>7,684,918</u></b> |
| <b><u>ASSETS - SHAREHOLDERS</u></b>         |       |                          |                         |
| Due from insurance operations               |       | 46,326                   | -                       |
| Investment in associates                    | 5(ii) | 80,402                   | 79,843                  |
| Available-for-sale investments              | 6(ii) | 2,163,964                | 2,047,555               |
| Accrued investment income                   |       | 14,959                   | 5,607                   |
| Statutory deposit                           | 11    | 100,000                  | 100,000                 |
| Cash and cash equivalents                   | 12    | 62,855                   | 20,583                  |
| <b>Total assets - Shareholders</b>          |       | <b><u>2,468,506</u></b>  | <b><u>2,253,588</u></b> |
| <b>TOTAL ASSETS</b>                         |       | <b><u>11,569,112</u></b> | <b><u>9,938,506</u></b> |

The accompanying notes 1 to 34 form an integral part of these financial statements.





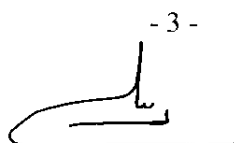
**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF FINANCIAL POSITION (Continued)**  
**AS AT DECEMBER 31, 2015**

|                                                                                  | Notes | 2015<br>SR'000    | 2014             |
|----------------------------------------------------------------------------------|-------|-------------------|------------------|
| <b><u>INSURANCE OPERATIONS</u></b>                                               |       |                   |                  |
| <b><u>LIABILITIES AND SURPLUS</u></b>                                            |       |                   |                  |
| <b>Liabilities - Insurance operations:</b>                                       |       |                   |                  |
| Surplus distribution payable                                                     |       | 100,176           | 46,895           |
| Claims payable, accrued expenses and other liabilities                           | 14    | 1,394,844         | 1,296,263        |
| Due to shareholders' operations                                                  |       | 46,326            | -                |
| Reserve for Takaful activities                                                   |       | 13,467            | 16,340           |
| Reserve for discontinued operations                                              | 15    | 11,211            | 11,211           |
| Gross outstanding claims and reserves                                            | 8,16  | 2,850,367         | 2,662,501        |
| Unearned commission income                                                       | 8     | 51,024            | 41,554           |
| Gross unearned premiums                                                          | 8     | 4,233,561         | 3,290,900        |
| Reinsurers' balances payable                                                     |       | 502,579           | 313,900          |
| <b>Total liabilities - Insurance operations</b>                                  |       | <b>9,203,555</b>  | <b>7,679,564</b> |
| <b>Surplus - Insurance operations:</b>                                           |       |                   |                  |
| Fair value reserve for available-for-sale investments                            |       | (102,949)         | 5,354            |
| <b>Total liabilities and surplus - Insurance operations</b>                      |       | <b>9,100,606</b>  | <b>7,684,918</b> |
| <b><u>LIABILITIES AND EQUITY - SHAREHOLDERS</u></b>                              |       |                   |                  |
| <b>Shareholders' liabilities:</b>                                                |       |                   |                  |
| Due to insurance operations                                                      |       | -                 | 46,139           |
| Accrued expenses and other liabilities                                           |       | 1,689             | 1,434            |
| Dividends payable                                                                |       | 5,643             | 5,014            |
| Zakat                                                                            | 17    | 152,106           | 124,626          |
| <b>Total liabilities - Shareholders</b>                                          |       | <b>159,438</b>    | <b>177,213</b>   |
| <b>Shareholders' equity:</b>                                                     |       |                   |                  |
| Share capital                                                                    | 18    | 1,000,000         | 1,000,000        |
| Legal reserve                                                                    | 19    | 883,465           | 763,779          |
| Fair value reserve for available-for-sale investments                            |       | (56,861)          | 163,874          |
| Retained earnings                                                                |       | 482,464           | 148,722          |
| <b>Total Shareholders' equity</b>                                                |       | <b>2,309,068</b>  | <b>2,076,375</b> |
| <b>Total Shareholders' liabilities and equity</b>                                |       | <b>2,468,506</b>  | <b>2,253,588</b> |
| <b>TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b> |       | <b>11,569,112</b> | <b>9,938,506</b> |

The accompanying notes 1 to 34 form an integral part of these financial statements.




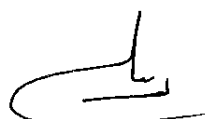
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**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

|                                                                     | Notes | 2015<br>SR'000 | 2014      |
|---------------------------------------------------------------------|-------|----------------|-----------|
| <b>REVENUES</b>                                                     |       |                |           |
| Gross premiums written                                              |       | 7,545,268      | 6,207,609 |
| Less: Reinsurance ceded                                             |       | (1,123,816)    | (914,602) |
| Net premiums written                                                | 8     | 6,421,452      | 5,293,007 |
| Changes in unearned premiums                                        |       | (756,627)      | (488,899) |
| Net premiums earned                                                 | 8     | 5,664,825      | 4,804,108 |
| Reinsurance commissions                                             | 8     | 93,623         | 107,171   |
| Other income, net                                                   |       | 45,886         | 50,286    |
| Total revenues                                                      |       | 5,804,334      | 4,961,565 |
| <b>COSTS AND EXPENSES</b>                                           |       |                |           |
| Gross claims paid                                                   |       | 4,999,478      | 4,574,831 |
| Less: Reinsurance share                                             |       | (747,772)      | (983,392) |
| Net claims paid                                                     | 8     | 4,251,706      | 3,591,439 |
| Changes in outstanding claims and reserves                          |       | (107,796)      | 68,013    |
| Net claims incurred                                                 | 8     | 4,143,910      | 3,659,452 |
| Policy acquisition costs                                            | 8     | 436,588        | 381,813   |
| Excess of loss expenses                                             |       | 24,427         | 24,773    |
| Changes in Takaful Reserves                                         |       | (2,873)        | 2,696     |
| Other underwriting expenses                                         |       | 134,597        | 85,257    |
| Manafeth Insurance share                                            | 20    | 49,087         | -         |
| Operating and selling expenses                                      | 22    | 473,146        | 324,846   |
| Other general and administrative expenses                           | 23    | 83,201         | 56,909    |
| Total costs and expenses                                            |       | 5,342,083      | 4,535,746 |
| Operating surplus                                                   |       | 462,251        | 425,819   |
| Investment income, net                                              | 21    | 88,251         | 43,131    |
| Impairment of available-for-sale investments                        | 30    | (17,696)       | -         |
| Surplus from insurance operations                                   |       | 532,806        | 468,950   |
| Shareholders' appropriation from surplus                            | 1     | (479,525)      | (422,055) |
| Surplus from insurance operations after shareholders' appropriation |       | 53,281         | 46,895    |
| Accumulated surplus, at the beginning of year                       | 1     | -              | -         |
| Distribution of surplus                                             |       | (53,281)       | (46,895)  |
| ACCUMULATED SURPLUS AT THE END OF THE YEAR                          |       | -              | -         |

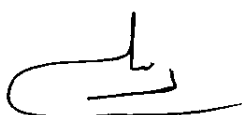
The accompanying notes 1 to 34 form an integral part of these financial statements.


**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF COMPREHENSIVE INCOME – INSURANCE OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

|                                                                                     | Notes | 2015<br>SR'000  | 2014            |
|-------------------------------------------------------------------------------------|-------|-----------------|-----------------|
| Surplus from insurance operations after shareholders' appropriation                 |       | 53,281          | 46,895          |
| <b>Other comprehensive income:</b>                                                  |       |                 |                 |
| To be reclassified subsequently to profit or loss when specific conditions are met: |       |                 |                 |
| Change in fair value of available-for-sale investments                              | 6 (i) | (108,303)       | (73,217)        |
| <b>Total comprehensive loss for the year</b>                                        |       | <b>(55,022)</b> | <b>(26,322)</b> |

The accompanying notes 1 to 34 form an integral part of these financial statements.


**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

|                                                                                     | Notes  | 2015<br>SR'000 | 2014           |
|-------------------------------------------------------------------------------------|--------|----------------|----------------|
| Appropriation of surplus from insurance operations                                  | 1      | 479,525        | 422,055        |
| Investment income, net                                                              | 21     | 199,830        | 180,412        |
| Impairment of available-for-sale investments                                        |        | (36,032)       | -              |
| Other expenses, net                                                                 |        | (1,020)        | (201)          |
| <b>Income from operations before zakat</b>                                          |        | <b>642,303</b> | <b>602,266</b> |
| Zakat                                                                               | 17     | (43,875)       | (42,150)       |
| <b>Net income for the year</b>                                                      |        | <b>598,428</b> | <b>560,116</b> |
| <b>Other comprehensive income:</b>                                                  |        |                |                |
| To be reclassified subsequently to profit or loss when specific conditions are met: |        |                |                |
| Changes in fair value of available-for-sale investments                             | 6 (ii) | (220,735)      | (124,309)      |
| <b>Total comprehensive income for the year</b>                                      |        | <b>377,693</b> | <b>435,807</b> |
| <b>Earnings per share:</b>                                                          |        |                |                |
| Basic and diluted earnings per share (in SR)                                        | 24     | 5.98           | 5.60           |
| Weighted average number of shares in issue                                          |        | 100,000,000    | 100,000,000    |

The accompanying notes 1 to 34 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, 2015**

|                                                              | Notes | Share capital | Legal reserve | Fair value reserve for available for sale investments<br>SR '000 | Retained earnings | Total     |
|--------------------------------------------------------------|-------|---------------|---------------|------------------------------------------------------------------|-------------------|-----------|
| Balance at January 1, 2014                                   |       | 1,000,000     | 651,756       | 288,183                                                          | (299,371)         | 1,640,568 |
| <b>Comprehensive income:</b>                                 |       |               |               |                                                                  |                   |           |
| Net income for the year                                      |       | -             | -             | -                                                                | 560,116           | 560,116   |
| Other comprehensive income:                                  |       |               |               |                                                                  |                   |           |
| Changes in fair value of available-for-sale investments      |       | -             | -             | (124,309)                                                        | -                 | (124,309) |
| <b>Total comprehensive income for the year</b>               |       | -             | -             | (124,309)                                                        | 560,116           | 435,807   |
| <b>Transfer to the legal reserve</b>                         |       | -             | 112,023       | -                                                                | (112,023)         | -         |
| Balance at December 31, 2014                                 |       | 1,000,000     | 763,779       | 163,874                                                          | 148,722           | 2,076,375 |
| <br>                                                         |       |               |               |                                                                  |                   |           |
| 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   |
| Other comprehensive income:                                  |       |               |               |                                                                  |                   |           |
| Changes in fair value of available-for-sale investments      | 6     | -             | -             | (220,735)                                                        | -                 | (220,735) |
| <b>Total comprehensive income for the year</b>               |       | -             | -             | (220,735)                                                        | 598,428           | 377,693   |
| <b>Transfer to the legal reserve</b>                         | 19    | -             | 119,686       | -                                                                | (119,686)         | -         |
| <b>Transactions with owners in their capacity as owners:</b> |       |               |               |                                                                  |                   |           |
| Dividend distribution                                        | 13    | -             | -             | -                                                                | (145,000)         | (145,000) |
| Balance at December 31, 2015                                 |       | 1,000,000     | 883,465       | (56,861)                                                         | 482,464           | 2,309,068 |

The accompanying notes 1 to 34 form an integral part of these financial statements.




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**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

|                                                                                                   | 2015        | 2014        |
|---------------------------------------------------------------------------------------------------|-------------|-------------|
|                                                                                                   | SR '000     |             |
| <b>Operating activities:</b>                                                                      |             |             |
| Surplus from Insurance operations after Shareholders' appropriation                               | 53,281      | 46,895      |
| Adjustments to reconcile surplus from Insurance operations to net cash from operating activities: |             |             |
| Shareholders' appropriation from surplus                                                          | 479,525     | 422,055     |
| Depreciation                                                                                      | 13,938      | 9,861       |
| Provision / (reversal) for doubtful debts                                                         | 65,763      | (3,678)     |
| Gain on disposal of property and equipment                                                        | -           | (24,016)    |
| Impairment of available-for-sale investments                                                      | 17,696      | -           |
| Gain on sale of available-for-sale investments                                                    | (76,521)    | (39,447)    |
| Share of profit from investment in associate                                                      | (4,044)     | (4,181)     |
|                                                                                                   | 549,638     | 407,489     |
| <b>Changes in operating assets and liabilities:</b>                                               |             |             |
| Prepaid expenses and others assets                                                                | (82,545)    | (113,789)   |
| Deferred policy acquisition costs                                                                 | (35,611)    | (9,953)     |
| Reinsurers' share of outstanding claims                                                           | (295,662)   | 499,639     |
| Reinsurers' share of unearned premiums                                                            | (186,034)   | 45,388      |
| Receivables, net                                                                                  | (480,229)   | (14,937)    |
| Reinsurers' balances payable                                                                      | 188,679     | (10,922)    |
| Unearned premium income                                                                           | 942,661     | 443,511     |
| Unearned commission income                                                                        | 9,470       | (9,143)     |
| Gross outstanding claims and reserves                                                             | 187,866     | (431,626)   |
| Reserve for discontinued operations                                                               | -           | (199)       |
| Reserve for Takaful activities                                                                    | (2,873)     | 2,698       |
| Accrued expenses and other liabilities                                                            | 98,581      | 7,420       |
| Due to Shareholders                                                                               | (387,060)   | 21,431      |
| Net cash from operating activities                                                                | 506,881     | 837,007     |
| <b>Investing activities:</b>                                                                      |             |             |
| Proceeds from sale of available-for-sale investments                                              | 3,491,204   | 1,074,036   |
| Purchase of available-for-sale investments                                                        | (3,884,438) | (2,008,682) |
| Purchase of property and equipment                                                                | (52,329)    | (55,061)    |
| Proceeds from disposal of property and equipment                                                  | -           | 61,172      |
| Net cash used in investing activities                                                             | (445,563)   | (928,535)   |
| <b>Net change in cash and cash equivalents</b>                                                    | 61,318      | (91,528)    |
| Cash and cash equivalents, beginning of the year                                                  | 700,550     | 792,078     |
| <b>Cash and cash equivalents, end of the year</b>                                                 | 761,868     | 700,550     |
| <b>Non-cash supplemental information:</b>                                                         |             |             |
| Changes in fair value of available-for-sale investments                                           | (108,303)   | (73,217)    |

The accompanying notes 1 to 34 form an integral part of these financial statements.


**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF CASH FLOWS - SHAREHOLDERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

|                                                                                                     | 2015                 | 2014                 |
|-----------------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                                     | SR '000              |                      |
| <b>Operating activities:</b>                                                                        |                      |                      |
| Income from operations before zakat                                                                 | 642,303              | 602,266              |
| Adjustments to reconcile income from operations before zakat to net cash from operating activities: |                      |                      |
| Appropriation of surplus from Insurance operations                                                  | (479,525)            | (422,055)            |
| Impairment of available-for-sale investments                                                        | 36,032               | -                    |
| Gain on sale of available-for-sale investments                                                      | (171,890)            | (167,469)            |
| Share of profit from investment in associates                                                       | (12,981)             | (19,523)             |
|                                                                                                     | <u>13,939</u>        | <u>(6,781)</u>       |
| Changes in operating assets and liabilities:                                                        |                      |                      |
| Accrued investment income                                                                           | (9,352)              | (461)                |
| Due from Insurance operations                                                                       | 387,060              | (21,431)             |
| Accrued expenses and other liabilities                                                              | 255                  | 307                  |
| Zakat paid                                                                                          | (16,395)             | (15,923)             |
| Net cash from / (used in) operating activities                                                      | <u>375,507</u>       | <u>(44,289)</u>      |
| <b>Investing activities:</b>                                                                        |                      |                      |
| Proceeds from sale of available-for-sale investments                                                | 2,632,386            | 531,123              |
| Purchase of available-for-sale investments                                                          | (2,833,672)          | (668,608)            |
| Dividends received from associates                                                                  | 12,422               | 3,728                |
| Net cash used in investing activities                                                               | <u>(188,864)</u>     | <u>(133,757)</u>     |
| <b>Financing activities:</b>                                                                        |                      |                      |
| Dividends paid                                                                                      | (144,371)            | (137)                |
| Net cash used in financing activities                                                               | <u>(144,371)</u>     | <u>(137)</u>         |
| <b>Net change in cash and cash equivalents</b>                                                      | <b>42,272</b>        | <b>(178,183)</b>     |
| Cash and cash equivalents, beginning of the year                                                    | <u>20,583</u>        | <u>198,766</u>       |
| <b>Cash and cash equivalents, end of the year</b>                                                   | <b><u>62,855</u></b> | <b><u>20,583</u></b> |
| <b>Non-cash supplemental information:</b>                                                           |                      |                      |
| Changes in fair value of available-for-sale investments                                             | <u>(220,735)</u>     | <u>(124,309)</u>     |

The accompanying notes 1 to 34 form an integral part of these financial statements.





**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

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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 Agency ("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).

**b) Basis of measurement and presentation of financial statements**

These financial statements are prepared under the historical cost basis except for the measurement of fair value of available-for-sale investments.

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.

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

**THE COMPANY FOR COOPERATIVE INSURANCE**  
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**2. BASIS OF PREPARATION (Continued)**

**e) Functional and presentation currency**

These financial statements have been presented in Saudi Arabian Riyals (SR), 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.

**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 period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial reporting period. 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 the insurance contract reserves

- *Incurred but not reported claims*

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The claims reserves are sensitive to assumptions made about the number of months used to average the completion factors and the claims trend.

- *Premium deficiency reserve*

Estimation of the premium deficiency for medical business is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and premiums relationship which is expected to apply on month to month basis.

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

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value of the investment 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 flow.

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

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

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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of the following new standards and other amendments to existing standards mentioned below. Certain figures for the prior year have been reclassified to conform to the presentation made in the current year:

**New and amended standards issued and adopted**

- Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 is applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria's, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in period in which the related service is rendered.

- Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014.

**Standards issued but not yet effective**

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

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

**IFRS 9 Financial Instruments**

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

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

However, on 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9) amending IFRS 9 to include the new general hedge accounting model. In its February 2014 meeting, the IASB tentatively decided that IFRS 9 would be mandatorily effective for years ending on or after 31 December 2018.

**Annual improvements to IFRSs 2012 – 2014**

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

**Disclosure initiative (Amendments to IAS 1)**

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

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

The significant accounting policies used in 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.

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 comprise of realized gains and losses on available-for-sale equity investments, accrued income on available-for-sale debt securities which is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable, and share of profit from associates which is accounted for under the equity method.

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

**a) Revenue Recognition (Continued)**

*Dividend income*

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

**b) Insurance contracts**

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

**c) Claims**

Gross claims consists of benefits and claims paid to policyholders and third parties, and related loss adjustment expenses, net of salvage and other recoveries and are charged to the statement of income – insurance operations and accumulated surplus as incurred changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses.

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. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of income - insurance operations and accumulated surplus for that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. 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 contract. 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 period. Impairment occurs when objective evidence exists as a result of an event that occurred after initial recognition of the reinsurance asset 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.

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 of acquiring insurance contracts that are primarily related to securing new contracts and renewing existing contracts are capitalized as an intangible asset and are subsequently amortized over the life of the contract on a basis consistent with the term of the related policy coverage.

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.

**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 losses by establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision) accordingly.

A key feature of the liability adequacy testing is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognized, while significant deterioration in estimates is immediately recognized to make the liabilities adequate. Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

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

**h) Insurance contracts with discretionary participation feature (DPF)**

Premiums that have participated in the earnings of a financial year (January-December) qualify discretionarily for surplus distribution. However, in the case of marine cargo, the earned portion is the premium written between October of the previous year up to September of the current year while the unearned portion is the premium written during the last three months of the current financial year. Some policies with certain conditions are excluded from the distribution including those policies with a loss ratio of equal to or greater than 70%.

SAMA Surplus distribution policy govern the distribution of surplus which is calculated based on the earned premium after paid and outstanding claims, including incurred but not reported claims, have been deducted from each policy held by an insured in as much as the said earned premium relates to the given financial year.

Surplus is paid to both, direct clients through the Company's regional offices, or to indirect clients via brokers, agents, and banks.

The regulations provide that the payment to the client, broker, agent, or bank of the share of the surplus is subject to the settlement of all due outstanding premiums, irrespective of the year to which such premium relates. This provision stipulates the offset of any client's, broker, agent, or bank's share of surplus against such due outstanding premiums.

**i) 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 losses. Receivable balances are derecognised when criteria for derecognition of financial assets is met.

Any difference between the provisions at the end of reporting period and settlements and provisions in the following year is included in the statement of income - insurance operations and accumulated surplus.

**j) 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. 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.

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

**j) Available-for-sale investments (Continued)**

Dividends, 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, 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 or statement of comprehensive income – shareholders, 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 an unquoted equity investment, 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 that include the use of mathematical models. 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.

**k) Derivative financial instruments**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Any changes in the fair values of derivatives that are held for trading purposes are taken directly to the statement of income - insurance operations or statement of comprehensive income - shareholders and are included in other assets, if positive, or in other liabilities, if negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and other pricing models, as appropriate.

**l) Investments in associates**

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control over those policies.

The Company's investment in its associates is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying value of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying value of the investment and is not tested for impairment separately.

The Company's share of its associates' post acquisition profits or losses is recognized in the related statement of income - insurance operations and accumulated surplus or statement of comprehensive income – shareholders, using the most recent available financial statements. The financial statements of the associates are prepared for the same reporting period as the Company.

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

**l) Investment 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, as the case may be.

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

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

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

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

**n) 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 unless required or permitted by any accounting standard or interpretation.

**o) 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.

**p) Impairment of financial assets**

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a Company 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 Company of financial assets that can be reliably estimated.

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

**p) 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 cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is based on estimated 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 Company of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the 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. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive 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 the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, 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)**

**q) 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 equipments is depreciated on the straight line method to allocate the cost over estimated useful lives, as follows:

|                        | <u>Years</u> |
|------------------------|--------------|
| 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.

**r) Investment property**

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

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

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

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

**t) 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.

**u) Provisions**

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

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

**v) Zakat**

The Company is subject to Zakat in accordance with the regulations of the Department of Zakat and Income Tax (“DZIT”). Zakat is accrued and charged to the statement of comprehensive income - shareholders. Adjustments arising from final zakat assessments, if any, are recorded in the years when such assessments are received.

**w) Cash and cash equivalents**

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

**x) Foreign currencies**

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Saudi Riyals at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income - insurance operations and accumulated surplus or statement of comprehensive income - shareholders. As the Company’s foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

**y) 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.

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. If any transaction were to occur, transfer prices between business segments are set on an arm’s length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between business segments which will then be eliminated at the level of the financial statements of the Company.

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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 | <b>Total<br/>2015</b> | Total<br>2014 |
|----------------------------------|---------------|----------------|------------------------------|-----------------------|------------|--------------------------------|-----------------------|---------------|
| <b>SR'000</b>                    |               |                |                              |                       |            |                                |                       |               |
| <b>Cost:</b>                     |               |                |                              |                       |            |                                |                       |               |
| January 1                        | 53,036        | 68,019         | 71,618                       | 97,198                | 581        | 116,437                        | <b>406,889</b>        | 388,984       |
| Additions                        | -             | -              | 8,923                        | 12,149                | -          | 31,257                         | <b>52,329</b>         | 55,061        |
| Transfers                        | -             | 131,283        | -                            | -                     | -          | (131,283)                      | -                     | -             |
| Disposals                        | -             | -              | -                            | -                     | -          | -                              | -                     | (37,156)      |
| December 31                      | 53,036        | 199,302        | 80,541                       | 109,347               | 581        | 16,411                         | <b>459,218</b>        | 406,889       |
| <b>Accumulated Depreciation:</b> |               |                |                              |                       |            |                                |                       |               |
| January 1                        | -             | 4,616          | 56,926                       | 71,045                | 442        | -                              | <b>133,029</b>        | 123,168       |
| Charge for the year              | -             | 3,995          | 3,301                        | 6,606                 | 36         | -                              | <b>13,938</b>         | 9,861         |
| December 31                      | -             | 8,611          | 60,227                       | 77,651                | 478        | -                              | <b>146,967</b>        | 133,029       |
| <b>Net book value</b>            |               |                |                              |                       |            |                                |                       |               |
| December 31, 2015                | <b>53,036</b> | <b>190,691</b> | <b>20,314</b>                | <b>31,696</b>         | <b>103</b> | <b>16,411</b>                  | <b>312,251</b>        | -             |
| December 31, 2014                | 53,036        | 63,403         | 14,692                       | 26,153                | 139        | 116,437                        | -                     | 273,860       |

**5. INVESTMENTS IN ASSOCIATES**

**i) Insurance Operations:**

|                           | <b>2015</b>   | 2014  |
|---------------------------|---------------|-------|
| <b>SR'000</b>             |               |       |
| Balance, January 1        | <b>9,558</b>  | 5,377 |
| Share of profit (note 21) | <b>4,383</b>  | 4,181 |
| Dividends received        | <b>(339)</b>  | -     |
| Balance, December 31      | <b>13,602</b> | 9,558 |

The Company's interest in its associate which is unquoted is as follows along with summarized financial information which is not adjusted for the percentage ownership:

**Najm Insurance Services**

| As of                      | Country of<br>Incorporation | Assets         | Liabilities   | Revenue        | Profit        | % Interest<br>Held |
|----------------------------|-----------------------------|----------------|---------------|----------------|---------------|--------------------|
| <b>SR'000</b>              |                             |                |               |                |               |                    |
| <b>September 30, 2015*</b> | <b>Saudi Arabia</b>         | <b>221,836</b> | <b>43,131</b> | <b>215,767</b> | <b>51,568</b> | <b>8%</b>          |
| September 30, 2014*        | Saudi Arabia                | 165,145        | 44,036        | 245,347        | 56,529        | 8%                 |

\* Based on latest available management account

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



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

**ii) Shareholders:**

|                                | <b>2015</b>     | <b>2014</b> |
|--------------------------------|-----------------|-------------|
|                                | <b>SR'000</b>   |             |
| Balance, January 1             | <b>79,843</b>   | 64,048      |
| Share of profit (note 21)      | <b>19,444</b>   | 16,246      |
| Dividends received             | <b>(12,422)</b> | (3,728)     |
| Unrealized gain on investments | <b>(6,463)</b>  | 3,277       |
| Balance, December 31           | <b>80,402</b>   | 79,843      |

The Company's interest in its associates which are unquoted is as follows along with summarized financial information which is not adjusted for the percentage ownership:

**a) United Insurance Company**

| As of                      | Country of<br>Incorporation | Assets         | Liabilities   | Revenue       | Profit        | % Interest<br>Held |
|----------------------------|-----------------------------|----------------|---------------|---------------|---------------|--------------------|
| <b>SR'000</b>              |                             |                |               |               |               |                    |
| <b>November 30, 2015 *</b> | Bahrain                     | <b>208,492</b> | <b>93,192</b> | <b>70,307</b> | <b>27,890</b> | <b>50%</b>         |
| November 30, 2014 *        | Bahrain                     | 212,422        | 87,490        | 64,207        | 23,144        | 50%                |

\* Based on latest available management account

**b) Waseel Application Services Provider**

| As of                      | Country of<br>Incorporation | Assets        | Liabilities  | Revenue       | Profit        | % Interest<br>Held |
|----------------------------|-----------------------------|---------------|--------------|---------------|---------------|--------------------|
| <b>SR'000</b>              |                             |               |              |               |               |                    |
| <b>November 30, 2015 *</b> | Saudi Arabia                | <b>51,532</b> | <b>3,941</b> | <b>28,389</b> | <b>12,697</b> | <b>45%</b>         |
| November 30, 2014 *        | Saudi Arabia                | 40,481        | 5,254        | 24,954        | 11,300        | 45%                |

\* Based on latest available management account

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

**i) Insurance operations:**

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

|                                                            | <b>2015</b>             | 2014             |
|------------------------------------------------------------|-------------------------|------------------|
|                                                            | <b>SR'000</b>           |                  |
| Local / Regional Money Market and Fixed Income Investments | <b>2,251,025</b>        | 2,295,303        |
| Local / Regional Equities and Equity Funds                 | <b>582,916</b>          | 476,761          |
| Foreign Money Market and Fixed Income Investments          | <b>378,815</b>          | -                |
| Foreign Equities and Equity Funds                          | -                       | 96,936           |
| Total                                                      | <b><u>3,212,756</u></b> | <u>2,869,000</u> |

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

|                                      | Quoted<br>securities    | Unquoted<br>securities | Total                   |
|--------------------------------------|-------------------------|------------------------|-------------------------|
|                                      | <b>SR'000</b>           |                        |                         |
| As at January 1, 2014                | 1,968,124               | -                      | 1,968,124               |
| Purchases                            | 2,008,682               | -                      | 2,008,682               |
| Disposals                            | (1,034,589)             | -                      | (1,034,589)             |
| Changes in fair value of investments | (73,217)                | -                      | (73,217)                |
| As at December 31, 2014              | <u>2,869,000</u>        | <u>-</u>               | <u>2,869,000</u>        |
| As of January 1, 2015                | <b>2,869,000</b>        | -                      | <b>2,869,000</b>        |
| Purchases                            | <b>3,884,438</b>        | -                      | <b>3,884,438</b>        |
| Disposals                            | <b>(3,414,683)</b>      | -                      | <b>(3,414,683)</b>      |
| Impairment of investments            | <b>(17,696)</b>         | -                      | <b>(17,696)</b>         |
| Changes in fair value of investments | <b>(108,303)</b>        | -                      | <b>(108,303)</b>        |
| As at December 31, 2015              | <b><u>3,212,756</u></b> | <u>-</u>               | <b><u>3,212,756</u></b> |

The above available-for-sale investments include impaired investments with fair value at the yearend of SR 26,965 million.

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

**ii) Shareholders:**

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

|                                                            | <b>2015</b>             | 2014             |
|------------------------------------------------------------|-------------------------|------------------|
|                                                            | <b>SR'000</b>           |                  |
| Local / Regional Money Market and Fixed Income Investments | <b>1,875,194</b>        | 1,142,237        |
| Local / Regional Equities and Equity Funds                 | <b>246,636</b>          | 290,130          |
| Foreign Money Market and Fixed Income Investments          | -                       | 311,823          |
| Foreign Equities and Equity Funds                          | <b>42,134</b>           | 303,365          |
| Total                                                      | <b><u>2,163,964</u></b> | <u>2,047,555</u> |

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

|                                      | Quoted<br>securities    | Unquoted<br>securities | Total                   |
|--------------------------------------|-------------------------|------------------------|-------------------------|
|                                      | <b>SR'000</b>           |                        |                         |
| As at January 1, 2014                | 1,716,489               | 150,421                | 1,866,910               |
| Purchases                            | 665,017                 | 14,850                 | 679,867                 |
| Disposals                            | (344,196)               | (30,717)               | (374,913)               |
| Changes in fair value of investments | (124,309)               | -                      | (124,309)               |
| As at December 31, 2014              | <u>1,913,001</u>        | <u>134,554</u>         | <u>2,047,555</u>        |
| As at January 1, 2015                | <b>1,913,001</b>        | <b>134,554</b>         | <b>2,047,555</b>        |
| Purchases / transfers                | <b>2,829,387</b>        | <b>4,285</b>           | <b>2,833,672</b>        |
| Disposals                            | <b>(2,409,580)</b>      | <b>(50,916)</b>        | <b>(2,460,496)</b>      |
| Impairment of Investments            | <b>(36,032)</b>         | -                      | <b>(36,032)</b>         |
| Changes in fair value of investments | <b>(175,137)</b>        | <b>(45,598)</b>        | <b>(220,735)</b>        |
| As at December 31, 2015              | <b><u>2,121,639</u></b> | <b><u>42,325</u></b>   | <b><u>2,163,964</u></b> |

The above available-for-sale investments include impaired investments with fair value at the yearend of SR 51,914 million.

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**7. PREPAID EXPENSES AND OTHER ASSETS**

|                  | 2015           | 2014           |
|------------------|----------------|----------------|
|                  | SR'000         |                |
| Prepaid expenses | 88,479         | 53,911         |
| Other assets     | 423,083        | 375,106        |
| Total            | <u>511,562</u> | <u>429,017</u> |

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

**a) Deferred policy acquisition costs**

|                           |                  |                  |
|---------------------------|------------------|------------------|
| Balance, January 1        | 173,633          | 163,680          |
| Incurred during the year  | 472,199          | 391,766          |
| Amortized during the year | <u>(436,588)</u> | <u>(381,813)</u> |
| Balance, December 31      | <u>209,244</u>   | <u>173,633</u>   |

**b) Unearned commission income**

|                                     |                 |                  |
|-------------------------------------|-----------------|------------------|
| Balance, January 1                  | 41,554          | 50,697           |
| Commission received during the year | 103,093         | 98,028           |
| Commission earned during the year   | <u>(93,623)</u> | <u>(107,171)</u> |
| Balance, December 31                | <u>51,024</u>   | <u>41,554</u>    |

**c) Unearned premiums**

|                                  | 2015               |                   |                    | 2014               |                   |                    |
|----------------------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
|                                  | Gross              | Reinsurers' share | Net                | Gross              | Reinsurers' share | Net                |
|                                  | SR'000             |                   |                    | SR'000             |                   |                    |
| Balance, January 1               | 3,290,901          | (443,941)         | 2,846,960          | 2,847,389          | (489,328)         | 2,358,061          |
| Premiums written during the year | 7,545,268          | (1,123,816)       | 6,421,452          | 6,207,609          | (914,602)         | 5,293,007          |
| Premiums earned during the year  | <u>(6,602,608)</u> | 937,783           | <u>(5,664,825)</u> | <u>(5,764,097)</u> | 959,989           | <u>(4,804,108)</u> |
| Balance, December 31             | <u>4,233,561</u>   | <u>(629,974)</u>  | <u>3,603,587</u>   | <u>3,290,901</u>   | <u>(443,941)</u>  | <u>2,846,960</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**

|                            | 2015        |             |             | 2014        |             |             |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                            | Gross       | Reinsurers  | Net         | Gross       | Reinsurers  | Net         |
|                            |             | share       |             |             | share       |             |
| SR'000                     |             |             | SR'000      |             |             |             |
| Outstanding claims         | 1,642,524   | (1,200,247) | 442,277     | 2,118,797   | (1,699,886) | 418,911     |
| Salvage and subrogation    | (65,781)    | -           | (65,781)    | (77,995)    | -           | (77,995)    |
| Incurred but not reported  | 1,043,468   | -           | 1,043,468   | 779,359     | -           | 779,359     |
| Premium deficiency reserve | 42,290      | -           | 42,290      | 273,966     | -           | 273,966     |
| Balance, January 1         | 2,662,501   | (1,200,247) | 1,462,254   | 3,094,127   | (1,699,886) | 1,394,241   |
| Claims paid                | (4,999,478) | 747,772     | (4,251,706) | (4,574,831) | 983,392     | (3,591,439) |
| Claims incurred            | 5,187,344   | (1,043,434) | 4,143,910   | 4,143,205   | (483,753)   | 3,659,452   |
| Balance, December 31       | 2,850,367   | (1,495,909) | 1,354,458   | 2,662,501   | (1,200,247) | 1,462,254   |
| Outstanding claims         | 1,860,957   | (1,495,909) | 365,048     | 1,642,524   | (1,200,247) | 442,277     |
| Salvage and subrogation    | (88,643)    | -           | (88,643)    | (65,781)    | -           | (65,781)    |
| Incurred but not reported  | 1,078,053   | -           | 1,078,053   | 1,043,468   | -           | 1,043,468   |
| Premium deficiency reserve | -           | -           | -           | 42,290      | -           | 42,290      |
| Total                      | 2,850,367   | (1,495,909) | 1,354,458   | 2,662,501   | (1,200,247) | 1,462,254   |

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

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

|                                            | 2015      | 2014      |
|--------------------------------------------|-----------|-----------|
|                                            | SR'000    |           |
| Reinsurers' share of insurance liabilities | 1,497,059 | 1,201,397 |
| Impairment provision                       | (1,150)   | (1,150)   |
|                                            | 1,495,909 | 1,200,247 |

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.

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:

|                                | <b>2015</b>      | 2014      |
|--------------------------------|------------------|-----------|
|                                | <b>SR'000</b>    |           |
| Policyholders                  | <b>1,451,973</b> | 1,167,451 |
| Agents/Brokers                 | <b>293,446</b>   | 186,166   |
| Related party (Note 25)        | <b>145,601</b>   | 106,603   |
|                                | <b>1,891,020</b> | 1,460,220 |
| Reinsurers' balance receivable | <b>202,269</b>   | 158,459   |
| Administrative service plan    | <b>18,436</b>    | 12,817    |
|                                | <b>2,111,725</b> | 1,631,496 |
| Provision for doubtful debts   | <b>(168,146)</b> | (102,383) |
| Total                          | <b>1,943,579</b> | 1,529,113 |

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

|                                            | <b>2015</b>    | 2014    |
|--------------------------------------------|----------------|---------|
|                                            | <b>SR'000</b>  |         |
| Balance, January 1                         | <b>102,383</b> | 106,061 |
| Charge / (reversal) for the year (note 22) | <b>65,763</b>  | (3,678) |
| Balance, December 31                       | <b>168,146</b> | 102,383 |

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

|               | <b>Neither past<br/>due nor<br/>impaired</b> | <b>Past due but not impaired</b> |                         |                         |                          | <b>Past due<br/>and<br/>Impaired</b> |                |
|---------------|----------------------------------------------|----------------------------------|-------------------------|-------------------------|--------------------------|--------------------------------------|----------------|
|               |                                              | <b>Less than<br/>30 days</b>     | <b>30 - 60<br/>days</b> | <b>60 - 90<br/>days</b> | <b>Above<br/>90 days</b> |                                      |                |
| <b>Total</b>  |                                              |                                  |                         |                         |                          |                                      |                |
| <b>SR'000</b> |                                              |                                  |                         |                         |                          |                                      |                |
| <b>2015</b>   | <b>2,111,725</b>                             | <b>875,837</b>                   | <b>376,506</b>          | <b>144,751</b>          | <b>21,050</b>            | <b>152,778</b>                       | <b>540,803</b> |
| 2014          | 1,631,496                                    | 1,035,945                        | 162,146                 | 98,000                  | 15,258                   | 150,102                              | 170,045        |

Receivables comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia as well as insurance companies and reinsurance companies mainly in Europe. Receivables include an amount of SR 23 million (2014: SR 82 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.

With the exception of balances amounting to SR 720 million (2014: SR 137 million) due from companies wholly or significantly owned by the Government and one major reinsurer of SR 193 million (2014: SR 87 million), no individual or company balances constitute more than 4% (2014: 6%) of the receivables as at December 31, 2015. In addition, the five largest non-Government customers account for 12% (2014: 25%) of outstanding accounts receivable as at December 31, 2015.

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**11. STATUTORY DEPOSIT**

In compliance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company has deposited 10% percent of its share capital, amounting to SR 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:**

|                           | 2015    | 2014    |
|---------------------------|---------|---------|
|                           | SR'000  |         |
| Cash in hand and at banks | 579,247 | 467,868 |
| Call and time deposits    | 182,621 | 232,682 |
|                           | 761,868 | 700,550 |

**ii) Shareholders:**

|                           |        |        |
|---------------------------|--------|--------|
| Cash in hand and at banks | 46,788 | 5,015  |
| Call and time deposits    | 16,067 | 15,568 |
|                           | 62,855 | 20,583 |

Call and time deposits are maintained with financial institutions. The deposits for insurance operations are maturing on February 03, 2016. These earn commission at an average rate of 1.8% per annum as at 31 December 2015 (2014: 1% per annum).

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

**Insurance Operations' surplus**

The insurance operations' invests its surplus funds in investments as disclosed in Notes 5 and 6. All of these investments are classified as available-for-sale and measured at market value except for investment in associates. Changes in the fair value of these investments at December 31, 2015 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.

**Dividends declared**

Net income from shareholders' activities is distributed in accordance with the Articles of Association and resolutions of the General Assembly. On February 21, 2016, corresponding to Jumadah al-Awwal 14, 1437 the Company's board of directors proposed to pay a dividend for the year ended December 31, 2015 of SR 1 per share totalling SR 100 million (2014: SR 145 million) to its shareholders. The proposed dividend will be put to the shareholders for their approval in the General Assembly meeting to be held on March 21, 2016, corresponding to Jumadah al-Thani 17, 1437.

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

|                                               | <b>2015</b>             | 2014             |
|-----------------------------------------------|-------------------------|------------------|
|                                               | <b>SR'000</b>           |                  |
| Payables to policyholders                     | <b>656,252</b>          | 717,216          |
| Payable - department of zakat & income tax    | <b>339,055</b>          | 304,667          |
| Marketing representative commissions          | <b>69,692</b>           | 73,111           |
| Employee end of service benefits              | <b>81,349</b>           | 66,938           |
| Accrued expenses                              | <b>139,880</b>          | 82,953           |
| Employees' savings plan                       | <b>11,749</b>           | 9,651            |
| Provision for leave encashment                | <b>15,934</b>           | 12,743           |
| Manafeth share of profit distribution payable | <b>49,087</b>           | -                |
| Other liabilities                             | <b>31,846</b>           | 28,984           |
|                                               | <b><u>1,394,844</u></b> | <u>1,296,263</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 | <b>3,203</b>         | 3,203         |
| Reserve for losses | <b>8,008</b>         | 8,008         |
| Total              | <b><u>11,211</u></b> | <u>11,211</u> |

The reserve for losses represents an estimate by management of the net losses which will arise from the run off of this business. The movement in the reserve for losses is set out below:

|                                               |                     |              |
|-----------------------------------------------|---------------------|--------------|
| Balance, January 1                            | <b>8,008</b>        | 8,397        |
| Net claims incurred during the year           | -                   | (173)        |
| (Recovery) / addition from reserve for losses | -                   | (216)        |
| Balance, December 31                          | <b><u>8,008</u></b> | <u>8,008</u> |

The results of the discontinued operations are as follows:

|                                                   |   |       |
|---------------------------------------------------|---|-------|
| Revenue                                           | - | -     |
| Cost and expenses                                 | - | -     |
| Net claims incurred                               | - | (216) |
| Total costs and expenses                          | - | (216) |
| (Recovery)/ addition from discontinued operations | - | (216) |



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

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

| <b>2015</b>                                             |                               |             |             |             |             |             |                  |
|---------------------------------------------------------|-------------------------------|-------------|-------------|-------------|-------------|-------------|------------------|
| <b>Accident year</b>                                    | <b>2010 &amp;<br/>Earlier</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>Total</b>     |
| <b>SR '000</b>                                          |                               |             |             |             |             |             |                  |
| <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                        |                               |             |             |             |             |             | 1,078,053        |
| Outstanding claims and reserves                         |                               |             |             |             |             |             | <u>2,850,367</u> |

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

| 2014                                                        | 2009 &<br>Earlier | 2010        | 2011        | 2012        | 2013        | 2014        | Total            |
|-------------------------------------------------------------|-------------------|-------------|-------------|-------------|-------------|-------------|------------------|
| Accident year                                               | SR '000           |             |             |             |             |             |                  |
| Estimate of ultimate claims cost:                           |                   |             |             |             |             |             |                  |
| At the end of                                               |                   |             |             |             |             |             |                  |
| accident year                                               | 13,650,239        | 2,369,636   | 2,521,919   | 2,971,986   | 4,917,107   | 3,669,909   |                  |
| One year later                                              | 13,607,097        | 2,527,355   | 2,914,308   | 3,978,907   | 5,596,818   |             |                  |
| Two years later                                             | 13,670,257        | 2,488,796   | 2,896,367   | 4,016,792   |             |             |                  |
| Three years later                                           | 13,342,964        | 2,481,495   | 2,910,080   |             |             |             |                  |
| Four years later                                            | 13,340,028        | 2,492,869   |             |             |             |             |                  |
| Five years later                                            | 13,123,357        |             |             |             |             |             |                  |
| Current estimate of cumulative claims                       | 13,123,357        | 2,492,869   | 2,910,080   | 4,016,792   | 5,596,818   | 3,669,909   | 31,809,825       |
| Cumulative payments to date                                 | (12,943,218)      | (2,457,226) | (2,843,578) | (3,930,954) | (5,013,419) | (2,978,906) | (30,167,301)     |
| Liability recognized in the statement of financial position | 180,139           | 35,643      | 66,502      | 85,838      | 583,399     | 691,003     | 1,642,524        |
| Salvage and Subrogation                                     |                   |             |             |             |             |             | (65,781)         |
| Incurred but not reported claims                            |                   |             |             |             |             |             | 1,043,468        |
| Premium Deficiency reserve                                  |                   |             |             |             |             |             | 42,290           |
| Outstanding claims and reserves                             |                   |             |             |             |             |             | <u>2,662,501</u> |

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**17. ZAKAT**

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

|                                                    | <b>2015</b>        | 2014      |
|----------------------------------------------------|--------------------|-----------|
|                                                    | <b>SR'000</b>      |           |
| Share capital                                      | <b>1,000,000</b>   | 1,000,000 |
| Reserves, opening provisions and other adjustments | <b>1,007,026</b>   | 820,524   |
| Book value of long term assets                     | <b>(1,025,674)</b> | (737,498) |
|                                                    | <b>981,352</b>     | 1,083,026 |
| Zakatable income for the year                      | <b>773,636</b>     | 602,974   |
| Zakat base                                         | <b>1,754,988</b>   | 1,686,000 |

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

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

|                          |                 |          |
|--------------------------|-----------------|----------|
| Balance, January 1       | <b>124,626</b>  | 98,399   |
| Provided during the year | <b>43,875</b>   | 42,150   |
| Payments during the year | <b>(16,395)</b> | (15,923) |
| Balance, December 31     | <b>152,106</b>  | 124,626  |

**Status of Assessment**

The Company has filed Zakat returns with the Department of Zakat and Income tax (DZIT) for the years from 2005 to 2014 but the final assessments have not been raised yet.

**Status of Appeal**

The Company has filed an appeal against the assessment of DZIT for the year 2005-2006 which is raised to Board of Grievances.

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**18. SHARE CAPITAL**

The authorized, issued and paid up capital of the Company is SR 1 billion at December 31, 2015 (2014: SR 1 billion) consisting of 100 million shares of SR 10 each.

|                                           | 2015                  |                  |                  |
|-------------------------------------------|-----------------------|------------------|------------------|
|                                           | Authorized and issued | Paid up          |                  |
|                                           | No. of Shares         | SR'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> |

|                                           | 2014                  |                  |                  |
|-------------------------------------------|-----------------------|------------------|------------------|
|                                           | Authorized and issued | Paid up          |                  |
|                                           | No. of Shares         | SR'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 Company's Articles of Association and in compliance with Article 70 (2g) of the Insurance Implementing Regulations of SAMA, the Company allocates 20% of net shareholders' income each year to the legal reserve until this reserve equals to 100% of the paid capital. The legal reserve is not available for distribution to shareholders until liquidation of the Company.

**20. MANAFETH SHARED AGREEMENT**

The Company has signed Manafeth shared agreement effective from 1 January 2015 with 25 insurance companies on the 13 January 2015 with regards to Manafeth third party liability motor insurance.

The main terms of the above mentioned agreement are the following:

- 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**

|                                                            | <b>2015</b>           | <b>2014</b>    |
|------------------------------------------------------------|-----------------------|----------------|
|                                                            | <b>SR'000</b>         |                |
| <b>Insurance Operations</b>                                |                       |                |
| Available-for-sale:                                        |                       |                |
| - Dividend income                                          | <b>4,906</b>          | 3,707          |
| - Commission income                                        | <b>6,459</b>          | 16,777         |
| - Realized gain on sale (Note 30)                          | <b>76,521</b>         | 18,963         |
| - Investment fees                                          | <b>(4,018)</b>        | (497)          |
| Share of profit from investment in associate (Note 5(i))   | <b>4,383</b>          | 4,181          |
| <b>Investment income, net</b>                              | <b><u>88,251</u></b>  | <u>43,131</u>  |
| <b>Shareholders</b>                                        |                       |                |
| Available-for-sale:                                        |                       |                |
| - Dividend income                                          | <b>5,088</b>          | 5,037          |
| - Commission income                                        | <b>2,557</b>          | 15,110         |
| - Foreign currency exchange                                | <b>2,910</b>          | 5,056          |
| - Realized gain on sale (Note 30)                          | <b>171,890</b>        | 142,282        |
| - Investment fees                                          | <b>(2,059)</b>        | (3,319)        |
| Share of profit from investment in associates (Note 5(ii)) | <b>19,444</b>         | 16,246         |
| <b>Investment income, net</b>                              | <b><u>199,830</u></b> | <u>180,412</u> |

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**22. OPERATING AND SELLING EXPENSES**

|                                                                      | <b>2015</b>           | <b>2014</b>    |
|----------------------------------------------------------------------|-----------------------|----------------|
|                                                                      | <b>SR'000</b>         |                |
| Salaries and benefits                                                | <b>335,516</b>        | 267,793        |
| Rent                                                                 | <b>5,118</b>          | 13,995         |
| Insurance, utilities and maintenance                                 | <b>11,661</b>         | 12,231         |
| Advertising                                                          | <b>17,603</b>         | 6,872          |
| Training and education                                               | <b>4,911</b>          | 2,982          |
| Depreciation                                                         | <b>6,629</b>          | 4,536          |
| Communications                                                       | <b>3,390</b>          | 1,606          |
| Office supplies and printing                                         | <b>1,174</b>          | 1,147          |
| Provision (Reversal of provision) for doubtful receivables (note 10) | <b>65,763</b>         | (3,678)        |
| Others                                                               | <b>21,381</b>         | 17,362         |
|                                                                      | <b><u>473,146</u></b> | <u>324,846</u> |

**23. OTHER GENERAL AND ADMINISTRATIVE EXPENSES**

|                                      |                      |               |
|--------------------------------------|----------------------|---------------|
| Rent                                 | <b>1,873</b>         | 16,587        |
| Insurance, utilities and maintenance | <b>12,028</b>        | 9,097         |
| Professional fees                    | <b>19,535</b>        | 6,186         |
| Communications                       | <b>7,623</b>         | 5,586         |
| Depreciation                         | <b>7,309</b>         | 5,325         |
| Office supplies and printing         | <b>2,286</b>         | 3,165         |
| Training and education               | <b>7,486</b>         | 2,290         |
| Tax and license                      | <b>9,762</b>         | 3,000         |
| Indirect cost charge of Manafeth     | <b>8,302</b>         | -             |
| Others                               | <b>6,997</b>         | 5,673         |
|                                      | <b><u>83,201</u></b> | <u>56,909</u> |

**24. EARNINGS PER SHARE**

Basic and diluted earnings per share have been calculated by dividing the net income for the years ended December 31, 2015 and 2014 by 100 million shares.

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**25. RELATED PARTY TRANSACTIONS AND BALANCES**

The following are the details of the major related party transactions during the year and the related balances at December 31:

|                                                                                                       | Amount of transactions<br>for the year ended<br>SR'000 |         | Balance receivable /<br>(payable) as at<br>SR'000 |         |
|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------|---------|---------------------------------------------------|---------|
|                                                                                                       | 2015                                                   | 2014    | 2015                                              | 2014    |
| <b><u>Major shareholders</u></b>                                                                      |                                                        |         |                                                   |         |
| Amount of claims paid to hospitals owned by major shareholders                                        | 62,286                                                 | 16,147  | (4,259)                                           | (2,877) |
| Medical insurance premiums written                                                                    | 39,996                                                 | 42,442  | 3,277                                             | 3,432   |
| <b><u>Associates</u></b>                                                                              |                                                        |         |                                                   |         |
| Claims management                                                                                     | 792                                                    | -       | 520                                               | -       |
| Rent expenses paid                                                                                    | 1,852                                                  | 5,314   | -                                                 | -       |
| Najm Insurance Services - fees                                                                        | 41,291                                                 | 21,958  | 4,252                                             | (4,778) |
| United Insurance Co. fees and claims, net                                                             | 8,490                                                  | 7,752   | 3,663                                             | 2,425   |
| <b><u>Entities controlled, jointly controlled or significantly influenced by related parties.</u></b> |                                                        |         |                                                   |         |
| Medical insurance premiums written                                                                    | 136,691                                                | 108,286 | 168,199                                           | 103,171 |

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, 2015 and 2014:

| 2015                       | BOD members<br>(Executives) | BOD members<br>(Non-Executive)<br>(SR'000) | Top Executives<br>including the<br>CEO and COO |
|----------------------------|-----------------------------|--------------------------------------------|------------------------------------------------|
| 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>-</b>                    | <b>2,538</b>                               | <b>12,744</b>                                  |

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| 2014                       | BOD members<br>(Executives) | BOD members<br>(Non-Executive)<br>(SR'000) | Top Executives<br>including the<br>CEO and COO |
|----------------------------|-----------------------------|--------------------------------------------|------------------------------------------------|
| Salaries and compensation  | -                           | -                                          | 3,995                                          |
| Allowances                 | -                           | 1,565                                      | 1,495                                          |
| Motivational plans         | -                           | -                                          | 657                                            |
| End of service indemnities | -                           | -                                          | 2,229                                          |
| Total                      | -                           | 1,565                                      | 8,376                                          |

**26. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, receivables, investments and accrued income and its financial liabilities consist of payables and accrued expenses.

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

The fair value of derivatives held by the Company as of December 31, 2015 and 2014 are immaterial to the Company's financial statements.

**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: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).



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

**Determination of fair value and fair value hierarchy (Continued)**

The table below presents the financial instruments at their fair values as at December 31, 2015 and 2014 and based on the fair value hierarchy:

|                                      | (SR'000)         |          |                  |                  |
|--------------------------------------|------------------|----------|------------------|------------------|
| 2015                                 | Level 1          | Level 2  | Level 3          | Total            |
| Available-for- sale financial assets |                  |          |                  |                  |
| - Policyholders                      | 1,655,211        | -        | 1,557,545        | 3,212,756        |
| - Shareholders                       | 1,396,448        | -        | 767,516          | 2,163,964        |
| <b>Total</b>                         | <b>3,051,659</b> | <b>-</b> | <b>2,325,061</b> | <b>5,376,720</b> |
| 2014                                 |                  |          |                  |                  |
| Available-for-sale financial assets  |                  |          |                  |                  |
| - Policyholders                      | 1,747,130        | -        | 1,121,870        | 2,869,000        |
| - Shareholders                       | 1,638,000        | -        | 409,555          | 2,047,555        |
| <b>Total</b>                         | <b>3,385,130</b> | <b>-</b> | <b>1,531,425</b> | <b>4,916,555</b> |

There were no transfers between the levels of fair value hierarchies during the year.

Level 3 investments comprise investment in Private Equity Funds and debt instruments. The valuation technique used to measure Private Equity Funds is NAV (net assets value). The fair value of Private Equity Funds computed is based on the latest reported net assets value as at the statement of financial position date. Further, the debt instruments are measured at the fair value based on the discounted cash flow technique, which, as per the management, is the best estimate of the exit price i.e. fair value. Management tests all such investments for impairment annually.

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

|                      | (SR'000)             |                  |                    |                                     |                                  |                           |
|----------------------|----------------------|------------------|--------------------|-------------------------------------|----------------------------------|---------------------------|
| December 31, 2015    | Balance<br>January 1 | Purchases        | Sales              | Total gain or loss<br>recognized in |                                  | Balance<br>December<br>31 |
|                      |                      |                  |                    | Profit or<br>loss                   | Other<br>comprehensive<br>income |                           |
| Insurance operations | 1,121,870            | 1,695,504        | (1,264,323)        | 21,940                              | (17,446)                         | 1,557,545                 |
| Shareholders         | 409,555              | 1,128,785        | (761,926)          | 56,539                              | (65,437)                         | 767,516                   |
| <b>Total</b>         | <b>1,531,425</b>     | <b>2,824,289</b> | <b>(2,026,249)</b> | <b>78,479</b>                       | <b>(82,883)</b>                  | <b>2,325,061</b>          |
| December 31, 2014    |                      |                  |                    |                                     |                                  |                           |
| Insurance operations | 365,624              | 1,366,710        | (612,120)          | 14,902                              | (13,246)                         | 1,121,870                 |
| Shareholders         | 245,421              | 366,200          | (208,717)          | 11,860                              | (5,209)                          | 409,555                   |
| <b>Total</b>         | <b>611,045</b>       | <b>1,732,910</b> | <b>(820,837)</b>   | <b>26,762</b>                       | <b>(18,455)</b>                  | <b>1,531,425</b>          |

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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 and cash and cash equivalents. Accordingly, they are included in unallocated assets. Segment liabilities do not include due to shareholders' operations, reinsurance balances payable, accrued expenses and other liabilities. 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, 2015 |                  |                 |                     | Total            |
|---------------------------------------------------------|--------------------------------------|------------------|-----------------|---------------------|------------------|
|                                                         | Medical                              | Motor            | Manafeth        | Property & casualty |                  |
|                                                         | SR' 000                              |                  |                 |                     |                  |
| Gross premiums written:                                 |                                      |                  |                 |                     |                  |
| Compulsory                                              | 4,111,028                            | -                | -               | -                   | -                |
| Non - compulsory                                        | 801,778                              | -                | -               | -                   | -                |
| Total gross premiums written                            | <u>4,912,806</u>                     | <u>1,294,864</u> | <u>195,352</u>  | <u>1,142,246</u>    | <u>7,545,26</u>  |
| Net premiums written                                    | <u>4,798,758</u>                     | <u>1,294,864</u> | <u>195,352</u>  | <u>132,478</u>      | <u>6,421,45</u>  |
| Net premiums earned                                     | 4,287,836                            | 1,080,815        | 157,550         | 138,624             | 5,664,82         |
| Reinsurance commissions                                 | 194                                  | (4,391)          | -               | 97,820              | 93,623           |
| Net claims incurred                                     | (3,313,344)                          | (751,661)        | (53,818)        | (25,087)            | (4,143,91)       |
| 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 Takaful Reserve                              | 2,873                                | -                | -               | -                   | 2,873            |
| Other underwriting expenses                             | (92,206)                             | (13,782)         | (9,986)         | (18,623)            | (134,597)        |
| General, administrative, operating and selling expenses | <u>(329,040)</u>                     | <u>(124,521)</u> | <u>(17,422)</u> | <u>(85,364)</u>     | <u>(556,347)</u> |
| <b>Profit from Insurance Operations</b>                 | <u>330,538</u>                       | <u>32,152</u>    | <u>49,865</u>   | <u>52,897</u>       | <u>465,452</u>   |
| Investment gains                                        |                                      |                  |                 |                     | 88,251           |
| Other income, net                                       |                                      |                  |                 |                     | 45,886           |
| Impairment of available-for-sale investments            |                                      |                  |                 |                     | (17,696)         |
| Manafeth Insurance share                                |                                      |                  |                 |                     | (49,087)         |
| <b>Surplus from Insurance</b>                           |                                      |                  |                 |                     | <u>532,806</u>   |

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**27. OPERATING SEGMENTS (Continued)**

| <b>Operating Segments</b>                               | For the year ended December 31, 2014 |                  |                        |                  |
|---------------------------------------------------------|--------------------------------------|------------------|------------------------|------------------|
|                                                         | Medical                              | Motor*           | Property &<br>casualty | Total            |
|                                                         | SR' 000                              |                  |                        |                  |
| Gross premiums written:                                 |                                      |                  |                        |                  |
| Compulsory                                              | 3,522,741                            | -                | -                      | -                |
| Non- compulsory                                         | 632,330                              | -                | -                      | -                |
| <b>Total gross premiums written</b>                     | <b>4,155,071</b>                     | <b>1,043,193</b> | <b>1,009,345</b>       | <b>6,207,609</b> |
| Net premiums written                                    | 4,112,144                            | 1,043,160        | 137,703                | 5,293,007        |
| Net premiums earned                                     | 3,640,605                            | 1,021,512        | 141,991                | 4,804,108        |
| Reinsurance commissions                                 | 1,638                                | 2,361            | 103,172                | 107,171          |
| Net claims incurred                                     | (2,931,207)                          | (663,372)        | (64,873)               | (3,659,452)      |
| Policy acquisition costs                                | (199,022)                            | (141,259)        | (41,532)               | (381,813)        |
| Excess of loss expenses                                 | (2,293)                              | (13,283)         | (9,197)                | (24,773)         |
| Changes in Takaful Reserve                              | (2,696)                              | -                | -                      | (2,696)          |
| Other underwriting expenses                             | (67,941)                             | (6,750)          | (10,566)               | (85,257)         |
| General, administrative, operating and selling expenses | (179,278)                            | (121,188)        | (81,289)               | (381,755)        |
| <b>Profit from Insurance Operations</b>                 | <b>259,806</b>                       | <b>78,021</b>    | <b>37,706</b>          | <b>375,533</b>   |
| Investment gains                                        |                                      |                  |                        | 43,131           |
| Other income, net                                       |                                      |                  |                        | 50,286           |
| <b>Surplus from Insurance Operations</b>                |                                      |                  |                        | <b>468,950</b>   |

\*Manafeth result is included in the motor operating segment. It is not presented separately as shown in 2015 operating segments as it totally belong to the company.

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**27. OPERATING SEGMENTS (Continued)**

As at December 31, 2015

| Operating Segments                                    | Medical   | Motor   | Manafeth | Property & casualty | Total            |
|-------------------------------------------------------|-----------|---------|----------|---------------------|------------------|
|                                                       |           |         |          | SR' 000             |                  |
| <b>Assets - Insurance operations</b>                  |           |         |          |                     |                  |
| Reinsurer's share of unearned premium                 | 89,377    | 11,329  | -        | 529,268             | 629,974          |
| Reinsurer's share of outstanding claims, net          | 224       | 16,082  | -        | 1,479,603           | 1,495,909        |
| Deferred policy acquisition costs                     | 120,725   | 64,964  | 1,600    | 21,955              | 209,244          |
| Investments                                           |           |         |          |                     | 3,236,219        |
| Receivables, net                                      |           |         |          |                     | 1,943,579        |
| Unallocated assets                                    |           |         |          |                     | 1,585,681        |
| <b>Total assets</b>                                   |           |         |          |                     | <b>9,100,606</b> |
| <b>Liabilities and surplus - Insurance operations</b> |           |         |          |                     |                  |
| Unearned premium income                               | 2,860,161 | 695,582 | 37,802   | 640,016             | 4,233,561        |
| Gross outstanding claims and reserves                 | 906,262   | 278,952 | 24,542   | 1,640,611           | 2,850,367        |
| Unearned commission income                            | 6,241     | 24      | -        | 44,759              | 51,024           |
| Reserve for Takaful activities                        |           |         |          |                     | 13,467           |
| Unallocated liabilities and surplus                   |           |         |          |                     | 1,952,187        |
| <b>Total liabilities and surplus</b>                  |           |         |          |                     | <b>9,100,606</b> |

As at December 31, 2014

| Operating Segments                                    | Medical   | Motor   | Property & casualty | Total            |
|-------------------------------------------------------|-----------|---------|---------------------|------------------|
|                                                       |           |         | SR' 000             |                  |
| <b>Assets - Insurance operations</b>                  |           |         |                     |                  |
| Reinsurer's share of unearned premiums                | 8,066     | 3,854   | 432,020             | 443,940          |
| Reinsurer's share of outstanding claims, net          | 246       | 27,201  | 1,172,800           | 1,200,247        |
| Deferred policy acquisition costs                     | 107,231   | 47,880  | 18,522              | 173,633          |
| Investments                                           |           |         |                     | 2,888,419        |
| Receivables, net                                      |           |         |                     | 1,529,113        |
| Unallocated assets                                    |           |         |                     | 1,449,566        |
| <b>Total assets</b>                                   |           |         |                     | <b>7,684,918</b> |
| <b>Liabilities and surplus - Insurance operations</b> |           |         |                     |                  |
| Unearned premium income                               | 2,267,928 | 474,058 | 548,914             | 3,290,900        |
| Gross outstanding claims and reserves                 | 1,077,703 | 236,956 | 1,347,842           | 2,662,501        |
| Unearned commission income                            | 4,412     | 64      | 37,078              | 41,554           |
| Reserve for Takaful activities                        | 16,340    | -       | -                   | 16,340           |
| Unallocated liabilities and surplus                   |           |         |                     | 1,673,623        |
| <b>Total liabilities and surplus</b>                  |           |         |                     | <b>7,684,918</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 a quota share 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.

The insurance claim liabilities are sensitive to the various assumptions mentioned in Note 2. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

**(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:

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**28. RISK MANAGEMENT (Continued)**

- 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.

The exception to this rule is in respect of local companies who do not carry any such credit rating. This, however, is limited to those companies registered and approved under local insurance regulatory framework.

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.

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. As shown in Note 9, the Company has reduced its claims payable by the expected recoveries from reinsurers as at December 31, 2015 to SR 1.5 billion (2014: SR 1.2 billion). No single reinsurer accounts for more than 22% of these expected recoveries at December 31, 2015 (2014: 21%).

**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.

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. The details of estimation of claim related reserves are given under Notes 2(e) and 3(c) to the financial statements.

**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. The details of estimation of premium deficiency reserve are given under Notes 2(e) and 3(g) to the financial statements.

**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. 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. This sensitivity owes to the change in the independent variables attached to the determination of claims reserves.

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**28. RISK MANAGEMENT (Continued)**

|                                                 | Surplus from<br>insurance operations<br>before zakat |         | Shareholders' equity |         |
|-------------------------------------------------|------------------------------------------------------|---------|----------------------|---------|
|                                                 | 2015                                                 | 2014    | 2015                 | 2014    |
| Impact of change in claim reserves by + / - 10% |                                                      |         |                      |         |
| Medical                                         | <b>90,604</b>                                        | 107,746 | <b>88,339</b>        | 105,052 |
| Motor                                           | <b>28,741</b>                                        | 20,976  | <b>28,022</b>        | 20,451  |
| Property and casualty                           | <b>16,101</b>                                        | 17,504  | <b>15,698</b>        | 17,067  |
|                                                 | <b>135,446</b>                                       | 146,226 | <b>132,059</b>       | 142,570 |

**(c) Market Risk and Asset Liability Management**

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 forecast 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 perform regular monitoring of developments in related markets. In addition, the key factors that affect stock and bond 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.

Almost all instruments under bonds portfolio are denominated in currencies pegged to the US Dollar leaving minimal exposure to currency risk.

The geographical concentration of the Company's investments is set out below:

| <b><u>Insurance Operations</u></b> | <b>2015</b>      | <b>2014</b>      |
|------------------------------------|------------------|------------------|
|                                    | <b>SR'000</b>    |                  |
| Local / Regional                   | <b>2,833,941</b> | 2,772,061        |
| United States of America           | <b>378,815</b>   | 58,163           |
| Europe                             | -                | 19,388           |
| Far East                           | -                | 14,454           |
| Rest of the world                  | -                | 4,934            |
|                                    | <b>3,212,756</b> | <b>2,869,000</b> |



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**28. RISK MANAGEMENT (Continued)**

| <u>Shareholders Operations</u> | <u>2015</u>             | <u>2014</u>      |
|--------------------------------|-------------------------|------------------|
|                                | <u>SR'000</u>           |                  |
| Local / Regional               | <b>2,121,830</b>        | 1,248,109        |
| United States of America       | <b>17,665</b>           | 480,634          |
| Europe                         | <b>6,161</b>            | 134,554          |
| Rest of the world              | <b>18,308</b>           | 184,258          |
|                                | <b><u>2,163,964</u></b> | <u>2,047,555</u> |

Management assesses that there is minimal risk of significant losses due to exchange rate fluctuations.

*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 in the currencies in which its cash and cash equivalents and investments are denominated.

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 SR 22.72 million (2014: SR 14.89 million).

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

|                             | <u>Less than 1<br/>year</u> | <u>1 to 5<br/>years</u> | <u>Over 5<br/>years</u> | <u>Non- commission<br/>bearing</u> | <u>Total</u>     |
|-----------------------------|-----------------------------|-------------------------|-------------------------|------------------------------------|------------------|
|                             | <u>SR'000</u>               |                         |                         |                                    |                  |
| <b>Insurance Operations</b> |                             |                         |                         |                                    |                  |
| <b>2015</b>                 | <b>376,299</b>              | <b>582,916</b>          | <b>273,874</b>          | <b>1,979,667</b>                   | <b>3,212,756</b> |
| 2014                        | 471,709                     | 313,505                 | 85,000                  | 1,998,786                          | 2,869,000        |
| <b>Shareholders</b>         |                             |                         |                         |                                    |                  |
| <b>2015</b>                 | <b>650,000</b>              | <b>246,636</b>          | <b>142,134</b>          | <b>1,125,194</b>                   | <b>2,163,964</b> |
| 2014                        | 215,822                     | 174,330                 | 228,098                 | 1,429,305                          | 2,047,555        |

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**28. RISK MANAGEMENT (Continued)**

*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 SR 3 billion (2014: SR 3.4 billion) 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 and equity would be as follows:

|                  | Fair value | Price change | Effect on income<br>from operations<br>before zakat | Effect on<br>shareholders' equity |
|------------------|------------|--------------|-----------------------------------------------------|-----------------------------------|
| 31 December 2015 | + / - 10%  | 305,166      | -                                                   | 297,537                           |
| 31 December 2014 | + / - 10%  | 342,809      | -                                                   | 334,239                           |

The sensitivity analysis presented is based upon the portfolio position as at 31 December 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.

**(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.

Approximately 99% (2014: approximately 99%) of the Company's underwriting activities are carried out in Saudi Arabia.

For all classes of financial assets held by the Company, other than those relating to reinsurance contracts as described in (b) above, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the statement of financial position date.

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

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**28. RISK MANAGEMENT (Continued)**

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

|                                              | <u>2015</u>      | <u>2014</u>      |
|----------------------------------------------|------------------|------------------|
|                                              | <u>SR'000</u>    |                  |
| <b><u>ASSETS - INSURANCE OPERATIONS</u></b>  |                  |                  |
| Bank / call and time deposits                | 761,037          | 699,814          |
| Receivables, net                             | 1,943,579        | 1,529,113        |
| Available-for-sale investments               | 652,686          | 870,214          |
| Reinsurers' share of outstanding claims, net | 1,495,909        | 1,200,247        |
| Other assets                                 | 423,083          | 375,106          |
| Assets exposed to credit risk                | <u>5,276,294</u> | <u>4,674,494</u> |
| Assets not exposed to credit risk            | <u>3,824,312</u> | <u>3,010,424</u> |
| Total assets                                 | <u>9,100,606</u> | <u>7,684,918</u> |
|                                              | <u>2015</u>      | <u>2014</u>      |
|                                              | <u>SR'000</u>    |                  |
| <b><u>ASSETS - SHAREHOLDERS</u></b>          |                  |                  |
| Bank / call and time deposits                | 62,855           | 20,583           |
| Available-for-sale investments               | 100,000          | 618,250          |
| Accrued investment income                    | 14,959           | 5,607            |
| Statutory deposit                            | 100,000          | 100,000          |
| Assets exposed to credit risk                | <u>277,814</u>   | <u>744,440</u>   |
| Assets not exposed to credit risk            | <u>2,190,692</u> | <u>1,509,148</u> |
| Total assets                                 | <u>2,468,506</u> | <u>2,253,588</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. 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.

**(e) Liquidity Risk**

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

The table below summarizes the maturities of the Company's undiscounted contractual obligations.

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**28. RISK MANAGEMENT (Continued)**

| <b>Maturity Profile</b>                                | <b>2015</b>      |               |                  | <b>2014</b>      |               |                  |
|--------------------------------------------------------|------------------|---------------|------------------|------------------|---------------|------------------|
|                                                        | <b>SR '000</b>   |               |                  | <b>SR '000</b>   |               |                  |
| <b>LIABILITIES</b>                                     | <b>Less than</b> | <b>No</b>     | <b>Total</b>     | <b>Less than</b> | <b>No</b>     | <b>Total</b>     |
| <b>INSURANCE OPERATIONS</b>                            | <b>one year</b>  | <b>term</b>   |                  | <b>one year</b>  | <b>term</b>   |                  |
| Reinsurers' balances payable                           | 502,579          | -             | 502,579          | 313,900          | -             | 313,900          |
| Outstanding claims                                     | 2,850,367        | -             | 2,850,367        | 2,662,501        | -             | 2,662,501        |
| Reserve for discontinued operations                    | 11,211           | -             | 11,211           | 11,211           | -             | 11,211           |
| Reserve for Takaful activities                         | 13,467           | -             | 13,467           | 16,340           | -             | 16,340           |
| Claims payable, accrued expenses and other liabilities | 974,440          | 81,349        | 1,055,789        | 924,658          | 66,938        | 991,596          |
| Surplus distribution payable                           | 100,176          | -             | 100,176          | 46,895           | -             | 46,895           |
| Financial liabilities – Insurance operations           | 4,452,240        | 81,349        | 4,533,589        | 3,975,505        | 66,938        | 4,042,443        |
| Non-financial liabilities – Insurance operations       | 4,669,966        | -             | 4,669,966        | 3,637,121        | -             | 3,637,121        |
| <b>Total liabilities – Insurance operations</b>        | <b>9,122,206</b> | <b>81,349</b> | <b>9,203,555</b> | <b>7,612,626</b> | <b>66,938</b> | <b>7,679,564</b> |

| <b>LIABILITIES</b>                       | <b>2015</b>      |             |                | <b>2014</b>      |             |                |
|------------------------------------------|------------------|-------------|----------------|------------------|-------------|----------------|
|                                          | <b>SR '000</b>   |             |                | <b>SR '000</b>   |             |                |
| <b>SHAREHOLDERS</b>                      | <b>Less than</b> | <b>No</b>   | <b>Total</b>   | <b>Less than</b> | <b>No</b>   | <b>Total</b>   |
|                                          | <b>one year</b>  | <b>term</b> |                | <b>one year</b>  | <b>term</b> |                |
| Dividends payable                        | 5,643            | -           | 5,643          | 5,014            | -           | 5,014          |
| Accrued expenses and other liabilities   | 1,689            | -           | 1,689          | 1,434            | -           | 1,434          |
| Financial liabilities – Shareholders     | 7,332            | -           | 7,332          | 6,448            | -           | 6,448          |
| Non-financial liabilities – Shareholders | 152,106          | -           | 152,106        | 170,765          | -           | 170,765        |
| <b>Total liabilities – Shareholders</b>  | <b>159,438</b>   | <b>-</b>    | <b>159,438</b> | <b>177,213</b>   | <b>-</b>    | <b>177,213</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.

**(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:

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**28. RISK MANAGEMENT (Continued)**

**(f) Operational Risk (Continued)**

- 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;
- Risk mitigation, including insurance where it is effective.

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 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

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

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

|                                                       | <u>2015</u>    | <u>2014</u>    |
|-------------------------------------------------------|----------------|----------------|
|                                                       | <u>SR'000</u>  |                |
| <b><u>INSURANCE OPERATIONS</u></b>                    |                |                |
| Realized gains on available-for-sale financial assets |                |                |
| - Equity securities                                   | 76,521         | 18,963         |
| Impairment on financial assets                        |                |                |
| - Equity securities                                   | (17,696)       | -              |
| <b>Realized gain on financial assets, net</b>         | <b>58,825</b>  | <b>18,963</b>  |
| <b><u>SHAREHOLDERS</u></b>                            |                |                |
| Realized gains on available-for-sale financial assets |                |                |
| - Equity securities                                   | 125,517        | 140,831        |
| - Debt securities                                     | 46,373         | 1,451          |
| Impairment on financial assets                        |                |                |
| - Equity securities                                   | (36,033)       | -              |
| <b>Realized gain on financial assets, net</b>         | <b>135,857</b> | <b>142,282</b> |

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**31. CREDIT QUALITY OF INVESTMENTS**

**INSURANCE OPERATIONS**

| <b>Investments</b>                              | <b>2015</b>             |               | <b>2014</b>      |               |
|-------------------------------------------------|-------------------------|---------------|------------------|---------------|
|                                                 | <b>SR'000</b>           | <b>Rating</b> | <b>SR'000</b>    | <b>Rating</b> |
| Local / Regional Money Market Investments       | <b>1,977,151</b>        | <b>NA</b>     | 1,886,173        | NA            |
| Local / Regional Fixed Income Investments       | <b>273,874</b>          | <b>A</b>      | 409,127          | A             |
| Local / Regional Equity Investments             | <b>582,916</b>          | <b>NA</b>     | 476,761          | NA            |
| International / Global Fixed Income Investments | <b>378,815</b>          | <b>NA</b>     | -                | NA            |
| International / Global Equity Investments       | <b>-</b>                | <b>NA</b>     | 96,939           | NA            |
| <b>Total</b>                                    | <b><u>3,212,756</u></b> |               | <u>2,869,000</u> |               |

**SHAREHOLDERS**

| <b>Investments</b>                              | <b>2015</b>             |               | <b>2014</b>      |               |
|-------------------------------------------------|-------------------------|---------------|------------------|---------------|
|                                                 | <b>SR'000</b>           | <b>Rating</b> | <b>SR'000</b>    | <b>Rating</b> |
| Local / Regional Money Market Investments       | <b>1,775,194</b>        | <b>NA</b>     | 313,312          | NA            |
| Local / Regional Fixed Income Investments       | <b>100,000</b>          | <b>A</b>      | 633,110          | A             |
| Local / Regional Equity Investments             | <b>246,636</b>          | <b>NA</b>     | 290,130          | NA            |
| International / Global Fixed Income Investments | <b>-</b>                | <b>AA</b>     | 485,867          | AA            |
| International / Global Equity Investments       | <b>42,134</b>           | <b>NA</b>     | 325,136          | NA            |
| <b>Total</b>                                    | <b><u>2,163,964</u></b> |               | <u>2,047,555</u> |               |

**32. CONTINGENT LIABILITIES**

- a) As at December 31, 2015, the Company was contingently liable for letters of credit and guarantees issued on its behalf by the banks, amounting to SR 163 million (December 31, 2014 - SR 160 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.

**33. RECLASSIFICATION**

Comparative figures for certain account heads have been re-classified to confirm to the current year's presentation. The details of the reclassification are:

| <b>Component</b>                                                   | <b>From</b>       | <b>To</b>                      | <b>SR'000</b> |
|--------------------------------------------------------------------|-------------------|--------------------------------|---------------|
| Statement of income - insurance operations and accumulated surplus | Gross claims paid | Operating and selling expenses | 97,363        |

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**34. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on Rabi-ul-Thani 28, 1437H, corresponding to February 7, 2016G.