
SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE
“WAFA INSURANCE”

(A SAUDI JOINT STOCK COMPANY)

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR
ENDED 31 December 2016
together with the
INDEPENDENT AUDITORS’ REPORT

SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE “Wafa Insurance”
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND AUDITORS’ REPORT
For the year ended 31 December 2016

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE" (A SAUDI JOINT STOCK COMPANY)

SCOPE OF AUDIT

We have audited the accompanying statement of financial position of Saudi Indian Company for Cooperative Insurance "Wafa Insurance" (A Saudi Joint Stock Company) (the "Company") as at 31 December 2016, and the statement of comprehensive income - insurance operations, statement of income - shareholders' operations, statement of comprehensive income - shareholders' operations, statement of changes in shareholders' equity and statements of cash flows - insurance operations and shareholders' operations for the year then ended and the related notes 1 to 36 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 (IFRSs), the provisions of Article 126 of the Regulations for Companies and the Company's By-laws and are 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

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 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs); and
- Comply with the requirements of the Regulation for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the financial statements.

Emphasis of matter

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


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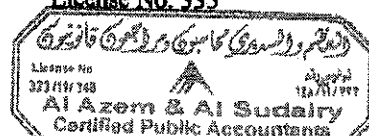

Abdullah M. Al Basri
Certified Public Accountant
License No. 171



13 Jumada Alakhir 1438H
March 12, 2017

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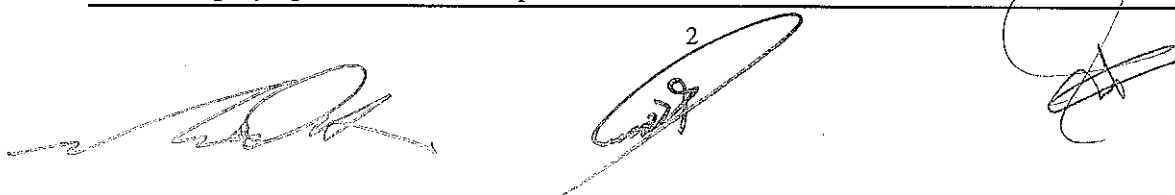

Abdullah M. Al Azem
Certified Public Accountant
License No. 335



SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2016
Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Insurance Operations' Assets			
Cash and cash equivalents	6	127,639,448	57,617,704
Receivable from policyholders, net	7	81,983,037	89,805,661
Receivable from reinsurers, net	8	4,389,548	8,075,987
Reinsurers' share of outstanding claims and reserves	9	125,397,905	36,451,628
Reinsurers' share of unearned premium	10	26,762,713	55,953,021
Deferred policy acquisition costs	11	20,078,599	24,903,382
Prepaid expenses	13	1,342,713	1,752,382
Investments	14	3,005,918	45,923,078
Advances and other receivables	15	57,565,847	29,516,815
Property and equipment, net	16	2,751,710	1,064,104
Intangible assets, net	16	935,219	1,151,082
Capital work in progress	16	--	92,325
Due from shareholders' operations	22	69,518,495	133,752,723
Total Insurance Operations' Assets		<u>521,371,152</u>	<u>486,059,892</u>
Shareholders' Assets			
Cash and cash equivalents	6	174,391,110	33,050,707
Investments	14	4,391,036	160,522,450
Advances and other receivables	15	584,943	391,946
Advance zakat and tax	23.3	--	344,829
Return on statutory deposit	21	1,159,922	861,217
Statutory deposit	21	30,750,000	20,600,000
Total Shareholders' Assets		<u>211,277,011</u>	<u>215,771,149</u>
Total Assets		<u>732,648,163</u>	<u>701,831,041</u>

The accompanying notes 1 to 36 form part of these financial statements.



SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION *(Continued)*
As at 31 December 2016
Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Insurance Operations' Liabilities and Surplus			
Insurance Operations' Liabilities			
Reinsurers' balances payable		15,663,169	29,165,409
Unearned premium income	10	225,158,569	269,981,719
Unearned commission income	12	3,324,551	2,407,562
Outstanding claims and reserves	9	257,907,366	168,539,395
Reserve for life insurance operations	17	1,516,730	1,516,730
Accrued expenses	18	1,024,095	3,490,197
Other liabilities	19	7,485,702	9,302,833
Employees' end of service benefits	20	2,945,265	1,656,047
Total Insurance Operations' Liabilities		515,025,447	486,059,892
Insurance Operations' Surplus			
Insurance operations' surplus distribution payable to policyholders		6,345,705	--
Total Insurance Operations' Liabilities and Surplus		521,371,152	486,059,892
Shareholders' Liabilities and Equity			
Shareholders' Liabilities			
Zakat and income tax payable	23.3	4,921,363	--
Accrued expenses	18	2,586,000	2,315,500
Other liabilities	19	285,315	285,415
Statutory deposit investment return payable	19&21	1,159,922	861,217
Share compensation	24.1	11,731,623	11,740,992
Due to insurance operations	22	69,518,495	133,752,723
Total Shareholders' Liabilities		90,202,718	148,955,847
Shareholders' Equity			
Share capital	24	205,000,000	205,000,000
Accumulated deficit		(83,316,744)	(137,707,149)
Fair value reserve for available for sale investments		(608,963)	(477,549)
Total Shareholders' Equity		121,074,293	66,815,302
Total Shareholders' Liabilities and Equity		211,277,011	215,771,149
Total Liabilities and Shareholders' Equity		732,648,163	701,831,041

The accompanying notes 1 to 36 form part of these financial statements.

SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS
For the year ended 31 December 2016
Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Gross premiums written	10	550,806,969	521,698,061
Reinsurance premiums ceded	10	(74,863,961)	(110,910,241)
Excess of loss premiums ceded		(5,865,000)	(3,056,370)
Net premiums written		470,078,008	407,731,450
Changes in unearned premium	10	15,632,842	(143,259,969)
Net premium earned		485,710,850	264,471,481
Reinsurance commission	12	22,721,112	23,867,933
Other operating income		5,774,947	3,800,261
Other income		12,858,930	1,416,880
Unrealized loss on investments held for trading		(256,756)	--
Investment income		3,213,322	506,838
Total revenue		530,022,405	294,063,393
Gross claims paid		418,273,624	221,557,366
Less: Reinsurers' share of claims paid		(71,461,972)	(47,624,410)
Net claims paid		346,811,652	173,932,956
Changes in outstanding claims and reserves	25	421,692	102,150,277
Net claims incurred		347,233,344	276,083,233
Policy acquisition costs	11	54,446,487	34,390,006
Other underwriting expenses	26	9,839,741	15,122,005
Total claims and other expenses		411,519,572	325,595,244
Underwriting surplus / (deficit)		118,502,833	(31,531,851)
General and administrative expenses	27	(55,045,781)	(33,561,431)
Net surplus / (deficit) for the year from insurance operations'		63,457,052	(65,093,282)
Transferred to shareholders' operations	5.24	(57,111,347)	65,093,282
Net surplus / (deficit) for the year from insurance operations' after shareholders' appropriation		6,345,705	--
Other comprehensive income		--	--
Total comprehensive income for the year		--	--

The accompanying notes 1 to 36 form part of these financial statements.



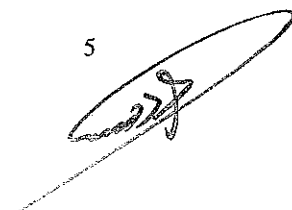
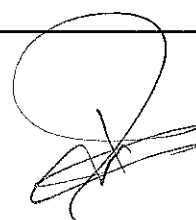
SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"
(A Saudi Joint Stock Company)
STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS
For the year ended 31 December 2016
Expressed in Saudi Arabian Riyals

	<i>Notes</i>	31 December 2016	31 December 2015
Net surplus / (deficit) transferred from insurance operations	5.24	57,111,347	(65,093,282)
Profit on sale of investments		--	2,848,437
Investment income		4,293,650	1,298,124
		61,404,997	(60,946,721)
Directors' remuneration	27	(1,140,000)	(1,140,000)
General and administrative expenses	27	(608,400)	(928,675)
Net profit / (loss) for the year		59,656,597	(63,015,396)
Basic and diluted (loss) / profit per share	28	2.91	(3.38)

The accompanying notes 1 to 36 form part of these financial statements.



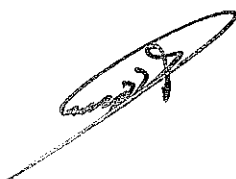
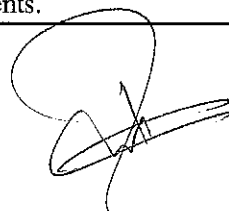
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SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS
For the year ended 31 December 2016
Expressed in Saudi Arabian Riyals

	Notes	31 December 2016	31 December 2015
Net profit / (loss) for the year		59,656,597	(63,015,396)
<i>Other comprehensive income to be reclassified subsequently to the statement of income-shareholder operation</i>			
Changes in fair value of available for sale investments	14.2	(131,414)	(245,560)
Total comprehensive income / (loss) for the year		59,525,183	(63,260,956)

The accompanying notes 1 to 36 form part of these financial statements.

SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "Wafa Insurance"

(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

Expressed in Saudi Arabian Riyals

	<u>Share capital</u>	<u>Accumulated deficit</u>	<u>Fair value reserve for available for sale investments</u>	<u>Total shareholders' equity</u>
For the year ended 31 December 2015				
Balance at 1 January 2015	100,000,000	(70,792,232)	(231,989)	28,975,779
Net loss for the year	--	(63,015,396)	--	(63,015,396)
Changes in fair value of available for sale investments (note 14.2)	--	--	(245,560)	(245,560)
Capital issue expenses	--	(3,899,521)	--	(3,899,521)
Right issue	105,000,000	--	--	105,000,000
Provision for zakat and income tax (note 23.3)	--	--	--	--
Balance as at 31 December 2015	<u>205,000,000</u>	<u>(137,707,149)</u>	<u>(477,549)</u>	<u>66,815,302</u>

For the year ended 31 December 2016

Balance at 1 January 2016	205,000,000	(137,707,149)	(477,549)	66,815,302
Net profit for the year	--	59,656,597	--	59,656,597
Changes in fair value of available for sale investments (note 14.2)	--	--	(131,414)	(131,414)
Provision for zakat and income tax (note 23.3)	--	(5,266,192)	--	(5,266,192)
Balance as at 31 December 2016	<u>205,000,000</u>	<u>(83,316,744)</u>	<u>(608,963)</u>	<u>121,074,293</u>

The accompanying notes 1 to 36 form part of these financial statements.

SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS'
For the year ended 31 December 2016
Expressed in Saudi Arabian Riyals

	<u>Note</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
OPERATING ACTIVITIES:			
Net surplus / (deficit) for the year from insurance operations' after shareholders' appropriation		6,345,705	--
<u>Adjustments for:</u>			
Profit / (loss) transferred to Shareholders' operations		57,111,347	(65,093,282)
Provision for employees' end of service benefits	20	1,669,214	354,815
Unrealized loss on investments held for trading		256,756	--
Amortization of intangibles	16.1	782,599	605,646
Depreciation	16.1	489,203	221,759
Loss on disposal of property and equipment		--	19,875
Changes in reinsurers' share of unearned premium during the year		29,190,308	(23,391,490)
Changes in unearned premiums income during the year		(44,823,150)	166,651,461
Provision for doubtful debts, net	7.1&8	11,961,826	3,585,508
		<u>62,983,808</u>	<u>82,954,292</u>
Changes in operating assets and liabilities:			
Receivable from policyholders, net		(4,139,201)	(25,863,349)
Receivable from reinsurers, net		6,317,778	(7,153,193)
Reinsurers' share of outstanding claims and reserves		(88,946,277)	(14,467,392)
Deferred policy acquisition costs		4,824,783	(14,989,298)
Prepaid expenses		409,670	141,355
Advances and other receivables		(28,049,032)	(21,653,201)
Due from shareholders		7,122,881	(45,652,157)
Reinsurers' balances payable		(13,502,240)	17,538,405
Unearned commission income		916,989	1,162,506
Outstanding claims and reserves		89,367,971	116,617,663
Accrued expenses		(2,466,102)	1,686,241
Other liabilities		(1,817,131)	6,229,095
		<u>33,023,897</u>	<u>96,550,967</u>
Employees' end of service benefits paid	20	(379,996)	(140,966)
Net cash from operating activities		<u>32,643,901</u>	<u>96,410,001</u>
INVESTING ACTIVITIES:			
Purchase of intangibles	16.1	(566,736)	(792,619)
Purchase of property and equipment	16.1	(2,176,809)	(884,376)
Capital work in progress	16	--	(92,325)
Payments for purchase of held to maturity investments		(4,298,512)	(44,000,000)
Receipts from disposal of investments		44,419,900	--
Net cash from / (used in) investing activities		<u>37,377,843</u>	<u>(45,769,320)</u>
Increase in cash and cash equivalents during the year		<u>70,021,744</u>	<u>50,640,681</u>
Cash and cash equivalents, beginning of the year		<u>57,617,704</u>	<u>6,977,023</u>
Cash and cash equivalents, end of the year	6	<u><u>127,639,448</u></u>	<u><u>57,617,704</u></u>
Non-cash supplemental information:			
Transferred from capital work in progress to property and equipment		92,325	--

The accompanying notes 1 to 36 form part of these financial statements.

SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS
For the year ended 31 December 2016
Expressed in Saudi Arabian Riyals

	<u>Note</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
OPERATING ACTIVITIES:			
Net (loss) / profit for the year before Zakat		59,656,597	(63,015,396)
<u>Adjustments for:</u>			
Profit on sale of investments		--	(2,848,437)
Investment income		--	(1,298,124)
(Surplus) / deficit transferred from insurance operations		(57,111,347)	65,093,282
		<u>2,545,250</u>	<u>(2,068,675)</u>
Changes in operating assets and liabilities:			
Advances and other receivables		(192,997)	620,555
Accrued expenses		270,500	523,500
Other liabilities		(100)	285,415
Statutory deposit investment return payable	21	298,705	161,182
Share compensation		(9,369)	11,740,992
Due to insurance operations		(7,122,881)	45,652,157
		<u>(4,210,892)</u>	<u>56,915,126</u>
Zakat and income tax paid	23.2	--	(760,513)
Net cash (used in) from operating activities		<u>(4,210,892)</u>	<u>56,154,613</u>
INVESTING ACTIVITIES:			
Return on statutory deposit	21	(298,705)	(161,182)
Statutory deposit	21	(10,150,000)	(10,500,000)
Purchase of investments		--	(167,163,193)
Disposal of investments		156,000,000	50,309,754
Net cash from / (used in) investing activities		<u>145,551,295</u>	<u>(127,514,621)</u>
FINANCING ACTIVITIES:			
Increase in share capital by way of right issue		--	105,000,000
Capital issue expenses		--	(3,899,521)
Net cash from financing activities		<u>--</u>	<u>101,100,479</u>
Increase in cash and cash equivalents during the year		<u>141,340,403</u>	<u>29,740,471</u>
Cash and cash equivalents, beginning of the year		<u>33,050,707</u>	<u>3,310,236</u>
Cash and cash equivalents, end of the year	6	<u>174,391,110</u>	<u>33,050,707</u>
Non-cash supplemental information:			
Net change in the fair value of available for sale investments		(131,414)	(245,560)

The accompanying notes 1 to 36 form part of these financial statements.

SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE “Wafa Insurance”
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Saudi Indian Company for Cooperative Insurance “Wafa Insurance” (the “Company”) is a Saudi joint stock company as sanctioned by the Royal Decree No. M60 dated 18 Ramadan 1427H corresponding to October 9, 2006 (date of inception). The Company is registered in Riyadh with the Ministry of Commerce and Industry under commercial registration No.1010236705 dated 24/7/1428H corresponding to August 7, 2007. The Company’s registered office address is Al-Maseef Dist., Northern Road between exit 5&6, PO Box: 341413, Riyadh 11333, Kingdom of Saudi Arabia.

The principal activities of the Company are to transact the cooperative insurance operations and all related activities including reinsurance and agency activities under the law of Supervision of Cooperative Insurance Companies and its by-laws and other regulations promulgated in the Kingdom of Saudi Arabia. The Company is permitted to conduct its operations in the Kingdom of Saudi Arabia.

The Company has been granted the license (number TMN/14/20086) to practice all lines of insurance business on 6 Jumada II, 1429H corresponding to September 8, 2008 from Saudi Arabian Monetary Agency (“SAMA”). SAMA renewed the operational license for a further period of three years from 6 Jumada II, 1432 H corresponding to May 9, 2011 and renewed thereafter for a further period of three years from 5 Jumada II, 1435 H corresponding to April 5, 2014. The Company commenced its general insurance operations from August 20, 2008 and protection and savings insurance operations from January 11, 2009.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia. The Company also prepare these financial statements to comply with the requirements of the provisions of the Regulations for Companies and the Company’s By-laws.

Basis of measurement

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

Increase in share capital

As at 31 December 2016 the Company has accumulated losses of SAR 83.3 million (31 December 2015: SAR 137.71 million) that is 40.6% of the share capital (31 December 2015: 67.2%). On 8 April 2015, the Company held an extraordinary general meeting of its shareholders to approve the increase in the share capital through a rights issue. Based on the approval received from the shareholders at the extraordinary general meeting, the Company has finalized the process of the capital increase and received the new capital in the bank, during the year 2015. Under the terms of the rights issue, the Company’s new capital after issue of new shares of SAR 105,000,000 is SAR 205,000,000.

Further, the Company is in a continuous process to improve its business performance in order to reduce its accumulated losses. Accordingly, the Board of Directors has considered positively the impact of increase in the share capital on the financial position and future profitability of the Company and believes that the going concern basis used for preparation of these financial statements is appropriate.

3. BASIS OF PRESENTATION

As required by the Saudi Arabian insurance regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations. Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors. Losses incurred by Insurance Operations are absorbed by Shareholders' Operations. Net surplus shall be distributed at the rate of 10% at the end of each year to the policyholders. The remaining 90% of the net surplus shall be transferred to the shareholder's income statement.

4. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements have been presented in Saudi Arabian Riyals (SAR), being the functional and presentation currency of the Company. All financial information presented has been rounded off to the nearest SAR.

5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2015 except for the adoption of the following new standards and other amendments to existing standards mentioned below which have had no significant financial impact on the financial statements of the Company on the current year or prior year and is expected to have no significant effect in future periods:

New and amended standards issued and adopted

- IFRS 14 – “Regulatory Deferral Accounts”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

Amendments to existing standards

-Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 28 – “Investments in Associates”, applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

-Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation.

5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES (Continued)

Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control

-Amendments to IAS 1 – "Presentation of Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements

That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

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

- Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 41 – "Agriculture", applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance" instead of IAS 41.

- Amendments to IAS 27 – "Separate Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

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

-IFRS 5 – "Non-current Assets Held for Sale and Discontinued Operations", amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

-IFRS 7 – "Financial Instruments: Disclosures" has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

-IAS 19 – "Employee Benefits" – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES (Continued)

-IAS 34 – “Interim Financial Reporting” – amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-referencing to the interim financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

Standards issued but not yet effective

The company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards (IFRSs) which have been published and are mandatory for compliance by the Company for the accounting years beginning on or after January 1, 2016. The Company is currently assessing their impact. Following is a brief on the new IFRSs and amendments to IFRSs effective for annual periods beginning on or after January 1, 2016.

- IFRS 9 - Financial instruments (effective on or after January 1, 2018)
- Amendments to IAS 7 - Disclosure Initiative (effective on or after January 1, 2017)
- Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses (effective on or after January 1, 2017)
- Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions (effective on or after January 1, 2018)
- IFRS 15 – Revenue from contracts with customers (effective on or after January 1, 2018)
- IFRS 16 – Leases (effective on or after January 1, 2019).

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

5.1) Use of estimates in the preparation of financial statements

The preparation of financial statements requires the use of estimates and assumptions 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 are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

a) Ultimate liability arising from claims made under insurance contracts

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

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis. The Company also uses the services of an independent actuary for the valuation of IBNR as well as premium deficiency reserves.

b) Impairment in available-for-sale equity

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 below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows

c) Impairment in insurance receivables

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

d) Fair value of financial instruments that are not quoted in an active market

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES(Continued)

e) Useful lives, residual values and depreciation method of equipment and fixture

The Company's management determines the estimated useful lives of equipment and fixture for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear

Management reviews the useful lives, residual values and depreciation method of equipment and fixture annually and future depreciation charge would be adjusted where the management believes the useful lives, residual values and depreciation method differ from previous estimates.

f) Provision for zakat

In making estimate for the current zakat payable by the Company, the management considers the applicable laws and the decisions/judgements of zakat and tax authorities on certain issues in the past.

g) Provisions for employees' end of service benefits

The liabilities relating to defined benefit plans are determined through actuarial valuation using the Projected Unit Credit Method. The method involves making assumptions about discount rates, future salary increases, mortality rates and future increase in medical costs. Due to the long-term nature of these benefits, such estimates are subject to certain uncertainties. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 20 of these financial statements.

5.2) Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash and balances with banks including call and time deposits with less than three months' maturity from the date of acquisition.

5.3) Receivable from policyholders, net

Accounts receivable are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value of the consideration received or receivable. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less provision for impairment. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of insurance operations. An allowance for impairment of receivables is established when there is objective evidence that the carrying amount will not be recoverable.

5.4) Deferred policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized on a basis consistent with the term of the related policy coverage except for marine cargo which is fully deferred for policies initiating during the last three months of the year. All other acquisition costs are recognized as an expense when incurred. Amortization is recorded in the statement of insurance operations.

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

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

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5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES (Continued)

5.5) Property and equipment and intangibles

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. These are depreciated on a straight-line basis over their expected useful lives which are summarized as follows:

	<u>Years</u>
Furniture and fixtures	10
Office equipment and other assets	4
Computer hardware	4
Computer Software	4
Motor vehicles	4

Expenditure on maintenance and repairs are expensed, while expenditure for betterment are capitalized. Assets costing less than SAR 3,000/- are depreciated at the rate of 100% in the year of acquisition. Property and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of the asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the statement of insurance operations under other general and administrative expenses. Acquired computer software's are capitalized on the basis of the costs incurred to acquire and bring to use the same. These costs are amortized on the basis of the software's expected useful life.

5.6) Investments

All investments are initially recognized at cost, being the fair value of the consideration given, including acquisition charges associated with the investment except in case of investments held at fair value through income statement (FVIS). For investments that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without any deduction for transaction costs.

a) Investments held at Fair Value through Income statement (FVIS)

Investments in this category include those investments held for trading or those designated as FVIS on initial recognition. Investments classified in this category are acquired for the purpose of selling or repurchasing in short term and are recorded at fair value.

After initial recognition, investments held at FVIS are measured at fair value. Subsequent changes in fair value are recorded in the statement of comprehensive income - insurance operations in the period in which it arises.

Special commission income and dividend income received on financial assets held as FVIS are reflected as income from FVIS financial instruments in the statement of comprehensive income - insurance operations in line with the underlying assets.

b) Available for sale investments (AFS)

Investments which are classified as AFS are subsequently measured at fair value. Available for sale investments are those investments that are neither held-to-maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any unrealized gain or loss arising from a change in its fair value is recognized directly in the statement of shareholders' comprehensive income until the investment is derecognized.

c) Held to maturity investments (HTM)

Held to maturity investments are initially recorded at cost, being fair value of consideration given. Subsequently these are measured at amortised cost (using effective interest rate) less impairment losses.

5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES (Continued)

d) 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 of financial assets are transactions that require settlement of assets within the time frame generally established by regulation or convention in the market place.

5.7) Classification of financial instruments

The Company at initial recognition determines the relevant classification of financial assets and financial liabilities based on its judgment. The classification of the financial assets and liabilities is given in note 31.6 of these financial statements.

5.8) Impairment of reinsurance and other financial assets

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

Impairment is determined as follows:

For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of shareholders' comprehensive income or statement of comprehensive income - insurance operations.

For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

5.9) Impairment of other 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).

5.10) Zakat and taxes

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged to the statement of changes in shareholders' equity. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Zakat is computed on the Saudi shareholders' share of equity and and/ or net income using the basis defined under the regulations of GAZT. Income tax is computed on the foreign shareholders' share of net income for the year. Zakat and income tax are charged to retained earnings as these are liabilities of the shareholders. Zakat and income tax are charged in full to the retained earnings.

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5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES (Continued)

5.11) Other 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 more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

5.12) Legal reserve

In accordance with the Company's Articles of Association and in compliance with Article 70 (2g) of the Implementing Regulations for Cooperative Insurance of SAMA, the Company allocates 20% of the net income each year to the legal reserve until it has built up a reserve equal to the capital. Since the Company has accumulated losses, no such provision for legal reserve has been made in current year.

5.13) Recognition of premium and reinsurance commission revenue

Gross premiums and commissions are recognized with the commencement of the insurance risks proportionally over the period of coverage. Premiums are shown before deduction of commission. The portion of premium and commission that will be earned in the future is reported as unearned premium and commission, respectively, and is deferred on a basis consistent with the term of the related policy coverage except for marine cargo which is fully deferred for policies initiating during the last three months of the year.

5.14) Investment income

Investment income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable. Income from investments is principally earned from Shariah Compliant Funds.

Commission income from short-term deposits are recognized on a time proportion basis using the effective interest rate method.

5.15) Dividend income

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

5.16) Reinsurance

The Company cedes insurance risk in the normal course of business for a portion of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision or settled claims associated with reinsurance policies and are in accordance with the reinsurance contract.

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

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES (Continued)

Gains or losses on buying reinsurance are recognised in the statement of income - insurance operations immediately at the date of purchase and are not amortised.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or 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. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party

5.17) Outstanding claims

Outstanding claims comprise the estimated cost of claims incurred but not settled at the date of statement of financial position together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims not paid as of the date of statement of financial position 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 (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date. The IBNR is calculated based on the recommendation of an independent actuary.

Any difference between the provisions at the date of the statement of financial position and settlements and provisions in the following year is included in the statement of insurance operations for that year. The outstanding claims are shown on a gross basis and the related share of reinsurance is shown separately.

5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES (Continued)

5.18) Liability adequacy test

At each statement of financial position date, the Company assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognized in the statement of insurance operations and an unexpired risk provision is created. The Company estimates these reserves based on an independent actuarial valuation.

5.19) Employees’ end of service benefits

Employees’ end of service benefits is accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labor and Workmen Law on termination of their employment contracts. 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. An independent actuary, using the projected unit credit method, carried out the valuation as at 31 December 2016.

5.20) Financial Instruments

a) Recognition, initial measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs, except for those carried at fair value through statement of income and other comprehensive income which are measured initially at fair value.

b) Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished discharged, cancelled or expired

Financial assets and financial liabilities are measured subsequently as described below.

c) Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The Company’s financial assets consist of loans and receivables and AFS.

d) Classification and subsequent measurement of financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through statement of income and other comprehensive income or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value. The Company’s financial liabilities include accounts payables and other payables, due to related parties and long term advances. The measurement of financial liabilities depends on their classification as financial liabilities at fair value through statement of income and other comprehensive income or “other financial liabilities”.

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5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES (Continued)

5.21) Offsetting

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

5.22) Operating leases

Payments made under operating leases are charged to the statements of income - insurance operations on a straight-line basis according to the terms of the rental contracts. There were no significant rental commitments at December 31, 2016.

5.23) Foreign currency transactions

The Company's books of account are maintained in Saudi Riyals which is also the functional currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the statement of financial position date. All differences are taken to the statements of insurance operations. Foreign exchange differences are not significant and have not been disclosed separately.

5.24) Surplus from insurance operations

In accordance with the requirements of the implementing regulations issued by SAMA, 90% of the net surplus from insurance operations is transferred to the statement of shareholders' operations, while 10% of the net surplus is distributed to policyholders. However, in the case of loss, SAMA has directed the Company to transfer the whole amount to the statement of shareholders' operations.

5.25) Segmental information

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 purpose, the Company is organized into business units based on their products and services. 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 (CEO) 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.

5.26) Product Classification

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

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6. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Insurance Operations:		
Cash in hand	1,562	915,818
Balance in current account(s)	66,637,886	56,701,886
Term deposit at banks(<i>note no 6.a</i>)	61,000,000	--
	<u>127,639,448</u>	<u>57,617,704</u>
Shareholders:		
Balance in current account(s)	35,391,110	33,050,707
Term deposit at banks(<i>note no 6.a</i>)	139,000,000	--
	<u>174,391,110</u>	<u>33,050,707</u>

- 6 (a) This represents investment in murahaba term deposit having maturity of not more than three months at a rate of interest ranging between 1% to 3.4% per annum (2015: Nil).

7. RECEIVABLE FROM POLICYHOLDERS, NET

	31 December 2016	31 December 2015
Gross receivables arising from insurance contracts	105,468,905	98,645,936
Less: Provision for doubtful debts (<i>note 7.1</i>)	(23,485,868)	(8,840,275)
Net receivables	<u>81,983,037</u>	<u>89,805,661</u>

- 7.1 The movement in the provision for doubtful debts of premium receivables is as follows:

	31 December 2016	31 December 2015
Opening balance	8,840,275	8,023,145
Charge during the year	14,645,593	817,130
Closing balance	<u>23,485,868</u>	<u>8,840,275</u>

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7. RECEIVABLE FROM POLICYHOLDERS, NET(Continued)

As at December 31, the ageing of receivable from policyholders is as follows:

	<i>Neither past due nor impaired</i>	<i>Past due and impaired</i>			<i>Total</i>
		<i>91 – 180 Days</i>	<i>181 – 365 Days</i>	<i>More than 365 days</i>	
	<i>SAR</i>	<i>SAR</i>	<i>SAR</i>	<i>SAR</i>	<i>SAR</i>
2016					
Gross receivable	73,184,435	10,351,296	7,975,322	13,957,852	105,468,905
Provision for doubtful receivables	--	(1,552,694)	(7,975,322)	(13,957,852)	(23,485,868)
Net receivables	73,184,435	8,798,602	--	--	81,983,037
2015					
Gross receivable	71,602,426	11,644,122	8,911,770	6,487,618	98,645,936
Provision for doubtful receivables	--	(1,746,618)	(2,227,943)	(4,865,714)	(8,840,275)
Net receivables	71,602,426	9,897,504	6,683,827	1,621,904	89,805,661

The Company classifies balances as "past due and impaired" on case by case basis and an impairment adjustment is recorded in the statement of insurance operations.

8. RECEIVABLE FROM REINSURERS, NET

	31 December 2016	31 December 2015
Gross receivables	4,474,159	10,844,365
Less: provision for doubtful debts (note 8.1)	(84,611)	(2,768,378)
Net receivables	4,389,548	8,075,987

8.1 The movement in the provision for doubtful debts of reinsurance receivables is as follows:

	31 December 2016	31 December 2015
Opening balance	2,768,378	--
Charge during the year	--	2,768,378
Reversed during the year	(2,683,767)	--
Closing balance	84,611	2,768,378

9. OUTSTANDING CLAIMS AND RESERVES

	31 December 2016	31 December 2015
Gross outstanding claims and reserves:		
Claims reported unsettled	108,345,366	38,716,395
Claims incurred but not reported (IBNR)	128,724,000	84,922,000
Premium deficiency, catastrophe and other reserve	20,838,000	44,901,000
Total	257,907,366	168,539,395
Reinsurers' share of outstanding claims and reserves:		
Claims reported unsettled	117,262,905	23,808,628
Claims incurred but not reported (IBNR)	8,135,000	12,643,000
Total	125,397,905	36,451,628

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9. OUTSTANDING CLAIMS AND RESERVES (Continued)

	31 December 2016	31 December 2015
Net outstanding claims and reserves:		
Claims reported unsettled	(8,917,539)	14,907,767
Claims incurred but not reported (IBNR)	120,589,000	72,279,000
Premium deficiency, catastrophe and other reserve	20,838,000	44,901,000
	<u>132,509,461</u>	<u>132,087,767</u>

9.1 Claims development table

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

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company will 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.

<u>2016</u> Accident year	2013 & earlier	2014	2015	2016	Total
Estimate of ultimate claims cost:					
At the end of accident year	379,030,215	132,188,714	288,405,575	550,947,017	1,350,571,521
One year later	364,624,843	133,362,694	260,538,113		--
Two years later	375,288,373	132,374,758	--		--
Three years later	369,962,949	--	--		--
Current estimate of cumulative claims	369,962,949	132,374,758	260,538,113	550,947,017	1,313,822,837
Cumulative payments to date	367,817,120	130,138,215	243,012,239	327,948,454	1,068,916,028
Liability recognized in statement of financial position	2,145,829	2,236,543	17,525,874	222,998,563	244,906,809
PDR and other reserves					13,000,557
Total liability included in statement of financial position					<u>257,907,366</u>

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9.2 Claims development table (Continued)

<u>2015</u>					
Accident year	2012 & earlier	2013	2014	2015	Total
Estimate of ultimate claims cost:					
At the end of accident year	265,497,338	113,532,877	132,188,714	288,405,575	799,624,504
One year later	246,337,421	118,287,422	133,362,694		--
Two years later	252,305,309	122,983,064	--		--
Three years later	245,654,926	--	--		--
Current estimate of cumulative claims	245,654,926	122,983,064	133,362,694	288,405,575	790,406,259
Cumulative payments to date	243,797,969	119,578,239	122,420,272	176,748,384	662,544,864
Liability recognized in statement of financial position	1,856,957	3,404,825	10,942,422	111,657,191	127,861,395
PDR and other reserves					40,678,000
Total liability included in statement of financial position					168,539,395

The Company commenced its general insurance operations from August 20, 2008 and protection and savings insurance operations from January 11, 2009.

10. MOVEMENT IN UNEARNED PREMIUM

	31 December 2016		
	Gross	Reinsurers' share	Net
Balance at the beginning of the year	269,981,719	(55,953,021)	214,028,698
Premiums written during the year	550,806,969	(74,863,961)	475,943,008
Premiums earned during the year	(595,630,119)	104,054,269	(491,575,850)
Balance at the end of the year	225,158,569	(26,762,713)	198,395,856
	31 December 2015		
	Gross	Reinsurers' share	Net
Balance at the beginning of the year	103,330,258	(32,561,531)	70,768,727
Premiums written during the year	521,698,061	(110,910,241)	410,787,820
Premiums earned during the year	(355,046,600)	87,518,751	(267,527,849)
Balance at the end of the year	269,981,719	(55,953,021)	214,028,698

11. DEFERRED POLICY ACQUISITION COSTS

	2016	2015
Balance at beginning of the year	24,903,382	9,914,085
Policy acquisition costs incurred during the year	49,621,704	49,379,303
Policy acquisition costs amortized for the year	(54,446,487)	(34,390,006)
Balance at the end of the year	20,078,599	24,903,382

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12. UNEARNED REINSURANCE COMMISSION INCOME

	31 December 2016	31 December 2015
Balance at the beginning of the year	2,407,562	1,245,056
Re-insurance commission income received during the year	23,638,101	25,030,439
Re-insurance commission income earned during the year	(22,721,112)	(23,867,933)
Balance at the end of the year	3,324,551	2,407,562

13. PREPAID EXPENSES

Prepaid expenses comprised the following:

	31 December 2016	31 December 2015
Prepaid rent	967,154	927,958
IT related prepayments	77,143	696,485
Prepaid regulatory and other fee	21,893	26,800
Prepaid medical insurance	275,068	85,172
Others	1,455	15,967
	1,342,713	1,752,382

14. INVESTMENTS

		31 December 2016	
		<i>Insurance Operations</i>	<i>Shareholders</i>
Available for sale			
Unquoted securities	14.1	1,923,078	---
Shariah compliant funds-quoted	14.2	--	4,391,036
Held to maturity			
Shariah compliant murahaba term deposit	14.3	--	--
Held for trading			
Quoted securities	14.4	1,082,840	
		3,005,918	4,391,036
		31 December 2015	
		<i>Insurance Operations</i>	<i>Shareholders</i>
Available for sale			
Unquoted securities	14.1	1,923,078	---
Shariah compliant funds-quoted	14.2	--	4,522,450
Held to maturity			
Shariah compliant murahaba term deposit	14.3	44,000,000	156,000,000
		45,923,078	160,522,450

14.1 This represents investment in shares of Najm for insurance services amounting to SAR 1,923,078 (December 2015: SAR 1,923,078).

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14.2 Shariah compliant fund

	31 December 2016	31 December 2015
Opening as at 01 January 2016	4,522,450	4,768,010
Unrealised loss during the year	(131,414)	(245,560)
Closing balance	4,391,036	4,522,450

14.3 This represents investment in Murahaba amounting to SAR Nil {(December 2015: SAR 44,000,000 (Insurance operations) and SAR 156,000,000 (Shareholder operations))}.

14.4 This represents investment in quoted shares amounting to SAR 1,082,840 (December 2015: Nil).

15. ADVANCES AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Insurance Operations:		
Profit Commission receivable from reinsurer	31,461,730	17,768,509
Withholding tax receivable from reinsurer	6,211,335	887,234
Accrued manafeth income	3,312,345	1,539,102
Receivables from Globe Med	15,761,109	7,242,687
Advance to actuary	--	478,125
Advances to hospitals	--	250,000
Advance to employees	489,883	208,591
Dividend receivable	46,625	384,616
Others	282,820	757,951
	57,565,847	29,516,815
	31 December 2016	31 December 2015
Shareholders' Operations:		
Other receivables	584,943	391,946

16. PROPERTY AND EQUIPMENT AND INTANGIBLES - NET

		31 December 2016	31 December 2015
Owned assets – property and equipment, net	16.1	2,751,710	1,064,104
Owned assets – intangible, net	16.1	935,219	1,151,082
Capital work in progress		--	92,325
		3,686,929	2,307,511

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16.1 PROPERTY AND EQUIPMENT AND INTANGIBLES- NET (Continued)

	Property and equipment				Intangible assets		
	2016						
	Computer Hardware	Furniture and fixtures	Motor vehicles	Office equipment & other assets	Total	Software	Total
Cost:							
At 1 January 2016	2,196,836	1,230,634	273,300	476,543	4,177,313	7,492,887	11,670,200
Additions	951,871	765,593	--	459,345	2,176,809	566,736	2,743,545
Disposals	--	--	--	--	--	--	--
At 31 December 2016	<u>3,148,707</u>	<u>1,996,227</u>	<u>273,300</u>	<u>935,888</u>	<u>6,354,122</u>	<u>8,059,623</u>	<u>14,413,745</u>
Accumulated depreciation and amortization:							
At 1 January 2016	1,705,125	731,521	273,300	403,263	3,113,209	6,341,805	9,455,014
Charge for the year	287,598	120,211	--	81,394	489,203	782,599	1,271,802
Disposal	--	--	--	--	--	--	--
At 31 December 2016	<u>1,992,723</u>	<u>851,732</u>	<u>273,300</u>	<u>484,657</u>	<u>3,602,412</u>	<u>7,124,404</u>	<u>10,726,816</u>
Net book value							
31 December 2016	<u>1,155,984</u>	<u>1,144,495</u>	<u>--</u>	<u>451,231</u>	<u>2,751,710</u>	<u>935,219</u>	<u>3,686,929</u>

	Property and equipment				Intangible assets		
	2015						
	Computer Hardware	Furniture and fixtures	Motor vehicles	Office equipment & other assets	Total	Software	Total
Cost:							
At 1 January 2015	1,767,923	861,138	932,700	518,832	4,080,593	6,700,268	10,780,861
Additions	471,331	369,496	--	43,549	884,376	792,619	1,676,995
Disposals	(42,418)	--	(659,400)	(85,838)	(787,656)	--	(787,656)
At 31 December 2015	<u>2,196,836</u>	<u>1,230,634</u>	<u>273,300</u>	<u>476,543</u>	<u>4,177,313</u>	<u>7,492,887</u>	<u>11,670,200</u>
Accumulated depreciation and amortization:							
At 1 January 2015	1,645,126	637,567	932,700	443,838	3,659,231	5,736,159	9,395,390
Charge for the year	69,887	114,954	(4,929)	41,847	221,759	605,646	827,405
Disposal	(9,888)	(21,000)	(654,471)	(82,422)	(767,781)	--	(767,781)
At 31 December 2015	<u>1,705,125</u>	<u>731,521</u>	<u>273,300</u>	<u>403,263</u>	<u>3,113,209</u>	<u>6,341,805</u>	<u>9,455,014</u>
Net book value							
31 December 2015	<u>491,711</u>	<u>499,113</u>	<u>--</u>	<u>73,280</u>	<u>1,064,104</u>	<u>1,151,082</u>	<u>2,215,186</u>

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17. MATHEMATICAL PROVISION FOR LIFE INSURANCE OPERATIONS

The mathematical provision for life insurance contracts at December 31, 2016 were certified by an independent actuary, whose report states that the mathematical provisions are computed in a manner that conforms to the appropriate actuarial standards of practice and meet adequately the Company's liabilities arising from its entire life insurance business cycle.

The movement in the mathematical provision during the year is as follows:

	31 December 2016	31 December 2015
Balance at 1 January	1,516,730	1,516,730
Additional provision during the year	--	--
Balance at 31 December	<u>1,516,730</u>	<u>1,516,730</u>

18. ACCRUED EXPENSES

	31 December 2016	31 December 2015
Insurance Operations:		
Professional fees	284,966	50,010
CCHI fee	201,009	2,045,954
SAMA fee	459,245	796,003
Others	78,875	598,230
	<u>1,024,095</u>	<u>3,490,197</u>
	31 December 2016	31 December 2015
Shareholders' Operations:		
Chairman and Directors' remuneration	2,146,380	1,921,157
Board attendance and sitting fees	439,620	394,343
	<u>2,586,000</u>	<u>2,315,500</u>

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19. OTHER LIABILITIES

	31 December 2016	31 December 2015
Insurance Operations:		
Sundry creditors and stale cheques	4,473,058	3,231,813
Brokerage payable	2,914,983	5,563,670
Others	97,661	507,350
	<u>7,485,702</u>	<u>9,302,833</u>
	31 December 2016	31 December 2015
Shareholders' Operations:		
Withholding tax payable	285,315	285,415
Sundry creditors (19.1)	1,159,922	861,217
	<u>1,445,237</u>	<u>1,146,632</u>

19.1 Sundry creditors in shareholders' operations represents the profit accrued on the statutory deposit (refer to note 21).

20. EMPLOYEES' END OF SERVICE BENEFITS

	31 December 2016	31 December 2015
Defined benefit obligation as at 1 January	1,656,047	1,442,198
Charged during the year	1,669,214	354,815
Payment during the year	(379,996)	(140,966)
Defined benefit obligation as at 31 December	<u>2,945,265</u>	<u>1,656,047</u>

During the year the Company has carried out actuarial valuation using projected unit credit method for its liability related to employees' end of service benefits. The liability has been increased by SAR 0.63 million and effects has been recorded in current year.

20.1 PRINCIPAL ACTUARIAL ASSUMPTIONS

31 December 2016

Financial assumptions

- Estimated rate of increase in salary of the employees

5%

- Discount rate

2%

Demographic assumptions

- Mortality

80% of AM80 table

- Withdrawal from service rate

15%

- Disability rate

25%*Mortality

- Retirement age

60 years

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20.2 DEFINED BENEFIT OBLIGATION SENSITIVITY ANALYSIS

SENSITIVITY ANALYSIS	CHANGE IN ASSUMPTION	DEFINED BENEFIT OBLIGATION	IMPACT ON OVERALL LIABILITY	% CHANGE
BASELINE SCENARIO		2,945,265		
Net discount rate	Increase by 0.5%	2,826,015	Decrease by	-4.05%
Net discount rate	Decrease by 0.5%	3,037,413	Increase by	4.35%
Salary increase rate	Increase by 1.0%	3,198,489	Increase by	8.60%
Salary increase rate	Decrease by 1.0%	2,720,789	Decrease by	-7.62%
Resignation rate	Increase by 1.0%	2,840,107	Decrease by	-3.57%
Resignation rate	Decrease by 1.0%	3,060,618	Increase by	3.92%
Mortality rate	Increase by 1 year	2,944,412	Decrease by	-0.03%

21. STATUTORY DEPOSIT

In accordance with Article 58 of the Implementing Regulations for Cooperative Insurance, the Company has deposited an amount of SAR 30,750,000 (31 December 2015: SAR 20,600,000) with Riyadh Bank. During the period statutory deposit was increased from 10% to 15% of share capital in order to comply with SAMA letter no 371000070032 dated 30th March 2016. However, the Company is not allowed to withdraw any portion of the original deposit or the profit unless prior approval is obtained from SAMA. Profit accrued of SAR 1,159,922 (31 December 2015: SAR 861,217) and the corresponding liability have been shown separately.

22. DUE FROM SHAREHOLDERS' OPERATIONS

The movement in amount due from shareholders' operations to the insurance operation is as follows:

	31 December 2016	31 December 2015
Balance at 1 January	133,752,723	23,007,283
Balance transferred to Insurance operations	--	--
Capital raise expense	--	3,899,521
Statutory deposit	2,857,530	10,500,000
CMA penalty	--	120,000
Tadawul Fee	360,000	472,300
Board remuneration payment	1,121,500	850,500
Investments	(11,476,636)	28,947,299
Zakat Payment	--	760,513
Directors travelling and Board meeting expenses	14,725	102,025
	<u>126,629,842</u>	<u>68,659,441</u>
Share of (surplus) / deficit from insurance operations	(57,111,347)	65,093,282
Reversal of profit transferred from shareholder operations		
Balance at December 31	<u>69,518,495</u>	<u>133,752,723</u>

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23. ZAKAT AND INCOME TAX

The zakat and income tax charge for the year consists of the current year's provision amounting to SAR 5,266,192 (2015: SAR Nil). The zakat provision is based on Saudi Shareholders' share of capital at 83.07% (2015: 84.88%). The tax provision is based on Non-Saudi Shareholders' share of capital at 16.93% (2015: 15.12%)

23.1 Zakat base summary is as follows:

	31 December 2016	31 December 2015
Shareholders' equity at beginning of year	205,000,000	100,000,000
Accumulated deficit at beginning of year, as adjusted for non-deductible items	(137,707,148)	(70,792,232)
Provisions	10,200,936	9,324,376
Net profit / (loss) for the year, as adjusted for Non - deductible items	72,977,048	(59,295,359)
Investments	--	(23,384,295)
Property and equipment – net	(5,933,532)	(4,954,580)
Total	144,537,304	(49,102,090)
 Zakat base for Saudi shareholders at 83.07%	 120,067,139	 (41,677,854)
 Zakat at 2.5%	 3,001,678	 --

Zakat is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to the Saudi shareholders.

23.2 Income tax

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

	31 December 2016	31 December 2015
Net income for the year	59,656,597	(63,015,396)
Add: Inadmissible expenses	13,320,451	3,720,037
Less : Admissible expenses	(3,063,763)	(140,966)
Adjustment of brought forward losses	(18,244,262)	--
Adjusted income	51,669,023	(59,436,325)
 Adjusted income attributed to non-Saudi shareholders at 16.93%	 8,747,566	 (8,986,772)
 Provision for income tax (20%)	 1,749,513	 --

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23. COMPONENTS OF ZAKAT BASE (Continued)

23.3 Provision for zakat and tax

	31 December 2016	31 December 2015
Balance at 1 January	(344,829)	415,684
Provision during the year	5,266,192	--
Payments during the year	--	(760,513)
Balance at 31 December	<u>4,921,363</u>	<u>(344,829)</u>

23.3.1 Zakat and tax assessment status

The Company has filed zakat and tax return with the General Authority for Zakat and Tax (GAZT) for the year 2015 and an additional liability of SAR 515,000 has been raised by GAZT, which has been provided for.

23.4 Temporary and permanent differences and other matters

Temporary and permanent differences principally comprise of adjustment for depreciation, provisions and other items under the income tax regulations. Deferred tax arising out of temporary differences was not significant, and accordingly, was not recorded as of December 31, 2016 and 2015.

Deferred tax asset arising out of carry forward losses is not recognized as the future recoverability of such tax benefit is uncertain at year-end.

24. SHARE CAPITAL

	31 December 2016	31 December 2015
Authorised:		
20,500,000 (2015: 20,500,000) shares of SAR 10 each	<u>205,000,000</u>	<u>205,000,000</u>
Allotted, issued and fully paid		
20,500,000 (2015: 20,500,000) shares of SAR 10 each	<u>205,000,000</u>	<u>205,000,000</u>

During 2015, the Board of Directors recommended an increase in the Company's share capital through offering a rights issue with a total value of SAR 105 million. The Company's application to increase its share capital was approved by Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority (CMA). The Shareholders approved the rights issue in their Extraordinary General Assembly held on April 08, 2015 corresponding to 19 Jumada II 1436.

At 31 December 2016, the share capital of the Company was held by the following shareholders:

	Percentage	No. of shares
The New India Assurance Co. Ltd	5.17%	1,060,000
Life Insurance Corporation of India	4.975%	1,020,000
LIC (International) BSC	4.975%	1,020,000
Local shareholders and general public	84.88%	17,400,000
	<u>100%</u>	<u>20,500,000</u>

- 24.1** The share compensation belongs to share holders who have not subscribed to the rights issue. Since the selling price of the unsubscribed shares is higher than the 'Offer Price', the difference is distributable in compensation to holders of rights who have not subscribed to their rights according to the percentage of the rights owned by them.

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25. CHANGES IN OUTSTANDING CLAIMS AND RESERVES

	31 December 2016	31 December 2015
Changes in premium deficiency & other reserves	(24,063,000)	42,076,000
Changes in IBNR	48,310,000	57,671,000
Changes in outstanding claims	(23,825,308)	2,403,277
	<u>421,692</u>	<u>102,150,277</u>

26. OTHER UNDERWRITING EXPENSES

	31 December 2016	31 December 2015
CCHI fees at 1% of gross health premium	888,010	2,166,879
Third Party Administrator (TPA) charges	4,912,223	10,365,266
SAMA fees at 0.5% of gross written premium	2,593,941	2,507,610
Medical, motor cards and others	1,445,567	82,250
	<u>9,839,741</u>	<u>15,122,005</u>

27. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	31 December 2016	31 December 2015
Insurance Operations:			
Operating and administrative salaries and benefits		29,992,902	20,419,587
Rent		2,104,931	1,819,626
Repair and maintenance		395,494	486,773
Depreciation and amortization	16	1,271,802	827,405
Professional fees		2,335,821	1,732,391
Travel expenses		468,197	418,521
Car maintenance		1,440	9,260
Office supplies and printing and stationery		779,001	426,609
Provision for doubtful debts	7.1 & 8	11,961,826	3,585,508
IT expenses		3,052,931	2,014,548
Penalties		150,004	66,594
Other expenses		2,531,432	1,754,609
		<u>55,045,781</u>	<u>33,561,431</u>

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27. GENERAL & ADMINISTRATIVE EXPENSES (Continued)

	31 December 2016	31 December 2015
Shareholders' Operations:		
Directors remuneration	1,140,000	1,140,000
Sitting Fees to Board and Committees	234,000	234,000
Tadawul fee	360,000	472,300
Directors travelling & other expenses	14,400	222,375
Total expenses	608,400	928,675

28. BASIC AND DILUTED LOSS PER SHARE

	31 December 2016	31 December 2015
Net (loss) /profit for the year before Zakat	59,656,597	(63,015,396)
Weighted average number of shares in issue throughout the year	20,500,000	18,660,070
Basic and diluted (loss)/ earnings per share	2.91	(3.38)

As a result of rights issue, during the year ended December 31 2015, the Company issued 10.5 million new shares of SAR 10 each at par. The resulting capital is SAR 205 million, comprising 20.5 million shares of SAR 10 each.

Basic and diluted (loss) / earnings per share for the year ended 31 December 2016 and 31 December 2015 have been computed by dividing the net income for the relevant years by the weighted average number of issued outstanding shares for the year ended 31 December 2016 and 31 December 2015 respectively. The relevant averages are 20,500,000 for the year ended December 31, 2016 and 18,660,070 for the year ended December 31, 2015.

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29. RELATED PARTY TRANSACTIONS AND BALANCES

Related party	Nature of transaction	Note	Amount of transaction		Balances	
			31 December 2016	31 December 2015	31 December 2016	31 December 2015
The New India Assurance Company Limited (Shareholder)	- Reinsurance premium ceded		1,491,997	2,064,516	--	--
	- Reinsurance commission		365,127	500,953	--	--
	- Reinsurer's share of outstanding claims		448,836	514,071	--	--
	-Balance receivable		--	--	1,722,908	1,956,777
	-Share compensation balance payable		--	--	5,932,155	5,932,155
Life Insurance Corporation of INDIA (Shareholder)	-Share compensation balance payable		--	--	5,708,300	5,708,300
Life Insurance Corporation (International) BSC (Shareholder)	-Share compensation		--	5,422,885	--	--
Trust Broker (Ex-Board Director is GM in trust broker)	-Premium for policies written		26,688,251	16,678,548	--	--
	-Commission		3,593,225	732,383	--	--
	Balance receivable		--	--	1,057,830	812,378
Mubarak (Common Director)	-Premium for policies written		713,595	1,516,495	--	--
	-Balance receivable		--	--	1,073,890	725,695
Actuscope (Ex-Chairman is partner in Actuscope)	-Actuarial Services		1,010,000	597,500	--	--
	-Balance payable		--	--	99,966	--
Saleh Abdullah Saleh Alhenaki (Ex- Board Chairman)	-Premium for policies written		26,046	23,667	--	--
Mohammed Abdullah Mohammed Al Areefi (Ex- Board Director)	-Premium for policies written		7,362	82,803	--	--
Directors and Sub Committees	-Remuneration	12	1,140,000	1,140,000	--	--
	-Balance payable	18	--	--	2,146,380	1,921,157
Directors and Sub Committees	-Meeting attendance fee		234,000	234,000	--	--
	-Balance payable	18	--	--	439,620	394,343

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30. INSURANCE RISKS

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 are 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.

Sensitivities

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

December 31, 2016	Change in assumptions	Impact on liabilities	Impact on net profit
Claim ratio	+5%	24,285,543	24,285,543
	-5%	(24,285,543)	(24,285,543)
December 31, 2015	Change in assumptions	Impact on liabilities	Impact on net loss
Claim ratio	+5%	13,223,574	13,223,574
	-5%	(13,223,574)	(13,223,574)

Reinsurance risk

Similar to other insurance companies, 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. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under proportional treaties such as quota share with surplus and non-proportional treaties such as excess of loss.

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.

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 reinsurance as at December 31, 2016 by SAR 125.39 million (2015: SAR 36.45 million)

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the statement of financial position include financial assets, financial liabilities, reinsurance assets and insurance liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

31.1 Capital risk management

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements as set out in the Law on the Supervision of Cooperative Insurance Companies (“Insurance Law”). The Company's current paid up capital is in accordance with Article 3 of the Insurance Law;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In the Kingdom of Saudi Arabia solvency regulations and the minimum capital requirements are set and regulated by the Saudi Arabian Monetary Agency (“SAMA”). Also refer note 2 to these financial statements.

31.2 Market price risk

Market price risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk with respect to its investments in quoted securities held by it directly. The Company limits market risk by actively monitoring the key factors that affect stock and the market movements, including analysis of the operational and financial performance of the investee.

A 5% change in the prices of the quoted securities, with all other variables held constant, would impact shareholder's equity by SAR 219,552 (2015: SAR 226,123) in shareholder operations and by SAR 54,142 (2015: SAR Nil) in insurance operations.

31.3 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument may fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals. Management believes that the currency risk is not material.

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

31.4 Credit risk

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Company. For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

10.5% (2015: 10.69%) of the Company's receivables are due from one broker as at December 31, 2016.

Key areas where the Company is exposed to credit risk are:

- Re-insurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders; and
- Amounts due from insurance intermediaries.

The Company has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst counterparties.

Reinsurance is used to manage insurance risk. The credit worthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company.

The credit risk on liquid funds is limited because most of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Ongoing credit evaluation is performed on the financial condition of the insurance receivables.

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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31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

31.4 Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the financial position as at 31 December:

	Notes	31 December 2016	31 December 2015
Insurance Operations' Assets			
Cash and cash equivalents	6	127,637,886	56,701,886
Receivable from policy holder, net	7	81,983,037	89,805,661
Receivable from reinsurer's, net	8	4,389,548	8,075,987
Reinsurers' share of outstanding claims	9	117,262,905	23,808,628
Investments	14	3,005,918	45,923,078
Advances and other receivables	15	57,565,847	29,516,815
Due from shareholders' operations	22	69,518,495	133,752,723
Total		<u>461,363,636</u>	<u>387,584,778</u>
		31 December 2016	31 December 2015
Shareholders' Assets			
Cash and cash equivalents	6	174,391,110	33,050,707
Investments	14	4,391,037	160,522,450
Advances and other receivables	15	584,943	391,946
Return on statutory deposit	21	1,159,922	861,217
Statutory deposit	21	30,750,000	20,600,000
Total		<u>211,277,012</u>	<u>215,426,320</u>

31.5 Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on regular basis that sufficient funds are available to meet any future commitments as well as obtaining continued financial support from shareholders (if needed). A significant amount of funds are invested in term deposits with local banks.

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31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

31.6 Maturity profile

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

Assets	Notes	31 December 2016			31 December 2015		
		Current	Non-current	Total	Current	Non-current	Total
Insurance Operations:							
Cash and cash equivalents	6	127,639,448	--	127,639,448	57,617,707	--	57,617,707
Receivables from policy holder, net	7	81,983,037	--	81,983,037	89,805,661	--	89,805,661
Receivable from reinsurer's, net	8	4,389,548	--	4,389,548	8,075,987	--	8,075,987
Reinsurers' share of outstanding claims	9	117,262,905	--	117,262,905	23,808,628	--	23,808,628
Investments	14	1,082,840	1,923,078	3,005,918	44,000,000	1,923,078	45,923,078
Advance and other receivables	15	57,565,847	--	57,565,847	29,516,815	--	29,516,815
Due from shareholders' operations	22	69,518,495	--	69,518,495	133,752,723	--	133,752,723
		459,442,120	1,923,078	461,365,198	386,577,521	1,923,078	388,500,599
Shareholders Operations:							
Cash and cash equivalents	6	174,391,110	--	174,391,110	33,050,707	--	33,050,707
Investments	14	4,391,036	--	4,391,036	160,522,450	--	160,522,450
Advance and other receivables	15	584,943	--	584,943	391,946	--	391,946
Return on statutory deposit	21	--	1,159,922	1,159,922	--	861,217	861,217
Statutory deposit	21	--	30,750,000	30,750,000	--	20,600,000	20,600,000
Total		638,809,209	33,833,000	672,642,209	580,542,624	23,384,295	603,926,919

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31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

31.6 Maturity profile (Continued)

Liabilities	Notes	31 December 2016			31 December 2015		
		Current	Non-current	Total	Current	Non-current	Total
Insurance Operations:							
Reinsurers' balance payable		15,663,169	--	15,663,169	29,165,409	--	29,165,409
Gross outstanding claims	9	108,345,366	--	108,345,366	38,716,395	--	38,716,395
Accrued expenses	18	1,024,095	--	1,024,095	3,490,197	--	3,490,197
Other liabilities	19	7,485,702	--	7,485,702	9,302,833	--	9,302,833
		132,518,332	--	132,518,332	80,674,834	--	80,674,834
Shareholders Operations:							
Accrued expenses	18	2,586,000	--	2,586,000	2,315,500	--	2,315,500
Share compensation	24	11,731,623	--	11,731,623	11,740,992	--	11,740,992
Statutory deposit investment return payable	21	--	1,159,922	1,159,922	--	861,217	861,217
Other liabilities	19	285,315	--	285,315	285,415	--	285,415
Due to insurance operations	22	69,518,495	--	69,518,495	133,752,723	--	133,752,723
Total		216,639,765	1,159,922	217,799,687	228,769,464	861,217	229,630,681

31.7 Special commission rate risk

Special commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments.

The Company, from time to time, is exposed to special commission rate risk on its investments in discretionary managed and money market portfolios which has underlying investments in money market instruments. However, as the Company is merely an investor in these portfolios, it is not able to reliably predict the sensitivity of its income to reasonable possible changes in the underlying commission rates affecting the funds in which it invests. The company did not have any instruments during 2016 (2015: Nil) which attracted any special commission.

31.8 Geographical concentration of risk

All of the Company's insurance risks related to insurance policies are written in the Kingdom of Saudi Arabia.

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31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

31.9 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The fair values of recognized financial instruments are not significantly different from the carrying values included in the 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: Quoted market prices in active market for the identical instrument (i.e., without modification or adjustment);

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

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

The table below presents the financial instruments at their fair values as of 31 December 2016 based on the fair value hierarchy:

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets				
- Insurance operations	1,082,840	--	1,923,078	3,005,918
- Shareholders' operations	4,391,036	--	--	4,391,036
Total	5,473,876	--	1,923,078	7,396,954

31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets				
- Insurance operations	--	--	45,923,078	45,923,078
- Shareholders' operations	4,522,451	--	156,000,000	160,522,451
Total	4,522,451	--	201,923,078	206,445,529

The unlisted securities amounting to SAR 1,923,078 (31 December 2015: SAR 201,923,078) are stated at cost in the absence of active markets or other means of reliably measuring their fair value. For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

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32. CREDIT QUALITY OF INVESTMENTS

Investments	31 December 2016	Rating	31 December 2015	Rating
Insurance Operations:				
<i>Available for sale</i>				
Equity	1,923,078	Unrated	1,923,078	Unrated
<i>Held to maturity</i>				
Shariah compliant murahaba term deposit	--	Unrated	44,000,000	Unrated
<i>Held for trading</i>				
Quoted securities	1,082,840	Unrated	--	--
	<u>3,005,918</u>		<u>45,923,078</u>	
Shareholders' Operations:				
Statutory deposit – Riyadh Bank	31,909,922	A+	21,461,217	A+
<i>Available for sale</i>				
Sharia Compliant Fund - Adeem Capital	4,391,036	Unrated	4,522,451	Unrated
	<u>36,300,958</u>		<u>25,983,668</u>	
<i>Held to maturity</i>				
Shariah compliant murahaba term deposit	--	Unrated	156,000,000	Unrated
	<u>36,300,958</u>		<u>181,983,668</u>	

The ratings have been obtained from the external rating agencies.

33. CONTINGENCIES AND COMMITMENTS

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

34. SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, business 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' cash and cash equivalents, receivables, prepaid expenses, investments, advances and other receivables, due from shareholders' operations and property and equipment. Accordingly, they are included in unallocated assets.

Segment liabilities do not include reinsurers' balances payable, unearned commission income, employees' end of service benefits, accrued expenses and other liabilities. Accordingly, they are included in unallocated liabilities. These unallocated assets and liabilities are not reported to chief operating decision maker under the related segments and are monitored on a centralized basis.

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34. SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2016

	<u>Motor</u>	<u>Health</u>	<u>Others</u>	<u>Total</u>
Gross premiums written	416,326,589	88,798,255	45,682,125	550,806,969
Reinsurance premiums ceded	--	(33,136,478)	(41,727,483)	(74,863,961)
Excess of loss premiums	(5,353,000)	--	(512,000)	(5,865,000)
Net premiums written	410,973,589	55,661,777	3,442,642	470,078,008
Changes in unearned premiums, net	(29,672,609)	44,254,625	1,050,826	15,632,842
Net premiums earned	381,300,980	99,916,402	4,493,468	485,710,850
Reinsurance commission income	--	13,693,221	9,027,891	22,721,112
Other operating income	5,774,947	--	--	5,774,947
Other income	3,858,930	9,000,000	--	12,858,930
Unrealized loss on investments held for trading	--	--	(256,756)	(256,756)
Investment income	--	--	3,213,322	3,213,322
Total revenue	390,934,857	122,609,623	16,477,925	530,022,405
Gross claims paid	303,237,164	101,972,911	13,063,549	418,273,624
Less: reinsurers' share of claims paid	(3,852,420)	(56,104,511)	(11,505,041)	(71,461,972)
Net claims paid	299,384,744	45,868,400	1,558,508	346,811,652
Changes in premiums deficiency and other reserves	(24,039,000)	345,000	(369,000)	(24,063,000)
Changes in IBNR reserve	51,946,000	(3,489,000)	(147,000)	48,310,000
Changes in outstanding claims	(23,976,216)	(843,595)	994,503	(23,825,308)
Net claims incurred	303,315,528	41,880,805	2,037,011	347,233,344
Policy acquisition costs	33,318,135	15,210,503	5,917,849	54,446,487
Other underwriting expenses	3,175,065	6,464,477	200,199	9,839,741
Total claims and other expenses	339,808,728	63,555,785	8,155,059	411,519,572
Surplus from insurance operation	51,126,129	59,053,838	8,322,866	118,502,833
General and administrative expenses	--	--	--	(55,045,781)
Net surplus for the period from insurance operations'				63,457,052

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34. SEGMENTAL INFORMATION (Continued)

As at 31 December 2016

	<u>Motor</u>	<u>Health</u>	<u>Others</u>	<u>Total</u>
Assets:				
Reinsurers' share of outstanding claims	3,808,680	9,487,130	112,102,095	125,397,905
Reinsurers' share of unearned premiums income	--	13,960,960	12,801,753	26,762,713
Deferred policy acquisition costs	14,572,226	3,445,778	2,060,595	20,078,599
Unallocated assets				349,131,935
Total assets				<u>521,371,152</u>
Liabilities:				
Unearned premiums income	172,109,322	38,651,469	14,397,778	225,158,569
Outstanding claims including reserves	124,049,929	17,593,872	116,263,565	257,907,366
Reserve for life insurance operations	--	--	1,516,730	1,516,730
Unallocated liabilities and surplus				36,788,487
Total liabilities				<u>521,371,152</u>

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34. SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2015

	<u>Motor</u>	<u>Health</u>	<u>Others</u>	<u>Total</u>
Gross premiums written	284,467,515	204,598,140	32,632,406	521,698,061
Reinsurance ceded	--	(83,098,630)	(27,811,611)	(110,910,241)
Excess of loss premiums ceded	(2,547,901)	--	(508,469)	(3,056,370)
Net premium written	281,919,614	121,499,510	4,312,326	407,731,450
Changes in unearned premium, net	(114,029,539)	(28,735,905)	(494,525)	(143,259,969)
Net premium earned	167,890,075	92,763,605	3,817,801	264,471,481
Reinsurance commissions	--	18,221,303	5,646,630	23,867,933
Other operating income	3,800,261	--	--	3,800,261
Other income	--	--	1,416,880	1,416,880
Investment income	384,616	--	122,222	506,838
Underwriting revenue	172,074,952	110,984,908	11,003,533	294,063,393
Gross claims paid	140,977,575	75,091,009	5,488,782	221,557,366
Reinsurers' share	(1,329,866)	(41,885,064)	(4,409,480)	(47,624,410)
Net claims paid	139,647,709	33,205,945	1,079,302	173,932,956
Changes in premium deficiency reserve and other reserves	41,396,000	--	680,000	42,076,000
Changes in IBNR reserve	54,820,000	2,915,000	(64,000)	57,671,000
Changes in outstanding claims and reserves – net	(199,862)	1,466,871	1,136,268	2,403,277
Net claims incurred	235,663,847	37,587,816	2,831,570	276,083,233
Policy acquisition costs	15,826,881	14,819,195	3,743,930	34,390,006
Other underwriting expenses	1,210,219	13,754,712	157,074	15,122,005
Total claims and other expenses	252,700,947	66,161,723	6,732,574	325,595,244
Underwriting (deficit) / surplus	(80,625,995)	44,823,185	4,270,959	(31,531,851)
General and administrative expenses				(33,561,431)
Net (deficit) / surplus for the year from insurance operations				(65,093,282)

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34. SEGMENTAL INFORMATION (Continued)

As at 31 December 2015

	<u>Motor</u>	<u>Health</u>	<u>Others</u>	<u>Total</u>
Assets:				
Reinsurers' share of outstanding claims	731,000	14,792,985	20,927,643	36,451,628
Reinsurers' share of unearned premium income	--	47,080,097	8,872,924	55,953,021
Deferred policy acquisition costs	12,452,951	10,833,056	1,617,375	24,903,382
Unallocated assets				368,751,861
Total assets				<u>486,059,892</u>
Liabilities:				
Unearned premium income	142,436,713	116,025,234	11,519,772	269,981,719
Outstanding claims	117,041,464	26,887,312	24,610,619	168,539,395
Reserve for life insurance operations	--	--	1,516,730	1,516,730
Unallocated liabilities				46,022,048
Total liabilities				<u>486,059,892</u>

35. COMPARITIVE FIGURES

The comparative figures of previous period have been reclassified to match with current presentation.

36. APROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 11 Jumada AlAkhbar 1438H, corresponding to March 10, 2017.