

**SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2015

SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

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Aldar Audit Bureau
Abdullah Al Basri & Co.
Member Firm of Grant Thornton International

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

Scope of audit:

We have audited the accompanying statement of financial position of Saudi Arabian Cooperative Insurance Company - A Saudi Joint Stock Company (the "Company") as at 31 December 2015 and the related statements of insurance operations' surplus and comprehensive income, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and the notes 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 and the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion:

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

Emphasis of matter:

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

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23 February 2016
14 Jumada Al-Awwal 1437H



SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

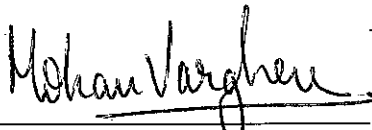
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

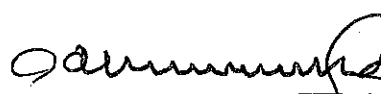
(All amounts in Saudi Riyals unless otherwise stated)

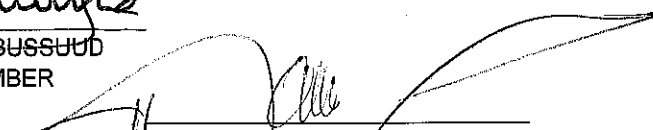
	Notes	31 December	
		2015	2014
Insurance operations' assets			
Property and equipment, net	7	7,046,323	6,748,156
Reinsurers' share of outstanding claims and reserves	8(a)	418,265,008	366,209,950
Reinsurers' share of unearned premiums	8(b)	46,845,626	65,573,143
Deferred policy acquisition costs	8(d)	22,247,019	23,820,183
Premiums and reinsurance balances receivable	9	132,175,780	169,662,464
Held-to-maturity investment	10(a)	10,000,000	-
Available-for-sale investment	10(b)	14,162,233	1,923,080
Prepayments and other assets	11	16,596,270	10,317,183
Due from related parties	12	71,302,320	47,986,002
Time deposits	13	165,000,000	180,160,386
Cash and cash equivalents	14	76,151,599	69,352,387
Total insurance operations' assets		979,792,178	941,752,934
Shareholders' assets			
Statutory deposit	15	25,000,000	10,000,000
Due from insurance operations		10,383,676	4,077,814
Prepayments and other assets	11	1,431,993	2,382,190
Time deposits	13	215,800,000	19,550,000
Cash and cash equivalents	14	359,687	37,692,870
Total shareholders' assets		252,975,356	73,702,874
Total insurance operations' and shareholders' assets		1,232,767,534	1,015,455,808

Continued to p-3

The notes on pages 9 to 36 are an integral part of these financial statements.


MOHAN VARGHESE
CHIEF FINANCIAL OFFICER


ABDULAZIZ A. ABUSSUUD
BOARD MEMBER





HASSAN ABDULLA DORAR ALI
PRESIDENT & CEO

SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2015
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	31 December	
		2015	2014
Insurance operations' liabilities			
Employees' end-of-service benefits		9,533,899	7,308,406
Due to shareholders' operations		10,383,676	4,077,814
Gross outstanding claims and reserves	8(a)	600,678,115	529,108,978
Gross unearned premiums	8(b)	240,004,422	300,820,148
Unearned commission income	8(c)	12,121,690	15,471,000
Reinsurance balances payable		47,587,888	43,309,799
Accrued expenses and other liabilities	17	52,005,974	37,421,146
Total insurance operations' liabilities		972,315,664	937,517,291
Insurance operations' surplus			
Insurance operations' surplus distribution payable	3	8,319,389	4,235,643
Fair value reserve for available-for-sale investment	10(b)	(842,875)	-
Total insurance operations' liabilities and surplus		979,792,178	941,752,934
Shareholders' liabilities			
Provision for zakat	18	3,258,956	2,059,158
Accounts payable		2,438,893	1,681,165
Total shareholders' liabilities		5,697,849	3,740,323
Shareholders' equity			
Share capital	19	250,000,000	100,000,000
Accumulated losses		(2,722,493)	(30,037,449)
Total shareholders' equity		247,277,507	69,962,551
Total shareholders' liabilities and equity		252,975,356	73,702,874
Total insurance operations' liabilities and surplus and shareholders' liabilities and equity		1,232,767,534	1,015,455,808

The notes on pages 9 to 36 are an integral part of these financial statements.

 MOHAN VARGHESE CHIEF FINANCIAL OFFICER	 ABDULAZIZ A. ABUSSUUD BOARD MEMBER	 HASSAN ABDULLA DORAR ALI PRESIDENT & CEO
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SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INSURANCE OPERATIONS' SURPLUS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

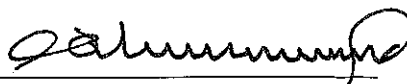
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended 31 December	
		2015	2014
Revenues			
Gross written premiums	8(b)	888,220,440	803,729,395
Reinsurance premiums ceded	8(b)	(243,062,963)	(230,422,930)
Excess of loss / stop loss premiums		(84,796,467)	(28,064,343)
Net written premiums		560,361,010	545,242,122
Movement in unearned premiums, net		42,088,209	(82,856,378)
Net earned premiums		602,449,219	462,385,744
Commission income			
Commission income	8(c)	44,594,545	44,314,019
Income from investments		3,110,827	160,386
Special commission income		1,313,085	1,108,180
Other income		10,488,512	4,450,739
Total insurance revenues		661,956,188	512,419,068
Costs and expenses			
Gross claims paid	8(a)	482,346,739	428,861,492
Reinsurers' share of claims paid	8(a)	(42,151,041)	(99,543,476)
Net claims paid		440,195,698	329,318,016
Movement in outstanding claims and reserves, net		19,514,079	30,169,239
Net claims incurred	8(a)	459,709,777	359,487,255
Policy acquisition costs			
Policy acquisition costs	8(d)	65,429,108	59,090,584
General and administration expenses	21	82,717,193	61,089,886
Provision for doubtful receivables	9	5,518,935	2,481,431
Inspection and supervision fees		7,743,705	6,919,022
Total costs and expenses		621,118,718	489,068,178
Net surplus for the year from insurance operations	3	40,837,470	23,350,890
Shareholders' appropriation from surplus	3	(36,753,724)	(21,015,801)
Net surplus for the period from insurance operations after shareholders' appropriation	3	4,083,746	2,335,089
Other comprehensive income			
Change in fair value of available-for-sale investment	10(b)	(842,875)	-

The notes on pages 9 to 36 are an integral part of these financial statements.



MOHAN VARGHESE
CHIEF FINANCIAL OFFICER



ABDULAZIZ A. ABUSSAUD
BOARD MEMBER



HASSAN ABDULLA DORAR ALI
PRESIDENT & CEO


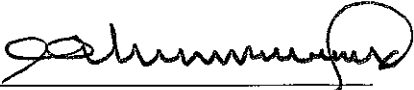

SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended 31 December	
		2015	2014
Appropriation of surplus from insurance operations		36,753,724	21,015,801
Special commission income		1,247,828	363,068
General and administration expenses	21	(1,197,272)	(1,156,413)
Income before zakat		36,804,280	20,222,456
Zakat	18	(4,498,734)	(1,998,041)
Net income for the year		32,305,546	18,224,415
Other comprehensive income			
Change in fair value of available for sale investment		-	-
Total comprehensive income for the year		32,305,546	18,224,415
Earnings per share			
Basic and diluted earnings per share (in Saudi Riyals)	20	1.59	1.18
Weighted average number of shares in issue throughout the year (in thousands)	20	20,324	15,465

The notes on pages 9 to 36 are an integral part of these financial statements.

 MOHAN VARGHESE CHIEF FINANCIAL OFFICER	 ABDULAZIZ A. ABUSSUUD BOARD MEMBER	 HASSAN ABDULLA DORAR ALI PRESIDENT & CEO
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SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

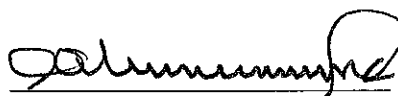
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Accumulated losses	Total
Balance as at 1 January 2014		100,000,000	(48,261,864)	51,738,136
Total comprehensive income for the year		-	18,224,415	18,224,415
Balance as at 31 December 2014		100,000,000	(30,037,449)	69,962,551
Balance as at 1 January 2015		100,000,000	(30,037,449)	69,962,551
Paid in capital from rights issue	19	150,000,000	-	150,000,000
Rights issue expenses	19	-	(4,990,590)	(4,990,590)
Total comprehensive income for the year		-	32,305,546	32,305,546
Balance as at 31 December 2015		250,000,000	(2,722,493)	247,277,507

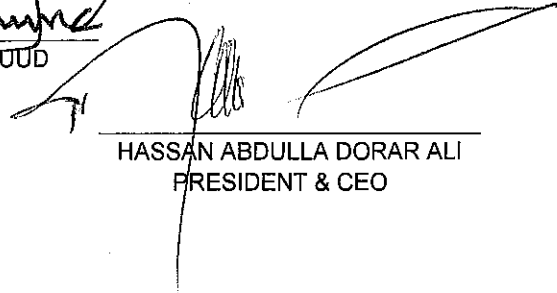
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MOHAN VARGHESE
CHIEF FINANCIAL OFFICER



ABDULAZIZ A. ABUSSUUD
BOARD MEMBER



HASSAN ABDULLA DORAR ALI
PRESIDENT & CEO

SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

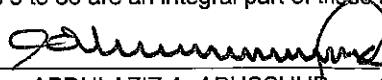
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

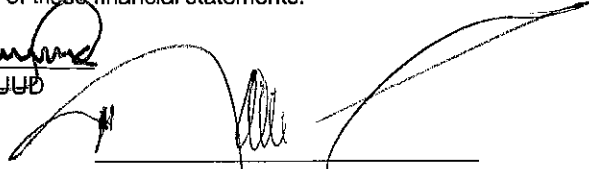
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended 31 December	
		2015	2014
Cash flows from operating activities			
Net surplus from insurance operations after shareholders' appropriation		4,083,746	2,335,089
Adjustments for:			
Depreciation	7	3,445,473	3,886,103
Provision for doubtful receivables	9	5,518,935	2,481,431
Employees' end-of-service benefits, net		2,225,493	552,767
Shareholders' appropriation from surplus		36,753,724	21,015,801
		<u>52,027,371</u>	<u>30,271,191</u>
Changes in operating assets and liabilities:			
Reinsurers' share of outstanding claims and reserves		(52,055,058)	(71,634,076)
Reinsurers' share of unearned premiums		18,727,517	1,511,938
Deferred policy acquisition costs		1,573,164	(2,330,832)
Premiums and reinsurance balances receivable		31,967,749	(64,661,849)
Prepayments and other assets		(6,279,087)	(2,869,560)
Due from related parties		(23,316,318)	3,817,210
Gross outstanding claims and reserves		71,569,134	101,803,312
Gross unearned premiums		(60,815,721)	81,344,440
Unearned commission income		(3,349,310)	(2,690,317)
Reinsurance balances payable		4,278,089	5,388,792
Accrued expenses and other liabilities		14,584,826	2,606,356
Net cash generated from operating activities		<u>48,912,356</u>	<u>82,556,605</u>
Cash flows from investing activities			
Purchase of property and equipment		(3,743,640)	(2,842,671)
Purchase of available-for-sale investment		(13,082,028)	-
Acquisition of held-to-maturity investment		(10,000,000)	-
Decrease / (Increase) in time deposits		15,160,386	(98,000,000)
Net cash used in investing activities		<u>(11,665,282)</u>	<u>(100,842,671)</u>
Cash flows from a financing activity			
Due to shareholders' operations, net		(30,447,862)	(8,106,017)
Net cash used in a financing activity		<u>(30,447,862)</u>	<u>(8,106,017)</u>
Net increase / (decrease) in cash and cash equivalents		<u>6,799,212</u>	<u>(26,392,083)</u>
Cash and cash equivalents at the beginning of the year		69,352,387	95,744,470
Cash and cash equivalents at the end of the year	14	<u>76,151,599</u>	<u>69,352,387</u>
Supplemental non-cash information:			
Change in fair value of available-for-sale investment	10(b)	<u>(842,875)</u>	-

The notes on pages 9 to 36 are an integral part of these financial statements.


MOHAN VARGHESE
CHIEF FINANCIAL OFFICER


ABDULAZIZ A. ABUSSUUD
BOARD MEMBER

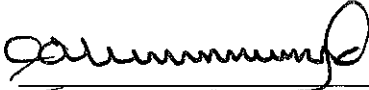
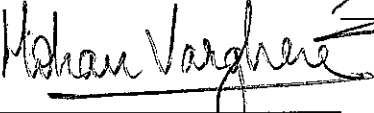

HASSAN ABDULLA DORAR ALI
PRESIDENT & CEO

SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended 31 December	
		2015	2014
Cash flows from operating activities			
Income before zakat		36,804,280	20,222,456
Adjustment for:			
Appropriation of surplus from insurance operations income		(36,753,724)	(21,015,801)
Changes in operating assets and liabilities:			
Prepayments and other assets		950,197	(1,139,096)
Accounts payable		757,728	821,780
Cash from / (used in) operations		1,758,481	(1,110,661)
Zakat paid	18	(3,298,936)	(1,365,834)
Net cash used in operating activities		(1,540,455)	(2,476,495)
Cash flows from investing activities			
Statutory deposit		(15,000,000)	-
(Increase) / decrease in time deposits		(196,250,000)	11,550,000
Net cash (used in) / from an investing activities		(211,250,000)	11,550,000
Cash flows from financing activities			
Due from insurance operations, net		30,447,862	8,106,017
Net proceeds from share capital increase		145,009,410	-
Net cash generated from financing activities		175,457,272	8,106,017
Net (decrease) / increase in cash and cash equivalents		(37,333,183)	17,179,522
Cash and cash equivalents at beginning of the year		37,692,870	20,513,348
Cash and cash equivalent at the end of the year	14	359,687	37,692,870

The notes on pages 9 to 36 are an integral part of these financial statements.



 ABDULAZIZ A. ABUSSUUD
 BOARD MEMBER
 MOHAN VARGHESE
 CHIEF FINANCIAL OFFICER


 HASSAN ABDULLA DORAR ALI
 PRESIDENT & CEO

SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in Saudi Riyals unless otherwise stated)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Arabian Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010237214 dated 20 August 2007 (corresponding to 7 Shaban 1428H). The registered office address of the Company is P.O. Box 58073, Riyadh 11594, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed on the Saudi Stock Exchange ("Tadawul") on 3 September 2007.

The Company has been licensed to conduct insurance business in Saudi Arabia under co-operative principles in accordance with Royal Decree numbered 60/M dated 11 October 2006 (corresponding to 18 Ramadan 1427H), pursuant to the Council of Ministers resolution number 233 dated 9 October 2006 (corresponding to 16 Ramadan 1427H).

Following the completion of the public offering on 28 May 2007, the Ministry of Commerce and Industry ("MCI") issued a resolution declaring the incorporation of the Company on 5 August 2007 (corresponding to 21 Rajab 1428H).

On 11 September 2007 (corresponding to 29 Shaban 1428H), the Saudi Arabian Monetary Agency ("SAMA") issued a formal approval to transact insurance business, thus authorizing the Company to commence operations as soon as product approval and related formalities are completed.

2. BASIS OF PREPARATION

Basis of measurement

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

Statement of compliance

The financial statements of the Company for the year ended 31 December 2015 have been prepared by the management in accordance with International Financial Reporting Standards ("IFRS"). Accordingly these financial statements are not intended to be a presentation in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia, as issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

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

Functional and presentational currency

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

3. SURPLUS DISTRIBUTION

The Company is required to distribute 10 % of the net surplus from insurance operations to policyholders and the remaining 90 % to be allocated to the shareholders of the Company in accordance with the Insurance Law and Implementing Regulations issued by SAMA. Accordingly, any deficit arising from insurance operations is transferred in full to the shareholders operations.

The insurance operations' surplus of the Company for the year ended 31 December 2015 amounted to Saudi Riyals 41 million (Year ended 31 December 2014: Saudi Riyals 23 million). Of the total amount of the insurance operations' surplus for the year ended 31 December 2015, 90% amounting to Saudi Riyals 37 million (2014: Saudi Riyals 21 million) has been transferred to the shareholders' operations for the year, leaving a surplus payable to policyholders of Saudi Riyals 4 million as at 31 December 2015 (2014: Saudi Riyals 2 million).

As at 31 December 2015, insurance operations' surplus distribution payable amounted to Saudi Riyals 8 million (2014: Saudi Riyals 4 million).

SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in Saudi Riyals unless otherwise stated)

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2014, except for the adoption of new standards, amendments to existing standards and interpretations effective for the annual period beginning 1 January 2015.

The nature and the impact of each new standard / amendment are summarized as follows:

- a. Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 are applicable to defined benefit plans involving contribution from employees and /or third parties. This provides relief, based on meeting certain criteria's, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in the period in which the related service is rendered.
- b. Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:
 - IFRS 3 - "business combinations" amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.
 - IFRS 8 - "operating segments" has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria.
 - IFRS 13 has been amended to clarify measurement of interest free short term receivables and payables at their invoiced amount without discounting, if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.
 - IAS 16 - "Property plant and equipment" and IAS 38 - "intangible assets": - the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.
 - IAS 24 - "related party disclosures"- the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.

In addition to the above, the Company has chosen not to early adopt IFRS 9 (2010) - Financial instruments which will not be effective until January 1, 2018.

5. SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

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

Time deposits

Time deposits comprise of time deposits at banks with original maturity of more than three months and less than one year at the date of acquisition.

Statutory deposit

The statutory deposit, which is equal to 10% of the Company's paid up capital, consisted mainly of time deposit maintained at a local bank in compliance with SAMA requirement.

SAUDI ARABIAN COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in Saudi Riyals unless otherwise stated)

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Premiums receivable

Premiums receivable are recognised when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recorded in the statement of insurance operations' surplus and comprehensive income. Premiums receivable are derecognized when derecognition criteria for financial assets have been met.

Any difference between the provisions at the end of the financial reporting period and settlements and provisions in the following period is included in the general and administrative expenses for that period.

Prepayments

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

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is charged to the statement of insurance operations' surplus and comprehensive income on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

	In Years
Leasehold improvements	3
Furniture and fittings	10
Computer and office equipment	3 to 5
Vehicles	3

Deferred policy acquisition costs

Commissions and other costs directly and indirectly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate as premiums are earned. Amortization is recorded in the statement of insurance operations' surplus and comprehensive income.

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

Accrued expenses and other liabilities

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

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Zakat

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat attributable to the Saudi shareholder. Provisions for zakat charged to shareholders' accounts of the Saudi shareholders. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end-of-service benefits

The Company provides end-of-service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Statutory reserve

In accordance with its by-laws, the Company shall allocate 20% of its net income each year to a statutory reserve until it has built up a reserve equal to the share capital. Due to accumulated losses as at 31 December 2015, no such transfer has been made for the year ended 31 December 2015.

Investments and other financial assets

Initial recognition

Financial assets are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Company's financial assets.

Classification and subsequent measurement

Financial assets are classified into the following specified categories: Investment at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

- a. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables market. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment and are included in current assets, except for maturities greater than 12 months after the end of the reporting period.
- b. Available-for-sale investments ("AFS") are non-derivative financial assets that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. Changes in the carrying amount of the AFS financial asset are recognized in other comprehensive income in the shareholders' comprehensive income. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.
- c. Held-to-maturity investments are investments which have fixed or determinable payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statements of insurance operations' surplus and comprehensive income when the investment is derecognized or impaired.
- d. Investments at fair value through profit or loss are acquired principally for the purpose of selling in short term. These investments comprise of mutual funds, and other investments. Such investments are measured at fair value and any change in the fair value is charged to the statement of insurance operations' surplus and comprehensive income. Transaction costs, if any, are not added to the fair value measurement at initial recognition of investments and expensed out when incurred.

Impairment and un-collectibility of financial assets

An assessment is made at each financial 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, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statements of insurance operations' surplus and comprehensive income and shareholders' comprehensive income.

When a financial asset is uncollectible, it is written off against the related provision for impairment. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

Impairment is determined as follows:

- a. For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statements of insurance operations' surplus and comprehensive income and shareholders' comprehensive income;

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

- b. For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- c. For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Company's financial liabilities.

Classification and subsequent measurement

Since the Company does not have financial liabilities classified at Fair value through Profit or loss, all financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Derecognition of financial instruments

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

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the statement of insurance operations' surplus and comprehensive income or statement of shareholders' comprehensive income unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Fair values

The fair value of financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the financial reporting date. If quoted market prices are not available, reference is made to broker or dealer price quotations.

For financial assets where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar assets.

Liability adequacy test

At the end of each financial reporting period, a liability adequacy test is performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy acquisition cost using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of insurance operations' surplus and comprehensive income initially by writing off related deferred policy acquisition costs and subsequently by establishing a provision for losses arising from liability adequacy tests.

Where the liability adequacy test requires the adoption of new best estimate's assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Basic and diluted earnings per share and weighted average number of shares

Basic and diluted earnings per share is calculated by dividing the shareholder's total comprehensive income during the year attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. The weighted average number of ordinary shares for the year ended 31 December 2014 has been adjusted retrospectively due to rights issue of 15 million shares during the year ended 31 December 2015 (Note 20).

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accordingly, the weighted average number of ordinary shares, used in calculating basic and diluted earnings per share for the years ended 31 December 2015 and 2014, have been adjusted using an "Adjustment Factor" determined as the ratio between the following:

- a. Theoretical ex-rights value which is equivalent to the total fair value of all outstanding shares before the exercise rights plus the total amount received from exercise of rights divided by the sum total of the number of shares outstanding before exercise and number of shares issued in the exercise; and,
- b. Closing price per share at the last trading day before the rights issue.

Revenue recognition

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

Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences.

Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Premiums earned and commission income

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

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

- a. As per the guidelines provided by SAMA for Engineering policies, and
- b. Last three months premium for marine cargo business, and
- c. 365 days pro-rata basis for all other lines of business.

Unearned commission income

Commission receivable on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate. Amortization is recorded in the statement of insurance operations' surplus and comprehensive income.

Claims

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of insurance operations' surplus and comprehensive income as incurred changes in the valuation of liabilities arising on policyholders' contracts and internal and external claims handling expenses.

Gross outstanding claims comprise gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as of the financial reporting date are made on the basis of individual case estimates.

In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported ("IBNR") as of financial reporting date. The ultimate liability may be in excess of or less than the amount provided. Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the statement of insurance operations' surplus and comprehensive income for that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Further, the Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the financial reporting date.

Reinsurance

Reinsurance contracts are contracts entered into by the Company with reinsurers during the normal course of business under which the Company is compensated for losses on insurance contracts issued. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contract.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets in the insurance operations' assets. These assets consist of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers' share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contract. Amounts recoverable from or due to reinsurers are recognised consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

At each financial reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment is recognised in the statement of insurance operations' surplus and comprehensive income.

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

Expense Recognition

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

Leases

Operating lease payments are recognised as an expense in the statements of insurance operations' surplus and comprehensive income and shareholders' comprehensive income on a straight-line basis over the lease term except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Special commission income on time deposits

Special commission income on time deposits is accrued on an effective yield basis.

Dividend income

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

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated at the rates of exchange prevailing at that date. All differences are taken to the statement of insurance operations' surplus and comprehensive income.

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incur expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organized into business units based on products and services and has seven reportable operating segments and one non-operating reportable segment as follows:

- Medical insurance provides health care cover to policyholders.
 - Motor Insurance provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
 - Fire and burglary insurance provides coverage against fire, and any other insurance included under this class of insurance.
 - Marine Insurance provides cover for Marine Cargo in transit and ships against marine perils.
 - Engineering Insurance provides coverage for loss or damage to construction works or erection and installation of plant & machinery.
 - Public liability insurance provides cover for legal liability of the insured against third parties arising out of premises, business operations or projects handled.
 - General accident insurance provides coverage against accidental death to individual and group of parties under Personal Accident Insurance.
 - Others provide coverage for workmen compensation.
- Shareholders' Funds is a non-operating segment. Income earned from time deposits is its only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The deficit or surplus from the insurance income' is allocated to this segment on an appropriate basis.

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

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between operating 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 operating segments which will then be eliminated at the level of financial statements of the Company. As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by operating segments only.

Reclassifications

Certain accounts in the corresponding 2014 balances have been reclassified to conform to current year presentation. See Note 26.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

6.1 Impairment losses on receivables

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

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6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

6.2 Deferred policy acquisition costs

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

6.3 Impairment of available-for-sale investments

The Company determines that available-for-sale investments 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 judgement. In making this judgement, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flow. 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.

6.4 Insurance risk

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.

6.5 Ultimate liability arising from claims made under insurance contracts

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

Claims requiring court 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 quarterly basis.

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

The Company considers the services of an independent actuary to determine the following reserves:

Incurred but not reported claims ("IBNR")

As a first step towards setting appropriate IBNR reserves, a runoff analysis is prepared to assess how the claims reserves determined at the previous valuation dates compare with actual developments. Results from runoff analysis are taken into consideration while setting reserves for IBNR claims. An analysis is carried out by using the following methods:

- **Chain Ladder (CL) method** – this builds up, using historical claims payment patterns, ratios of eventual cumulative claims have been incurred in a particular period to those which have been paid as at the end of a reporting period.
- **Bornheutter-Ferguson (BF) method** – this is a technique that combines actual past claims experience and any prior information or expectations that might be available concerning claims, for example, expected ultimate loss ratios.
- **Hybrid method** – this uses a combination of the CL and BF methods.

Premium deficiency reserve

Estimation of the premium deficiency reserve is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the claims and premiums relationship which is expected to be realized in the future.

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7. PROPERTY AND EQUIPMENT, NET

	Leasehold improvements	Furniture and fittings	Computer and office equipment	Vehicles	Capital work in progress	Total
Cost						
1 January 2014	6,750,427	1,975,477	13,210,756	543,219	543,516	23,023,395
Additions	357,203	14,488	2,045,980	-	425,000	2,842,671
31 December 2014	7,107,630	1,989,965	15,256,736	543,219	968,516	25,866,066
Additions	117,906	74,360	2,044,573	-	1,506,801	3,743,640
31 December 2015	7,225,536	2,064,325	17,301,309	543,219	2,475,317	29,609,706
Accumulated depreciation						
1 January 2014	5,144,223	1,043,205	8,864,491	179,888	-	15,231,807
Charge for the year	955,020	198,753	2,555,838	176,492	-	3,886,103
31 December 2014	6,099,243	1,241,958	11,420,329	356,380	-	19,117,910
Charge for the year	700,190	205,195	2,383,671	156,417	-	3,445,473
31 December 2015	6,799,433	1,447,153	13,804,000	512,797	-	22,563,383
Net book value						
31 December 2015	426,103	617,172	3,497,309	30,422	2,475,317	7,046,323
31 December 2014	1,008,387	748,007	3,836,407	186,839	968,516	6,748,156

The depreciation charge for the year is included in general and administrative expenses in the statement of insurance operations' surplus and comprehensive income (Note 21).

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

a) Outstanding claims

	2015			2014		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Outstanding claims and other reserves at end of the year	464,735,864	(377,196,332)	87,539,532	423,575,974	(329,899,947)	93,676,027
IBNR and other reserves	135,942,251	(41,068,676)	94,873,575	105,533,004	(36,310,003)	69,223,001
	600,678,115	(418,265,008)	182,413,107	529,108,978	(366,209,950)	162,899,028
Insurance claims paid during the year	482,346,739	(42,151,041)	440,195,698	428,861,492	(99,543,476)	329,318,016
Outstanding claims at beginning of the year	(428,640,978)	329,899,947	(98,741,031)	(355,933,017)	265,096,871	(90,836,146)
IBNR and other reserves	(100,468,000)	36,310,003	(64,158,000)	(41,893,643)	-	(41,893,643)
	(529,108,978)	366,209,950	(162,899,028)	(397,826,660)	265,096,871	(132,729,789)
Claims incurred	553,915,876	(94,206,099)	459,709,777	560,143,807	(200,656,555)	359,487,252

See Note 26 for reclassification.

b) Unearned premiums

	2015			2014		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Unearned premiums at beginning of the year	300,820,148	(65,573,143)	235,247,005	219,475,708	(67,085,081)	152,390,627
Premiums written during the year	888,220,440	(243,062,963)	645,157,477	803,729,395	(230,422,930)	573,306,465
Premiums earned during the year	(949,036,166)	261,790,480	(687,245,686)	(722,384,955)	231,934,868	(490,450,087)
Unearned premiums at end of the year	240,004,422	(46,845,626)	193,158,796	300,820,148	(65,573,143)	235,247,005

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8. MOVEMENT IN OUTSTANDING CLAIMS, UNEARNED PREMIUMS, UNEARNED COMMISSION INCOME AND DEFERRED POLICY ACQUISITION COSTS (continued)

c) Unearned commission income

	2015	2014
Beginning of the year	15,471,000	18,161,317
Commission received during the year	41,245,235	41,623,702
Commission earned during the year	(44,594,545)	(44,314,019)
End of the year	12,121,690	15,471,000

d) Deferred policy acquisition costs

	2015	2014
Beginning of the year	23,820,183	21,489,351
Incurred during the year	63,855,944	61,421,416
Amortized during the year	(65,429,108)	(59,090,584)
End of the year	22,247,019	23,820,183

9. PREMIUMS AND REINSURANCE BALANCES RECEIVABLE

Insurance operations' receivables are comprised of net amounts due from the following:

	2015	2014
Premiums receivable	150,542,916	182,950,335
Reinsurers and others	4,552,606	4,112,936
Total premiums and reinsurance balances receivable	155,095,522	187,063,271
Less: Provision for doubtful receivables	(22,919,742)	(17,400,807)
	132,175,780	169,662,464

The Company's terms of business require amounts to be settled within 30 to 90 days from the date of the transaction. Amounts due from reinsurers are normally settled on a quarterly basis.

As at 31 December, the aging of premium and reinsurance balances receivable is as follows:

	Total	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Above 365 days
2015	155,095,522	29,884,088	13,456,920	13,273,972	45,527,347	34,112,217	18,840,978
2014	187,063,271	16,966,401	34,702,300	21,884,987	55,575,040	45,980,221	11,954,322

The Company classifies client balances as 'past due and impaired' on a case by case basis. An impairment adjustment is recorded in the statement of insurance operations' surplus and comprehensive income. It is not the practice of the Company to obtain collateral over receivables and they are, therefore, unsecured. The credit quality of these financial assets that are neither past due nor impaired can be assessed by reference to policyholders with appropriate and strong credit history, with minimal account defaults and where the receivables are fully recovered in the past.

The movement in the provision for doubtful receivables for the year ended 31 December is as follows:

	2015	2014
Beginning of the year	17,400,807	14,919,376
Provision made during the year	5,518,935	2,481,431
Ending of the year	22,919,742	17,400,807

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10. INVESTMENTS

a. Held-to-maturity investment

As at 31 December 2015, the Company invested in Islamic bonds ("Sukuk") issued by a local bank amounting to Saudi Riyals 10 million comprising of 10 Sukuk denominated at Saudi Riyals 1 million each and a margin equivalent to 6 month SIBOR plus 130 basis points.

b. Available-for-sale investments

	2015	2014
January 1	1,923,080	1,923,080
Additions	13,082,028	-
Unrealized loss	(842,875)	-
December 31	<u>14,162,233</u>	<u>1,923,080</u>

Available for sale investment comprises Saudi Riyals 1.9 million in respect of the Company's share in the capital of Najm for Insurance Services Company ("Najm") which represents a 3.85% equity holding in Najm. In assessing the relationship of unobservable inputs to fair value, management considered the company's long-term revenue growth rates. As at 31 December 2015 and 2014, management believes that the carrying amount of the available for sale investment is a reasonable estimate of its fair value.

Dividends received from Najm during the year ended 31 December 2015 amounted to Saudi Riyals 339,103 (2014: nil).

During the year ended 31 December 2015, the Company invested in local quoted securities amounting to Saudi Riyals 13.1 million.

11. PREPAYMENTS AND OTHER ASSETS

	2015		2014	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
Guarantee deposits	4,755,996	-	1,487,781	-
Recoverable expenses from reinsurers	4,245,136	-	2,073,315	-
Employee receivables	1,676,067	-	1,292,164	-
Prepaid insurance	1,496,242	-	1,202,480	-
Accrued Income	1,362,385	-	-	-
Prepaid excess of loss premium	921,346	-	1,500,000	-
Advance for computer implementation	661,383	-	987,603	-
Accrued commission income	398,477	-	-	-
Prepaid rentals	350,590	-	353,941	-
Accrued special commission income	341,906	1,431,993	371,539	815,940
Advance to hospitals, clinics and medical providers	-	-	1,001,336	-
Deferred right issue expenses	-	-	-	1,566,250
Others	386,742	-	47,024	-
	<u>16,596,270</u>	<u>1,431,993</u>	<u>10,317,183</u>	<u>2,382,190</u>

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12. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, key management personnel of the Company and companies where they are principal owners and other entities significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management.

a. Transactions with related parties

The following are the details of major related parties' transactions during the year ended 31 December:

Related parties	Nature of transactions	2015	2014
Saudi Arabian Insurance Company B.S.C (C) ("SAICO B.S.C") (Shareholder)	Amounts paid on behalf of SAICO B.S.C (C), net	(1,205,135)	(1,575,308)
	Premiums received through Agent	46,722,458	77,453,087
ACE Insurance Agents Limited ("ACE Agents") (Affiliate)	Claims paid through Agent	3,150	120,495
	Commission expense	5,049,724	4,516,268
ACE Limited (Affiliate)	Premiums and claims, net	-	(1,761,788)
	Premiums received through Broker, net	204,013,168	171,548,129
ACE Insurance and Reinsurance Brokers Limited ("Ace Brokers") (Affiliate)	Commission expense	17,195,903	19,058,187
	Premiums ceded through Broker	99,692,396	22,315,591
	Commission received	3,659,769	2,689,548

b. Balances with related parties

The above transactions with the related parties resulted in the following balances as at the financial reporting date:

Due from related parties	Nature of transactions	2015	2014
ACE Brokers	Insurance operations	53,394,202	34,287,716
ACE Agents	Insurance operations	15,412,992	9,553,855
SAICO BSC	Insurance operations	2,495,126	3,700,261
ACE Limited (Affiliate)	Insurance operations	-	444,170
		71,302,320	47,986,002

c. Compensation of key management personnel

Key management personnel of the Company include all directors (executives and non-executives) and senior management. The summary of compensation of key management personnel for the year ended 31 December is as follows:

	2015	2014
Short-term benefits	6,857,915	6,510,150
Bonus	479,250	-
Employees' end-of-service benefits	238,464	297,492
	7,575,629	6,807,642

13. TIME DEPOSITS

Time deposits represent deposits with local banks which have good investment grade credit ratings and have an original maturity of more than three months from date of acquisition. The Company earns commission at an effective commission rate of 0.80% to 1.10% per annum (2014: 0.98 % per annum).

As at 31 December 2015, the Company has short-term money market placements amounting to Saudi Riyals nil (2014: Saudi Riyals 45.2 million) with Saudi Hollandi Capital under a portfolio managed account based on agreed terms. See Note 26 for related reclassification

Investment income earned upon maturity of the short-term placements under insurance operations' and shareholders' assets recognized during the year ended 31 December 2015 amounted to Saudi Riyals 0.6 million (2014: nil).

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14. CASH AND CASH EQUIVALENTS

For the purpose of the statements of insurance operations' cash flows and shareholders' cash flows, cash and cash equivalents comprise the following:

	2015		2014	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
Cash in banks	45,921,325	359,687	69,320,251	342,870
Cash on hand	32,136	-	32,136	-
Short-term deposits	30,198,138	-	-	37,350,000
	76,151,599	359,687	69,352,387	37,692,870

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

As at 31 December 2015, the Company holds an amount of Saudi Riyals 60,518 (2014: Saudi Riyals 90,210), in a fiduciary capacity, in respect of claims to be settled for a third party insurer. Accordingly, such amount is not accounted for in these financial statements.

15. STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid up capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. This statutory deposit cannot be withdrawn without the consent of SAMA. This statutory deposit is placed with a counterparty which has an investment grade credit rating.

16. CLAIMS DEVELOPMENT TABLE

The following table shows the estimates of cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each financial reporting date, together with cumulative payments to date.

Gross insurance contract outstanding claims provision (with IBNR and other reserves) for 2015:

Accident year	2010	2011	2012	2013	2014	2015	Total
At end of accident year	289,459,675	381,035,209	346,192,089	401,097,279	504,244,698	636,835,001	
One year later	267,450,397	414,494,773	417,577,377	463,202,164	451,550,209	-	
Two years later	273,056,039	411,335,528	412,270,811	428,257,459	-	-	
Three years later	286,031,791	412,244,698	413,887,397	-	-	-	
Four years later	285,903,416	414,159,295	-	-	-	-	
Five years later	287,092,103	-	-	-	-	-	
Current estimate of cumulative claims incurred	287,092,103	414,159,295	413,887,397	428,257,459	451,550,209	636,835,001	2,631,781,464
Cumulative payments to date	(287,916,374)	(352,142,889)	(374,763,347)	(360,807,979)	(369,080,791)	(306,391,969)	(2,031,103,349)
Gross outstanding claims and reserves recognized in the statement of financial position	19,175,729	62,016,406	39,124,050	67,449,480	82,469,418	330,443,032	600,678,115

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16. CLAIMS DEVELOPMENT TABLE (continued)

Gross insurance contract outstanding claims provision (with IBNR and other reserves) for 2014:

Accident year	2010	2011	2012	2013	2014	Total
At end of accident year	289,459,675	381,035,209	346,192,089	401,097,279	504,244,698	
One year later	267,450,397	414,494,773	417,577,377	463,202,164	-	
Two years later	273,056,039	411,335,528	412,270,611	-	-	
Three years later	286,031,791	412,244,698	-	-	-	
Four years later	285,903,416	-	-	-	-	
Five years later	-	-	-	-	-	
Current estimate of cumulative claims incurred	285,903,416	412,244,698	412,270,611	463,202,164	504,244,698	2,077,865,587
Cumulative payments to date	(267,384,436)	(351,131,692)	(367,618,197)	(347,056,159)	(215,566,125)	(1,548,756,609)
Gross outstanding claims and reserves recognized in the statement of financial position	18,518,980	61,113,006	44,652,414	116,146,005	288,678,573	529,108,978

17. ACCRUED EXPENSES AND OTHER LIABILITIES

	2015	2014
Commission payable	17,122,165	15,198,967
Policyholders' payable balances	10,042,953	5,399,149
Payable to hospitals	5,208,119	-
Withholding tax payable	3,636,195	95,656
Council for Cooperative Health Insurance fees ("CCHI")	3,505,451	3,155,910
Employees' benefits	1,962,113	2,086,250
SAMA inspection & supervision fees	486,817	779,788
Surveyors payable	368,821	1,237,066
Accrued professional fees	164,995	337,496
Excess of loss premium payable	-	1,694,029
Accrued incentives	-	1,378,671
Advances from salvage buyers	-	1,094,493
IT related payables	-	634,445
Claims agreed for settlement	-	608,368
Garages payable	-	303,088
Others	9,508,345	3,417,770
	52,005,974	37,421,146

18. PROVISION FOR ZAKAT

The provision provided for the year ended 31 December 2015 of Saudi Riyals 4,498,734 (2014: Saudi Riyals 1,998,041) is based on the following:

	2015	2014
Shareholders' equity and opening provisions	120,588,874	72,516,772
Book value of long term assets and statutory deposit	(32,046,323)	(16,748,156)
	88,542,551	55,768,616
Adjusted income for the year	44,394,438	24,153,034
Zakat base	132,936,989	79,921,650

The movement in the provision for zakat during the year follows:

	2015	2014
Beginning of the year	2,059,158	1,426,951
Provision made during the year	4,498,734	1,998,041
Payments during the year	(3,298,936)	(1,365,834)
Ending of the year	3,258,956	2,059,158

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18. PROVISION FOR ZAKAT (continued)

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

Status of assessments

The Company obtained from DZIT the final assessment for the year ended 31 December 2008 with no additional zakat liability. The Company has filed its zakat declarations for the years ended 31 December 2009 up to 2014 with DZIT. However, the assessments have not yet been finalized as the declarations are under review by DZIT.

19. SHARE CAPITAL

The Company held an extraordinary general assembly meeting of its shareholders on 31 May 2015 (corresponding to 13 Shaban 1436H) at which the shareholders approved an increase in the authorized share capital of the Company from Saudi Riyals 100 million to Saudi Riyals 250 million through a rights issue of Saudi Riyals 150 million. All legal formalities were completed during the quarter ended 30 September 2015.

As at 31 December 2015, the authorized, issued and paid up share capital of the Company amounted to Saudi Riyals 250 million divided into 25 million shares of Saudi Riyals 10 each (31 December 2014: Saudi Riyals 100 million divided into 10 million shares of Saudi Riyals 10 each). The related rights issue expenses amounting to Saudi Riyals 5 million were charged and presented in shareholders' equity.

See also Note 20 for the weighted average number of shares, as adjusted after taking into effect the rights issued during the year, used in the calculation of basic and diluted earnings per share.

20. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year have been calculated by dividing the total comprehensive income for the year by the weighted average number of shares in issue throughout the period.

The weighted average number of ordinary shares have been retrospectively adjusted due to the rights issue of 15 million shares during the year and has been calculated using an adjustment factor of 1.55. The adjustment factor was determined using the following:

- Theoretical ex-right price of Saudi Riyals 15.73 per share; and,
- The closing price per share of Saudi Riyals 24.33 per share at 28 June, 2015, which is the last trading date before the rights issue.

At 31 December 2015 and 2014, the weighted average number of shares is calculated as follows:

	2015	2014
Weighted average number of shares outstanding before rights issue (in thousands)	10,000	10,000
Effects of rights issued (in thousands)	10,324	5,465
Weighted average number of shares outstanding after rights issue (in thousands)	20,324	15,465

21. GENERAL AND ADMINISTRATION EXPENSES

	2015		2014	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
Employees cost	60,199,256	-	42,241,756	-
Depreciation (Note 7)	3,445,473	-	3,886,103	-
Computer implementation	2,768,383	-	1,861,291	-
Rentals (Note 24)	2,379,427	-	2,348,350	-
Postage, telephone and telex	896,465	-	996,312	-
Printing and stationery	885,974	-	797,424	-
Repairs and maintenance	690,764	-	667,305	-
Legal and professional fees	654,220	-	1,536,913	-
Travel	436,975	-	612,869	-
Withholding tax	434,557	-	910,720	-
Collector fees	341,894	-	86,695	-
Tadawul subscription fee	-	180,000	-	180,000
Others	9,583,805	1,017,272	5,144,148	976,413
	82,717,193	1,197,272	61,089,886	1,156,413

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22. SEGMENT INFORMATION

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities as stated below. Segment results do not include general and administration expenses, provision for doubtful receivables, inspection and supervision fees and other income.

Segment assets do not include insurance operations' property and equipment, prepayments and other assets, due from related parties, premiums and reinsurance balances receivable, time deposits and cash and cash equivalents. Accordingly, they are included in unallocated assets.

Segment liabilities do not include insurance operations' due to shareholders' operations, due to related parties, employees' end-of-service benefits, reinsurance balances payable and accrued expense and other liabilities. Accordingly, they are included in unallocated liabilities.

All of the Company's operating assets and principal activities are located in the Kingdom of Saudi Arabia.

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22. SEGMENT INFORMATION (continued)

	Year ended 31 December 2015 (Amounts in Saudi Riyals thousands)								
	Medical	Motor	Fire & burglary	Marine	Engineering	Public liability	General accident	Others	Total
Revenues									
Gross written premiums	350,545	265,596	142,322	35,853	33,823	16,130	25,594	18,357	888,220
Reinsurance premiums ceded	-	(407)	(134,479)	(32,951)	(31,852)	(10,128)	(24,224)	(9,022)	(243,063)
Excess of loss premiums	(77,504)	(3,148)	(2,685)	(654)	(644)	(113)	-	(48)	(84,796)
Net written premiums	273,041	262,041	5,158	2,248	1,327	5,889	1,370	9,287	560,361
Movement in unearned premiums, net	17,959	22,080	420	7	578	328	449	267	42,088
Net earned premiums	291,000	284,121	5,578	2,255	1,905	6,217	1,819	9,554	602,449
Commission income	(49)	112	14,829	8,728	10,449	2,554	7,454	518	44,595
Total allocated revenues	290,951	284,233	20,407	10,983	12,354	8,771	9,273	10,072	647,044
Unallocated revenue									14,912
Total insurance revenues									661,956
Costs and expenses									
Gross claims paid	231,032	207,056	13,090	5,146	15,179	17	6,834	3,993	482,347
Reinsurers' share of claims paid	(1,848)	(385)	(10,824)	(4,598)	(14,681)	(7)	(6,592)	(3,216)	(42,151)
Net claims paid	229,184	206,671	2,266	548	498	10	242	777	440,196
Movement in outstanding claims, net	(1,975)	16,861	1,009	143	490	195	2,940	(149)	19,514
Net claims incurred	227,209	223,532	3,275	691	988	205	3,182	628	459,710
Policy acquisition cost	14,846	28,767	7,643	3,461	5,552	1,669	926	2,565	65,429
Total allocated costs and expenses	242,055	252,299	10,918	4,152	6,540	1,874	4,108	3,193	525,139
Unallocated expenses									95,980
Total costs and expenses									621,119
Net surplus from insurance operations									40,837

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22. SEGMENT INFORMATION (continued)

	Year ended 31 December 2014 (Amounts in Saudi Riyals thousands)								
	Medical	Motor	Fire & burglary	Marine	Engineering	Public liability	General accident	Others	Total
Revenues									
Gross written premiums	315,591	229,295	121,406	37,255	40,302	16,241	27,719	15,920	803,729
Reinsurance premiums ceded	(1,076)	(477)	(115,357)	(33,774)	(38,281)	(9,133)	(25,526)	(6,799)	(230,423)
Excess of loss premiums	(18,881)	(5,128)	(2,210)	(895)	(706)	(162)	-	(82)	(28,064)
Net written premiums	295,634	223,690	3,839	2,586	1,315	6,946	2,193	9,039	545,242
Movement in unearned premiums, net	(15,351)	(66,831)	(188)	(79)	591	(793)	(57)	(148)	(82,856)
Net earned premiums	280,283	156,859	3,651	2,507	1,906	6,153	2,136	8,891	462,386
Commission income	74	148	14,722	9,758	10,762	1,927	5,887	1,036	44,314
Total allocated revenues	280,357	157,007	18,373	12,265	12,668	8,080	8,023	9,927	506,700
Unallocated revenue									5,719
Total insurance revenues									512,419
Costs and expenses									
Gross claims paid	230,855	95,426	70,369	9,930	14,829	933	1,265	5,254	428,861
Reinsurers' share of claims paid	(3,084)	(1,785)	(66,476)	(8,917)	(14,443)	(37)	(750)	(4,051)	(99,543)
Net claims paid	227,771	93,641	3,893	1,013	386	896	515	1,203	329,318
Movement in outstanding claims, net	8,133	18,070	(282)	219	2,014	754	303	958	30,169
Net claims incurred	235,904	111,711	3,611	1,232	2,400	1,650	818	2,161	359,487
Policy acquisition cost	15,584	19,043	9,839	3,859	5,385	1,877	1,189	2,315	59,091
Total allocated costs and expenses	251,488	130,754	13,450	5,091	7,785	3,527	2,007	4,476	418,578
Unallocated expenses									70,490
Total costs and expenses									489,068
Net surplus from insurance operations									23,351

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22. SEGMENT INFORMATION (continued)

	As at 31 December 2015								
	(Amounts in Saudi Riyals thousands)								
	Medical	Motor	Fire & burglary	Marine	Engineering	Public liability	General accident	Others	Total
Assets									
Reinsurers' share of outstanding claims and reserves	-	1,086	165,086	20,924	81,894	945	145,957	2,373	418,265
Reinsurers' share of unearned premiums	-	85	6,913	9,327	16,223	4,942	8,538	818	46,846
Deferred policy acquisition costs	5,594	11,026	1,046	1,092	2,248	838	196	207	22,247
Segment assets	5,594	12,197	173,045	31,343	100,365	6,725	154,691	3,398	487,358
Unallocated assets									492,434
Total assets									979,792
Liabilities									
Gross outstanding claims and reserves	97,618	60,511	175,726	23,916	85,773	2,079	151,018	4,037	600,678
Gross unearned premiums	94,515	91,281	8,218	10,064	16,975	8,179	8,858	1,914	240,004
Unearned commission income	-	25	1,650	2,280	4,047	1,126	2,950	44	12,122
Segment liabilities	192,133	151,817	185,594	36,260	106,795	11,384	162,826	5,995	852,804
Unallocated liabilities									126,988
Total liabilities									979,792

Unallocated assets at 31 December 2015 consists mainly of premiums and reinsurance balances receivable of Saudi Riyals 132 million, due from related parties of Saudi Riyals 71 million, time deposits of Saudi Riyals 165 million, cash and cash equivalents of Saudi Riyals 76 million, and other assets of Saudi Riyals 48 million.

At 31 December 2015, the total premiums and reinsurance balances receivable amounting to Saudi Riyals 132 million comprised mainly premiums receivable from Medical clients of Saudi Riyals 39.3 million while the remaining balance of Saudi Riyals 92.8 million consisted mainly of receivables from top 10 policyholders from the line of business: (a) Motor Private (b) Motor Commercial (c) Fire & Burglary (d) Marine Hull (e) General Accident (f) Public liability and (g) Engineering.

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22. SEGMENT INFORMATION (continued)

	As at 31 December 2014 (Amounts in Saudi Riyals thousands)								
	Medical	Motor	Fire & burglary	Marine	Engineering	Public liability	General accident	Others	Total
Assets									
Reinsurers' share of outstanding claims and reserves	6	2,679	68,439	57,178	77,294	800	155,832	3,981	366,209
Reinsurers' share of unearned premiums	-	128	17,353	7,635	24,324	5,174	10,252	707	65,573
Deferred policy acquisition costs	6,422	10,243	1,430	908	3,519	736	323	239	23,820
Segment assets	6,428	13,050	87,222	65,721	105,137	6,710	166,407	4,927	455,602
Unallocated assets									486,150
Total assets									941,752
Liabilities									
Gross outstanding claims	99,600	45,243	78,071	60,027	80,684	1,739	157,953	5,792	529,109
Gross unearned premiums	112,474	113,404	19,078	8,379	25,653	8,740	11,022	2,070	300,820
Unearned commission income	-	37	3,233	1,999	6,494	733	2,933	42	15,471
Segment liabilities	212,074	158,684	100,382	70,405	112,831	11,212	171,908	7,904	845,400
Unallocated liabilities									96,352
Total liabilities									941,752

Unallocated assets at 31 December 2014 consists mainly of premiums and reinsurance balances receivable of Saudi Riyals 170 million, due from related parties of Saudi Riyals 48 million, time deposits of Saudi Riyals 180 million, cash and cash equivalents of Saudi Riyals 69 million, and other insurance operations' assets of Saudi Riyals 19 million.

At 31 December 2014, the total premiums and reinsurance balances receivable amounting to Saudi Riyals 170 million comprised mainly of premiums receivable from Medical clients of Saudi Riyals 71.4 million while the remaining balance of Saudi Riyals 98.3 million is consisting mainly of receivables from top 10 policyholders from the following lines of business: (a) Motor Private (b) Motor Commercial (c) Fire & Burglary (d) Engineering and (e) General Accident.

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23. RISK MANAGEMENT

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

Risk Governance

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

- a. Risk management structure - a cohesive organizational structure is established within the Company in order to identify, assess, monitor and control risks.
- b. Board of directors - the apex of risk governance is the centralized oversight of the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.
- c. Senior management - the senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

a) Insurance risk

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

The Company issues short term insurance policies in connection with medical, motor, fire and burglary, marine, engineering and public liability risks and they are expected to produce only short tail claims, therefore it is unlikely to have significant reserve movements. This helps to mitigate insurance risk. The insurance risks arising from the above insurance contracts are mainly concentrated in the Kingdom of Saudi Arabia.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites medical, motor, fire and burglary, marine, engineering and public liability risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Medical

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risks and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has reinsurance cover to limit the losses for any individual claim.

Motor

For motor contracts, the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company only underwrites comprehensive policies for owner/drivers over 21 years of age.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover for such damage to limit the losses for any individual claim.

Fire and burglary

For property insurance contracts the main risk is fire. The Company only underwrites policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim.

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23. RISK MANAGEMENT (continued)

a) Insurance risk (continued)

Marine

For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes. The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim.

Engineering

For engineering insurance, main risks are loss or damage to the construction/erection works caused by fire, explosion, natural perils like flood, earthquake, hailstorm, etc. The Company has reinsurance cover for such risks to limit losses for any individual claim.

Public liability

For public liability insurance, main risks are legal liabilities of the insured towards third party death, bodily injury or property damage arising out of insured premises, business operations or projects handled by the insured.

This insurance policy is underwritten based on the turnover of the Company or the value of the contract, nature / occupation of the premises, nature of contracts handled. The Company has reinsurance cover to limit the losses for any individual claim.

Sensitivity analysis

The medical and general insurance claims provision is sensitive to the above key assumptions. A hypothetical percentage change in the claims ratio would impact the net underwriting surplus for the year ended 31 December 2015 by approximately Saudi Riyals 26.6 million (2014: Saudi Riyals 25.3 million) in aggregate with details as follows:

	2015		2014	
	+/- %	Impact on net underwriting surplus	+/- %	Impact on net underwriting surplus
Medical	1%	1,180,862	1%	847,876
Motor	0.2%	281,651	1%	564,583
Fire and burglary	3%	4,306,103	4%	3,217,282
Marine	2%	1,951,687	4%	3,187,528
Engineering	7%	9,222,583	12%	10,380,555
Public liability	7%	8,405,254	7%	5,977,543
General accident and others	1%	1,236,088	1%	1,168,202
		<u>26,584,228</u>		<u>25,343,569</u>

b) Reinsurance risk

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

In line with the objective to provide first-class security to clients and continued profitability to shareholders, the Company adopts a conservative philosophy on underwriting of risks and in arranging its reinsurance programs.

c) Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to special commission rate risk on its time deposits and cash and cash equivalents.

The sensitivity of the income is the effect of assumed changes in special commission rates, with all other variables held constant, on the Company's profit for one year, based on the floating rate financial assets held at 31 December 2015. A hypothetical 10 basis points change in the weighted average special commission rates of the floating rate financial assets balances at 31 December 2015 would impact special commission income on time deposits by approximately Saudi Riyals 77,990 (2014: Saudi Riyals 15,360) over the remaining period of maturity.

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23. RISK MANAGEMENT (continued)

d) Credit risk

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

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. Accordingly, as a pre-requisite, the parties with whom reinsurance is effected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.
- Cash and cash equivalents are maintained with local banks approved by the management. Accordingly, as a pre-requisite, the bank with whom cash and cash equivalents are maintained is required to have a minimum acceptable security rating level affirming its financial strength.

The Company does not have an internal credit ratings assessment process and accordingly, amounts which are neither past due nor impaired, in respect of client balances, are from individuals and unrated corporate counter parties. Balances due from reinsurers are with counterparties who have investment grade credit ratings issued by external rating agencies.

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

Financial assets	2015		2014	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
Reinsurers' share of outstanding claims	418,265,008	-	366,209,950	-
Premiums and insurance balances receivable	132,175,780	-	169,662,464	-
Time deposits	165,000,000	215,800,000	180,160,386	19,550,000
Cash equivalents	76,119,463	359,687	69,320,251	37,692,870
Due from related parties	71,302,320	-	47,986,002	-
Other assets	11,465,781	1,431,993	5,224,799	815,940
Held-to-maturity investment	10,000,000	-	-	-
Available for sale investment	14,162,233	-	1,923,080	-
Statutory deposit	-	25,000,000	-	10,000,000
	898,490,585	242,591,680	840,486,932	68,058,810

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

Maturity Profiles

The table below summarizes the maturity profile of the financial assets and financial liabilities of the Company based on remaining contractual obligations. For insurance contract liabilities maturity profiles are determined based on the estimated timing of net cash outflows from the recognized insurance liabilities. The amount disclosed are the contractual undiscounted cash flows which equal their carrying balances as the impact of discounting is not significant.

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23. RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

FINANCIAL ASSETS	31 December 2015					
	Insurance operations			Shareholders' operations		
	Less than one year	No term	Total	Less than one year	No term	Total
Reinsurers' share of outstanding claims and reserves	418,265,008	-	418,265,008	-	-	-
Premiums and insurance balances receivable	132,175,780	-	132,175,780	-	-	-
Held-to-maturity investment	10,000,000	-	10,000,000	-	-	-
Time deposits	165,000,000	-	165,000,000	215,800,000	-	215,800,000
Cash equivalents	76,119,463	-	76,119,463	359,687	-	359,687
Due from related parties	71,302,320	-	71,302,320	-	-	-
Other assets	11,465,781	-	11,465,781	1,431,993	-	1,431,993
Statutory deposit	-	-	-	-	25,000,000	25,000,000
Available-for-sale investment	-	14,162,233	14,162,233	-	-	-
TOTAL	884,328,352	14,162,233	898,490,585	217,591,680	25,000,000	242,591,680
FINANCIAL LIABILITIES						
Gross outstanding claims	600,678,115	-	600,678,115	-	-	-
Reinsurance balances payable	47,587,888	-	47,587,888	-	-	-
Accrued expenses and other liabilities	52,005,974	-	52,005,974	-	-	-
Employees' end of service benefits	-	9,533,899	9,533,899	-	-	-
Provision for zakat	-	-	-	3,258,956	-	3,258,956
Accounts payable	-	-	-	2,438,893	-	2,438,893
	700,271,977	9,533,899	709,805,876	5,697,849	-	5,697,849

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23. RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

FINANCIAL ASSETS	31 December 2014					
	Insurance operations			Shareholders' operations		
	Less than one year	No term	Total	Less than one year	No term	Total
Reinsurers' share of outstanding claims and reserves	366,209,950	-	366,209,950	-	-	-
Premiums and insurance balances receivable	169,662,464	-	169,662,464	-	-	-
Time deposits	135,000,000	-	135,000,000	19,550,000	-	19,550,000
Cash equivalents	69,320,251	-	69,320,251	37,692,870	-	37,692,870
Due from related parties	47,986,002	-	47,986,002	-	-	-
Investment at fair value through profit or loss	45,160,386	-	45,160,386	-	-	-
Other assets	5,224,799	-	5,224,799	815,940	-	815,940
Statutory deposit Available for safe investment	-	-	-	-	10,000,000	10,000,000
	-	1,923,080	1,923,080	-	-	-
TOTAL	838,563,852	1,923,080	840,486,932	58,058,669	10,000,000	68,058,810
FINANCIAL LIABILITIES						
Gross outstanding claims	529,108,975	-	529,108,975	-	-	-
Reinsurance balances payable	43,309,794	-	43,309,794	-	-	-
Accrued expenses and other liabilities	37,421,151	-	37,421,151	-	-	-
Employees' end of service benefits	-	7,308,406	7,308,406	-	-	-
Provision for zakat	-	-	-	2,059,158	-	2,059,158
Accounts payable	-	-	-	1,681,165	-	1,681,165
	609,839,920	7,308,406	617,148,326	3,740,323	-	3,740,323

Liquidity profiles

None of the liabilities on the statement of financial position are based on discounted cash flows and except employees' end of service benefits, all are contractually payable on a current basis within 1 year.

f) Currency risk

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

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

g) Market price risk

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

The Company has investment in unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of changes in shareholders' equity will be impacted.

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23. RISK MANAGEMENT (continued)

g) Market price risk (continued)

The sensitivity of the comprehensive income on the assumed changes in the market prices of quoted available-for-sale investments included in the insurance operations' assets for the year ended 31 December 2015 and 2014 is set out below:

	2015		2014	
	Change in market price	Impact +/-	Change in market price	Impact +/-
+ / - 5%		611,255	-	-
+ / - 10%		1,222,509	-	-
		1,833,764		-

h) Capital management

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

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

i) Regulatory framework risk

The operations of the Company are subject to local regulatory requirements within the jurisdiction where it is incorporated. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise.

j) 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 an active market (that are unadjusted) for identical assets or liabilities,

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

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

During the year ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The following table summarizes the financial assets recorded at fair value as of December 31, 2015 and 2014 by level of the fair value hierarchy.

As at 31 December 2015

	Insurance operations' assets			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Held-to-maturity investment	-	10,000,000	-	10,000,000
Available-for-sale investment	12,239,153	-	1,923,080	14,162,233
	12,239,153	10,000,000	1,923,080	24,162,233

As at 31 December 2014

	Insurance operations' assets			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale investment	-	-	1,923,080	1,923,080
	-	-	1,923,080	1,923,080

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24. CONTINGENCIES AND COMMITMENTS

a. Legal proceedings and regulations

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

b. Operating lease commitments

Rental expenses under operating leases pertained to leases of office spaces in various locations and amounted to Saudi Riyals 1.8 million for the year ended 31 December 2015 (2014: Saudi Riyals 1.7 million) are recognized in the statement of insurance operations' surplus and comprehensive income.

Future minimum lease payments under the operating lease arrangements as at the financial reporting date are as follows:

<u>Years</u>	<u>2015</u>	<u>2014</u>
2015	-	2,043,949
2016	2,411,547	1,979,542
2017	619,150	646,412
	<u>3,030,697</u>	<u>4,669,903</u>

25. NET UNDERWRITING SURPLUS

Net underwriting surplus, as defined by the management of the Company for the year ended 31 December, is as follows:

	<u>2015</u>	<u>2014</u>
Net earned premiums	602,449,219	462,385,744
Commission income	44,594,545	44,314,019
Other underwriting income	1,362,385	-
Policy acquisition costs	(65,429,108)	(59,090,584)
Net claims incurred	(459,709,777)	(359,487,255)
Net underwriting surplus	<u>123,267,264</u>	<u>88,121,924</u>

26. RECLASSIFICATIONS

The following reclassifications have been made to the corresponding balance in the 2014 financial statements to conform with 2015 presentation:

- Reinsurers' share of IBNR reserve amounting to Saudi Riyals 36.3 million, previously presented under gross outstanding claims and reserves, is disclosed as a separately line item in insurance assets in the statement of financial position;
- Money market deposits amounting to Saudi Riyals 45.2 million, previously presented under investment at fair value through profit and loss, is included in time deposits (Note 12) in insurance assets in the statement of financial position; and
- Income from investments amounting to Saudi Riyals 160 thousand was reclassified from other income in the statement of insurance surplus and comprehensive income.

27. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Company's Board of Directors on 21 February 2016 (corresponding to 12 Jumada Al-Awwal, 1437H).