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# BOARD OF DIRECTORS



Chairman  
**Mubarak Abdullah Al-Khafra**



Vice President  
**Mr. Mohammed A. Al Amari**



Board Member  
**Mr. Obaid A. Rasheed**



Board Member  
**Mr. Mohammed A. Alnamlah**



Board Member  
**Mr. Abdulmohsen M. Al Saleh**



Board Member  
**Mr. Tareq O. Al- Abduljabar**



Board Member  
**Mr. Fawaz M. Al-Fawaz**



Board Member  
**Mr. Mohammed S. Al-Adel**





Chairman  
**Mubarak Abdullah Al-Khafa**

**Messrs/ Shareholders of Malath Cooperative Insurance & Reinsurance Company**

**Dears,**

On behalf of myself and members of the Board of Directors, I am pleased to present to you report of the Board of Directors, enclosed with the audited financial statements of the Auditors (Dr. Mohammad Al-Amri, Associates, & the International Accountants) as well as the accompanying explanations for the Fiscal Year ended at 31 December 2016, As well as concentrating on the most important Financial results, i.e. Achievements and progress, financial results, operating activities, future plans and the declaration as per rules and regulations issued by the Capital Market Authority, in particular, Article (43) of the Registrations and Listing Rules and Article (9) of the Corporate Governance Regulations in the Kingdom of Saudi Arabia. In addition to information about the Board of Directors, its various committees and the other complementary information to answer needs and requirements of this report users.

The total underwriting premiums increased at end of the year 2016 to SR 2.168 b., compared to SR 1.863 b. at end of 2015, in a growth rate of more than 16%. Malath raised up to the third rank among the numerous active insurance companies in the Saudi insurance market in field of the sales, it has passed over the company's market share of 6%.

Although the Company has compiled with the Company's adequacy pricing policies specified by the appointed Actuary of the Company, and his actuarial recommendations for all technical allocation amounts at end of 2015, the Company, based on the Actuary's recommendations, has increased net of the technical allocations by end of the second quarter of 2016 to SR 75.5 million The reserve of IBNR. In addition to an increase of SR 16 m. in the net reserve of the premiums' deficit. As well as increasing allocation of the doubtful debts to SR 19 m. and recording costs of the allocation of non-compliance the assets of SR 18 m. according to requirements of the Saudi Arabian Monetary Authority SAMA, that led to losses exceeding 50% of the company's capital by

the end of the second quarter of 2016, loss of the fiscal year 2016 before Zakat and Income reached SR 150.174 m.

The board of directors appointed a consultant to study reasons of deterioration of the company's financial results and to determine the options to restore the required margin of solvency. Based on results of the presented study, the Board of Directors recommended to call for an Extraordinary General Assembly to restructure the company's capital, it was announced to the shareholders, the recommendations of this Assembly to be presented to the extraordinary General Assembly upon Completion of the regular approvals. Also, based on results of the study, the Board of Directors decided not to renew some of the insurance policies for some customers because of their technical results.

The Company has also asked amendment license and permission of the activity to be only insurance activity, instead of insurance and reinsurance. This amendment will not have any negative impact, since the reinsurance operations in the previous years did not constitute a significant importance in range of the company's business.

During this year, the company continued in developing several strategic projects, especially in respect of the claims processing systems, this will have a positive impact on achieving the desired future targets. The company launched the first application for the smart devices to enable the clients to submit the motor claim and follow up this claim automatically up to receiving his due claim amount. In addition, the company has started in operating the first self-service device to present the motor claims. These projects reduce the administrative costs and increase productivity.

The company worked to increase the activity of the infrastructure and raise up efficiency of the work and productivity. It also, supported and strengthened the national human cadets in the insurance sector, percentage of the Saudization reached 64%, in the company and the Saudi cadets occupy most of the leading and senior positions in the company.

At the end, I would like to take this opportunity on behalf of myself and the Board of Directors to avail and express my deep thanks and appreciation to the shareholders of Malath company, as well as for its esteemed customers and all the staff, at the time we confirm that we will work hard and exert all of our efforts to overcome these obstacles and challenges and to let Malath return back soon to be among the leading companies in the good returns to its shareholders and to achieve the aspirations of the all.

May Allah bless and guide all of you towards success,,,

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**Eng. Mubarak Bin Abdullah Al-Khafra**  
President of Board of Directors



# REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 2016



### **First: Malath in Brief**

The company has been established by a group of prominent Saudi investors in a paid capital of SR 300 m. 47.48% of the capital was offered for the initial public underwriting offering. On April 9, 2007, Establishment of Malath company was announced as a public shareholding company, to carry out the cooperative insurance activity issued by the Saudi Arabian Monetary Authority SAMA, and boards and regulations of the Council of Cooperative Health Insurance (CCHI). On May 5, 2010, the suspension on the founding shares was released and the founding shareholders became released in dealing and disposing their shares.

### **Second: Company's Activity:**

The main activity of the company is providing the productive of the cooperative insurance in addition to the facultative reinsurance. The Company carries out all of its activities in accordance with the Cooperative Insurance Boards and Regulations adopted in the Kingdom of Saudi Arabia. The Company has also asked amendment license and permission of the activity to be only insurance activity, instead of insurance and reinsurance. This amendment will not have any negative impact, since reinsurance operations in the previous years did not constitute a significant importance in volume of the company's business.

Malath Company offers the whole and integrated lines of the general cooperative insurance, that includes engineering insurance, fire and property insurance, marine insurance (goods and hulls), miscellaneous insurance and motor insurance. The company also provides its services in cooperative health care (Medical) insurance for the whole (groups) and retail sales, in addition to the facultative reinsurance activity. The company serves its customers through its head office in Riyadh and its three regional administrations in the central, western and eastern regions, and its branches in the various parts of the Kingdom, as well as a customer service center, car claims centers and a specialized health insurance (Medical) department.



The most important insurance lines in the company's activity

Insurance Line	Product	Percentage of the Total Insurance Premium
Health care insurance	Health care insurance for the groups	4.4%
	health care insurance of the retail and the small groups	
Motor insurance	TPL Insurance And the damages occurred for the vehicles	87.7%
	The comprehensive Insurance	
General insurance	The property insurance	7.9%
	Engineering Insurance	
	Mesoulentious insurance	
	Marine insurance	
	Cover Protection Insurance for the groups	

### **Third: The most important developments of the market**

The development of the Saudi insurance market continued in 2016 in growth of the underwriting premiums, the number of licensed and permitted cooperative insurance and re-insurance companies reached 35 company. The Saudi Arabian Monetary Authority (SAMA), in 2016 as a supervisory and controller authority of the cooperative insurance companies, issued a comprehensive circular to update the underwriting mechanism and the pricing requirements for the motor insurance and health care insurance. SAMA issued a special circular organizes the claims settlement of the TPL Motor Insurance. The Council of Cooperative Health Insurance (CCHI) has also, issued the unified policy for the employers.

### **Fourth: Strategy of the company and the future perspectives**

In addition, the company works on its strategy to be the preferred and the chosen insurance company in the Kingdom, by providing various and innovative insurance products in competitive prices with the best quality services and in added value to customers and shareholders. The Board of Directors reviews in regular the company's main strategy, the work plan and what achieved this year as well as vision of this strategy in the coming years. The Board of Directors as well, and its committees periodically, review the developments of work and compare the achievements with the stated objectives. The management of the strategic projects supervise the Implementation of agreed projects.

The company's strategy aims to achieve profits from the insurance operations in view of a steady growth and excellence in providing the motor insurance services in order to become the preferred insurance company in the Kingdom. In addition to maintaining a balanced insurance portfolio distributed on the various market segments and to continue in providing the various lines of the insurance, at a time the company keeps on its transparency backed by an integrated protection and high quality service for all the clients and the brokers in the market.

The company additionally, aims to support its financial position by enhancing the solvency margin of the company in accordance with the adopted boards and regulations. The Board of Directors recommended in 2016 of restructuring the company's capital by reducing the capital to

eliminate the accumulated losses and to increase the company's capital to enable the company to expand and to consolidate the solvency requirements.

**Fifth: The most important developments in infrastructure and business:**

The most important achievements can be summarized as follows:

**a. The Branches and Points of Sales**

During year of 2016, the company continued in expanding through number of agents. The number of agents has reached three agents to support marketing of the company's products through their approved branches in the different cities of the Kingdom, in addition to the sales points and branches of the company in the kingdom, total number of them is 26

**b. Human Resources**

The company continued its support to develop the national cadres and to attract the best scientific and practical expertise in the field of cooperative insurance in order to establish a cohesive and distinguished work teams in all insurance lines. In 2016, percentage of Saudization was 64%. The female staff represented 10 % of the total number of the employees, a suitable and attractive working environment has been saved for the Saudi women. Number of training courses and workshops have been offered to the staff to acquire and get the skills and the practical experience for the target professions, and specialized courses to assist employees to pass exam of Insurance Fundamentals Certificate (IFC).

**c. Marketing and Sales**

In the fiscal year ended at December 31, 2016, the company achieved total sales of SR 2.168 b., in a growth rate of more than 16% than year of 2015, and maintained its most important accounts by providing transparent, innovative and best quality insurance services to its customers. The company concentrated its strategy on its credibility of offering safety products for gaining the customer's permanent confidence and rest of mind.

**d. Technical aspects**

The company made reinsurance agreements with some of the best reputable and the global ranked reinsurers, as well as with some of the best reinsurance brokers, that will enable the company to obtain the support and the distinctive services from the global market to answer immediately all the requirements of the local market.

**e. Investments**

The company's investments are among Islamic Murabaha, investment portfolios, Islamic bonds and founding the shares in both of:



- Najm, Insurance Services Company (Saudi Limited Liability Company) of SR1.923 m. of the equity capital. Najm works as a surveyor, loss assessor and insurance claims specialist.
- Saudi Cooperative Reinsurance Company- a Saudi joint stock company – established by resolution of the Ministers Council, No. (319 dated 24/10/1428 H.) and licensed by the Saudi Arabian Monetary Authority SAMA, as Reinsurance Company in a market value of SR 603 thousand, as at December 31, 2016 G. The number is 100,000 share.

The company also invests in the Islamic Sukuk (Bonds) issued by the General Authority of Civil Aviation (GACA) and the National Industrialization Company at 31/12/2016 of SR 45 m.

During the current year, the company has disinvested its two portfolios in the Saudi Stock Market (shares authorized by the Shariah (Islamic law) Authority) in a market value of SR 41.75 m. as at December 31, 2015. In addition to the disinvestment of the sukuk (Bonds) portfolio in a market value of 45.86 m. at December 31, 2015, in addition to a share invested in DERAYAH Fund for Trading, Finance and managed by DERAYAH for Finance in a market value of SR 27 m. as at December 31, 2015

The company, at 31/12/2016, has an investment in the Real Estate Development Fund, this fund is managed by NCB Capital and SEDCO Fund for Real Estate Income of SR 30.6 m.

The company also invests its cash of SR 941m. in Islamic Murabaha with the local banks

#### **Sixth: Risks face the Company**

##### **1. The Competition:**

Same of the insurance companies in the Kingdom, Malath Insurance's activity may be affected by the fierce competition in the Saudi market because of number of licensed insurance companies listed in the market. The total number of the insurance companies in 2016 reached 35 insurance company, which may lead to a hard competitive environment that may affect Malath's activity and its future opportunities.

##### **2. The ability to achieve satisfactory investment returns in the current economic conditions:**

The financial results of Malath partly depends on its investment performance. The profitability of the Company may be affected by the high / low returns of the investment from time to time as a result of the conditions that affect these investments due to the market fluctuations and the local / global economic conditions.

##### **3. The Legal and Regulatory Risks:**

The Company's insurance operations are subject to supervision and control of the Saudi Arabian Monetary Authority SAMA, through the Cooperative Insurance Supervision Law and its Executive board, as well as the Executive Board of the Council of Cooperative Health Insurance (CCHI) in respect of the health care insurance product. In general, the organizing and supervision of the insurance are specifically directed to favor of the insured and investors. The future legislations and the regulatory changes may affect the insurance or the

financial services industry and may negatively affect the business of Malath and its financial conditions and results of its operations.

In view of the company's accumulated losses exceeded 50% of the capital, and in accordance with requirements of the Article 150 of the Companies Law, the Company is required to amend its financial position before implementing this Article. The Board of Directors has taken the necessary measures to ensure achievement of these requirements within the statutory deadline which will end on 22/04/2017, so the company started to reduce its capital to be restructured in line with the new companies system.

**4. Technological risks:**

The company relies on its own IT systems although the company takes the appropriate security measures, the IT systems may be subject to hacking, computer viruses, human errors or natural disasters. If these failures are repeated or occurred for long periods, this may increase costs and expenses of the capital, which will lead to adversely affecting the company's financial results.

**5. Issues and increase number of complains by the customers:**

In the normal course of business, Malath may initiate cases prosecution against other parties, and may be asked by claims from third parties. These issues may adversely affect the future financial situation of Malath and non-carefully reading of the customers for the clauses and conditions stated at the insurance policy may lead to unreal complains, thus increasing number of complains by the customers. Also, when the insurance company applies the procedures and regulations issued by the Traffic Department, which are usually not suitable for the harmed or the affected parties, so these harmed parties go to SAMA for grievance and complain because of absence of public awareness of the regulations issued by the General Administration of Traffic. Some clients may delay in receiving the claim amounts and provide the company with a final conciliation, the claim based on that pended or stated at the company's customer protection department for long periods.

**6. Fraud Claims:**

Some of the claims include fraud cases that may be committed by any client and the claim accordingly, needs more of time in Malath because of the taken procedures against fraudulent cases and clients, because of contacting other authorities to prove this fraud for protection rights of the company.

**7. Anti Money Laundering & Compating Financing Terrorism CFT/AML:**

Malath understands that the insurance sector is exposed to money laundering and terrorism financing through various insurance operations, which necessitates development of policies and applications specified to the customer acceptance and taken the due diligence procedures stipulated in the relevant regulations.



Therefore, Malath in 2016, continued in taking several procedures to reduce risks that may face, including reviewing the Company's risk plan and to ensure that it is effectively applied to reduce all risks, also, to review and update the AML / CFT. In respect of the high number of complains filed by the customers, Malath has developed its own system for the motor claims and handling the customer complains, thus ensuring prompt handling of the complains and the fair settlement of claims. The staff are constantly trained to deal rightly with all the risks they may face while their working and managing these risks in the appropriate ways.

### **Seventh: Important Events**

- **SAMA's letter regarding number of regular procedures for the company:**

The company announced receiving a letter from the Saudi Arabian Monetary Authority (SAMA) dated 30/03/2016 regarding number of the company's regular procedures in view of the financial results of the company for the fiscal year 2015, especially the decrease in the required solvency margin due to the large growth in volume of the company's sales during the year 2015. Letter of SAMA has included the following actions:

- 1- The company should meet the solvency margin requirements by 30/09/2016. If the company does not meet the requirements of the solvency margin, SAMA will take all the legal and regular procedures against the company to protect rights of the insureds.
- 2- The Company shall increase the statutory deposit from 10% of the paid capital to 15% of the paid capital by 24/04/2016.
- 3- The company appoints a consultant to study the reasons, formulate the necessary suggestions, proposals and solutions. The company should confirm in written to SAMA the appointing of the consultant by 24/04/2016.
- 4- The company provides in detail a monthly report regarding progress of the business performed by the consultant at beginning of each Gregorian month and to submit a copy of the final report of the consultant at the end of his work.
- 5- The company provides a detailed quarterly report about progress of implementation and applying recommendations of the consultant after completion of his work.
- 6- The company should hold a meeting of the Board of Directors, to discuss the contents of this letter and reasons of that, and submit the minutes of the Board meeting to SAMA no later than 07/04/2016.

The company accordingly, increased the statutory deposit and also appointed PWC as a consultant in order to present the required study and recommendations. The Board of Directors also recommended an increase of the company's capital (as shown below) in order to meet the required solvency margin.

- **The company's accumulated losses reached 62.6% of its capital:**

At the end of the 2<sup>nd</sup> Qrt of 2016, the accumulated losses of the company exceeded more than 50 % of the capital. The accumulated losses amounted SR 187.67m. In percentage of 62.6% of the capital. It has become an obligation by the company to announce monthly the financial statements prepared internally by the management Company. The main reasons of the accumulated losses during the 2<sup>nd</sup> Qrt, were increase of the technical allocations as per the recommendation of the appointed actuary of the company, this recommendation was increasing of SR 75.5 m. in the net reserve of IBNR claims, in addition to increase of SR 16 m. in the reserve of the premium deficit. As well as increasing allocation of the doubtful debts during the current quarter by SR 19m. and record the allocation of non-compliance of the assets in amount of SR 18m. Answering to requirements of SAMA

The company announced on 28/7/2016 that its accumulated losses amounted SR 187.67 m. representing 62.6% of its capital, referring to the financial results of the 2<sup>nd</sup> Qrt that announced by the company.

- **Recommendation of the Board of increasing the Company's Capital:**

The Company announced that the Board of Directors has decided during its meeting on April 18, 2016 to increase the company's capital to support growth of the company's sales and to increase the company's ability to expand and consolidate the company's solvency requirements. The Board decided as well, to nominate a consultant to determine the proper increase of the Company's capital in view of the the future projects and plans of the company and recommend holding Extraordinary General Assembly to increase the capital of the company by issuance priority rights shares in value of the appropriate increase, which will be announced later subject to obtaining the necessary approvals from SAMA, the Capital Market Authority and the other relevant entities. The Company received letter of SAMA No. 371000088572 dated May 17, 2016 including their approval of appointment PWC as a consultant to the company, scope of their work includes prepare the necessary studies to determine the appropriate increase of the capital based on the future plans and projects.

In view of that the company announced recommendation of the Board of Directors at its meeting held on 26/09/2016 of the Extraordinary General Assembly to increase the company's capital through a priority rights issue in a mount of SR 260m., subject to getting the required approvals of the relevant official bodies and the extraordinary general assembly. The increase will be only on owners of shares registered at the end of the trading (Tadawul) day of holding the Extraordinary General Assembly that will decide to increase value of the capital. The company



received on Tuesday 29/02/1438 corresponding to 29/11/2016 letter of SAMA No. 381000023357 dated 29/02/1438 corresponding to 29/11/2016, stating that it was not possible to accept application of the capital increase through issuance a priority rights shares of SR 260m. In case the company wishes to re-apply for increasing its capital, the amount of the capital increase should be sufficient to meet the solvency margin requirements immediately from date of the capital increase up to end of the three years.

In view of that, during the Board meeting on 14/12/2016, they have reconsidered recommendation of the Extraordinary General Assembly to increase the Company's capital through a priority rights shares of SR 260 m., as they have taken a recommendation of the capital increase through priority rights shares of SR 380m. to meet the required solvency margin subject to getting on the required approvals of the relevant official bodies and the Extraordinary General Assembly on the change of the capital, determine the price and number of shares to be offered. The increase is limited to the shareholders registered at the end of the trading (Tadawul) day of holding the Extraordinary General Assembly.

The Company announced on 02/01/2017 receipt of letter of SAMA approval to increase the capital of the company to SR 380m. by the priority rights issue and announced as well, on 10/01/2017 the appointment of Investment Capital Company as financial adviser to increase capital.

- **Board of Directors' recommendation to reduce the Capital:**

The recommendation of the Board of Directors of Malath Insurance Company was announced at its meeting held on October 19, 2016 corresponding to Muharram 18, 1438H. The recommendation of the Extraordinary General Assembly to reduce the company's capital stated the following:

1. Capital of the company before reduction is SR 300,000,000 divided into 30,000,000 share, to become after the reduction SR 120,000,000 divided into 12,000,000 share.
2. The discount rate will represent 60% of the company's capital through reduction of 1.8 shares per each 3 shares.
3. Reason of the capital reduction: restructuring the capital of the company in accordance with Article 150 of the new system of companies and cover the accumulated losses
4. Method of the Capital Reduction: Cancellation of 18,000,000 share of the company.
5. Effect of the capital reduction on the Company's liabilities: There is no material impact because of the reduction of the Company's capital on its financial obligations.

The company also announced on 13/12/2016 of receiving a letter of SAMA approval of appointment Investment Capital Company as financial adviser to increase capital dated

26/12/2016. The company finally, announced the submission of its capital reduction file to the Capital Market Authority on 30/01/2017

- **SAMA's approval for Group's Life Insurance Product - Credit Loans:**

Malath Insurance Company announced on 28/11/2016 that it received SAMA's letter containing the final approval of the Group's Life Insurance Product - Credit Loans

- **Termination the contract with Company of Abdul Latif Jameel for Finance and Abdul Latif Jameel Insurance Agency:**

Malath Insurance Company announced on 14/12/2016 that it will not submit the renewal contract of third party liability insurance, and the bodies of the motor insurance for Company of Abdul Latif Jameel Finance and termination the contract with Abdul Latif Jameel Insurance Agency. It has been declared that the insurance premiums represent about 40 % of the company's total premiums. Cause of non-presenting new offer to renew the insurance because of the negative technical results and the low financial margin of the company's financial solvency.

- **Receipt SAMA letter of suspension the new underwriting of the Motor insurance activity by the company:**

The company announced receipt of a SAMA letter regarding the fully failure of the company to comply with the regular requirements related to settlement of Motor claims and handling the customer complains which stops the Company to accept underwriting in the motor insurance activity w.e.f. 29/11/2016, noting that SAMA has allowed for Malath to underwrite again on 11/1/2017 because of the company started actually in taking the corrective measurements and developing the system of handling and settlement the motor insurance claims and customer complains.

#### **Eighth: The Financial Indicators:**

The main financial indicators for the Company's seventh fiscal year ended at December 31, 2016 are as follows:

1. The net loss before the Zakat for the year of 2016 reached SR 150,174 thousand compared with loss of SR 1,883 thousand for the previous year. Net loss after Zakat amounted SR 156,174 thousand compared to SR 9,883 thousand For the previous year.
2. Loss of the share after the Zakat for 2016 amounted SR (5.206) compared with loss of SR (0.329) for the previous year.
3. The deficit of the insurance operations less investment return of the policy holders (operating results) for year of 2016 amounted SR 161,434 thousand compared with deficit of SR 13,697 thousand of the previous year.
4. Gross Underwriting Premiums (GWP) for year of 2016 amounted SR 2,167,856 thousand compared with SR 1,863,478 thousand of the previous year of an increase of 16.33%. The net underwriting premiums for the year 2016 amounted SR 1,500,692 thousand compared with SR 1,523,783 thousand for the year in a decrease of -1.52%.
5. Net of the occurred claims of 2016 amounted SR 1,623,247 thousand compared with SR 1,485,470 thousand for the previous year, it is increased than the previous year of 9.28%.



6. Net profit of the policyholders' investments for 2016 amounted SR 17,571 thousand, compared with SR 5,300 thousand for the previous year in an increase of 231.53%. Net profit of shareholders' equity investments amounted SR 11,670 thousand compared with SAR 7,974 thousand for the previous year in an increase of 46.35%.

Reason of decrease the loss in year of 2016 compared with the same corresponding period of the previous year is due to increase deficit of the insurance operations results, and because of the increase in net of the occurred claims in addition to composing allocation of non-compliance of the assets in a total amount of SR 18.5m. (2 million Saudi Riyals for accounts of the policyholders accounts and SR 16.5m. for the shareholders' accounts)

**The results of the fiscal year are as follows:**

**a) Underwriting Premiums SR Thousands**

Statement	2012 G.	2013 G.	2014 G.	2015 G.	2016 G.
Grand Total of Underwriting Premiums	558,064	770,901	1,412,841	1,863,478	2,167,856
Net of the Underwriting Premiums	464,343	660,335	1,265,754	1,523,783	1,500,692

**b) Claims: SR Thousands**

Statement	2012 G.	2013 G.	2014 G.	2015 G.	2016 G.
Net of the occurred claims	315,906	559,101	927,055	1,485,470	1,623,274

**c) Reinsurance Commissions and the other Revenues SR Thousands**

Statement	2012 G.	2013 G.	2014 G.	2015 G.	2016 G.
Reinsurance Commissions	33,910	25,146	23,468	56,482	415,332
Other Revenues	11,462	14,356	7,229	10,066	11,527

**d) Costs of the underwriting and the premiums Loss surplus SR Thousands**

Statement	2012 G	2013 G	2014 G	2015 G	2016 G
Costs of Insurance Policies Underwriting	56,579	46,408	55,958	171,927	217,666
Premium of loss surplus	5,664	13,303	22,574	27,211	38,750

**e) Public and administrative Expenses SR Thousands**

Statement	2012 G	2013 G	2014 G	2015 G	2016 G
Operative and Administrative salaries	64,461	65,732	72,689	72,006	78,560
Other public and Administrative Expenses	34,981	49,342	31,331	44,905	51,880
<b>Grand Total</b>	<b>99,442</b>	<b>115,074</b>	<b>104,020</b>	<b>116,911</b>	<b>130,440</b>

**f) Technical Allocations SR Thousands**

Statement	2012 G	2013 G	2014 G	2015 G	2016 G
Net of unearned premiums	254,416	252,384	484,655	287,164	364,014
Commissions of Unearned Reinsurance	5,552	9,112	16,965	33,959	23,614
outstanding costs for underwriting policies	20,615	21,877	43,737	47,127	47,947

**g) Surplus (Deficit) of the Insurance Operations SR Thousands**

Statement	2012 G	2013 G	2014 G	2015 G	2016 G
Surplus (Deficit) of Insurance Operations	24,599	37,331	23,095	8,397	143,863

## h) statement of Insurance Operation Results SR Thousands

Statement	2012 G	2013 G	2014 G	2015 G	2016 G
<b>Revenues</b>					
Grand Total of Underwriting Premiums	558,064	770,901	1,412,841	1,863,478	2,167,856
Deduct: Issued Premiums of Reinsurance	93,721	110,566	147,087	339,695	667,164
Net of the Underwriting Premiums	464,343	660,335	1,265,754	1,523,783	1,500,692
Changes in Unearned Premiums	1,656	2,032	232,271	197,491	76,850
Net of earned Premiums	462,687	662,367	1,033,483	1,721,274	1,423,842
Reinsurance Commissions	25,146	23,468	31,816	56,482	415,332
Investment Income and Other Revenues	14,356	10,720	21,213	15,366	29,098
<b>Grand Total of the Revenues</b>	<b>502,189</b>	<b>696,555</b>	<b>1,086,512</b>	<b>1,793,122</b>	<b>1,868,272</b>
<b>Costs &amp; Expenses</b>					
Grand total of the settled Claims	392,401	511,346	811,098	1,444,794	1,955,189
<b>Deduct</b> Share of Reinsurers	75,418	61,024	59,383	62,084	353,885
Grand total of the settled Claims	316,983	450,322	751,715	1,382,710	1,601,304
Change in claims under settlement	1,076	108,779	175,340	102,760	21,970
Net of the occurred claims	315,905	559,101	927,055	1,485,470	1,623,274
Costs of Insurance Policies Underwriting	56,579	46,408	55,958	171,927	217,666
Premium of loss surplus	5,664	13,303	22,574	27,211	38,750
Reserve of non-compliance the assets					2,005
Operative and Administrative salaries	64,461	65,732	72,574	72,006	78,560
Other public and Administrative Expenses	34,981	49,342	31,331	44,905	51,880
<b>Grand Total of the Costs &amp; Expenses</b>	<b>477,590</b>	<b>733,886</b>	<b>1,109,607</b>	<b>1,801,519</b>	<b>2,012,135</b>
Net of Surplus / (Deficit) in Results of Insurance Operations	24,599	37,331	23,095	8,397	143,863
Net of Surplus / (Deficit) transferred to statement of the Shareholders Operations	22,139	37,331	23,095	8,397	143,863
Net of the Period Result	<b>2,460</b>	-	-	-	

i) Statement of the shareholders operations SR Thousands

Statement	2012 G.	2013 G.	2014 G.	2015 G.	2016 G.
Investments Income	16,498	8,965	18,460	7,974	11,670
Reserve of non-compliance the assets					16,466
Public and Administrative Expenses	1,170	1,468	1,577	1,460	1,515
Income of the shareholders operations	<b>15,328</b>	<b>7,497</b>	<b>16,883</b>	<b>6,514</b>	<b>6,311</b>
Net of Surplus / (Deficit) in Results of the Insurance Operations	22,139	37,331	23,095	8,397	143,863
Profit before Zakat	37,467	29,834	6,212	1,883	150,174
Zakat Allocation	7,000	12,000	7,500	8,000	6,000
Net profit	<b>30,467</b>	<b>41,834</b>	<b>13,712</b>	<b>9,883</b>	<b>156,174</b>
Profit / (Loss) of the share	1.02	1.39	0.46	0.33	5.21

j) Statement of the Financial Position: SR Thousands

Statement	2012 G.	2013 G.	2014 G.	2015 G.	2016 G.
<b>Assets of the Insurance Operations</b>					
Cash & Cash equivalents	187,313	188,947	475,254	538,794	807,533
Short-term investments	20,235	85,000	50,621	235,766	75,000
Available investment for sale	34,383	35,778	35,303	36,869	5,346
Net of debit receivables	206,732	217,666	457,636	263,678	158,624
Other assets	245,402	582,490	629,282	533,953	503,920
<b>Assets of the Insurance Operations</b>	<b>694,065</b>	<b>1,109,881</b>	<b>1,630,096</b>	<b>1,609,060</b>	<b>1,550,423</b>
<b>Assets of the shareholders</b>					
Cash & Cash equivalents				80324	151,498
Short-term investments	-	65,000	15,000	-	
Available investment for sale	129,475	189,254	192,006	174,907	72,834
Other assets	202,700	89,732	109,985	31078	49,695
<b>Grand total of Assets of the shareholders</b>	<b>332,175</b>	<b>343,986</b>	<b>316,991</b>	<b>286,309</b>	<b>274,027</b>
<b>Total of assets</b>	<b>1,026,240</b>	<b>1,453,867</b>	<b>1,947,087</b>	<b>1,895,369</b>	<b>1,824,450</b>
<b>Requirements of the Insurance Operations</b>					
Receivables of Reinsurers	15,199	33,185	37,690	180,203	42,122
Technical reserves	536,844	946,006	1,405,184	1,242,743	1,159,817
Other requirement	142,022	130,690	187,222	186,114	349,892
<b>Total of the Insurance Operations requirements</b>	<b>694,065</b>	<b>1,109,881</b>	<b>1630096</b>	<b>1,609,060</b>	<b>1,551,831</b>
<b>Requirements and rights of shareholders</b>					
Requirements of shareholders	9,640	53,006	40772	27,875	184,668
Rights of the shareholders	322,535	290,980	276219	258,434	89,359
<b>Total Requirements of shareholders</b>	<b>332,175</b>	<b>343,986</b>	<b>316991</b>	<b>286,309</b>	<b>274,027</b>
<b>Total Requirements and rights of the shareholders</b>	<b>1,026,240</b>	<b>1,453,867</b>	<b>1947087</b>	<b>1,895,369</b>	<b>1,824,450</b>

k) Statement of the changes at the shareholders SR Thousands

Statement	Capital	Regular reserve	Accumulated deficit	Change in the fair value of the investment available for sale	Total
Capital finance	300,000		-	-	300,000
Total of the comprehensive loss for the period	-		59,207	9,000	68,207
<b>Credit at December 31, 2008 G</b>	300,000		59,207	9,000	231,793
Total of the comprehensive profit for the year	-		7,228	13,191	20,419
<b>Credit at December 31, 2009 G</b>	300,000		51,979	4,191	252,212
Total of the comprehensive profit for the year	-		18,074	7,675	10,399
<b>Credit at December 31, 2010 G</b>	300,000		33,905	3,484	262,611
Total of the comprehensive profit for the year	-		14,092	3,831	17,923
<b>Credit at December 31, 2011 G</b>	300,000		19,813	347	280,534
Total of the comprehensive profit for the year	-		30,467	11,534	42,001
<b>Transferred for the reserve</b>	-	2,131	2,131		-
<b>Credit at December 31, 2012 G</b>	300,000	2,131	8,523	11,881	322,535
Total of the comprehensive profit for the year	-	-	41,834	10,279	31,555
<b>Credit at December 31, 2013 G</b>	300,000	2,131	33,311	22,160	290,980
Total of the comprehensive profit for the year			13,712	1,049	14,761
<b>Credit at December 31, 2014 G</b>	300,000	2,131	47,023	21,111	276,219
Total of the comprehensive profit for the year			9,883	7,902	17,785
<b>Credit at December 31, 2015 G</b>	300,000	2,131	56,906	13,209	258,434
Total of the comprehensive profit for the year			156,174	12,901	169,075
<b>Credit at December 31, 2016 G</b>	300,000	2,131	213,080	308	89,359



## 1) Sectorial information and geographical distribution

The management has adopted, as per instructions of SAMA, the business sectors for the Company's activities, assets and liabilities as described below.

### Income statement

#### Insurance Operations

At December 31, 2016, SR Thousands

	The Properties	The Engineering	The Motor	Health care	other	Total
Grand Total of the Underwriting Premiums	72,979	42,565	1,900,633	95,162	56,517	2,167,856
Net of the Earned Premiums	2,595	913	1,304,134	84,087	32,113	1,423,842
Reinsurance Commissions	19,164	15,426	371,056	-	9,686	415,332
Other Revenues	139	82	10,832	318	156	11,527
Net of the paid /settled claims	113	26	1,565,292	59,585	1,690	1,623,274
Other Expenses	7,729	3,083	212,079	7,601	25,924	256,416
Consumption	88	52	2,303	116	68	2,627
Operative and administrative salaries experiences , and other administrative and public experiences	4,370	2,547	113,816	5,699	3,386	129,818
Income / (Loss) of the Insurance business	9,598	10,765	207,468	11,404	14,267	161,434
Commissions on the short-term Islamic Investments						17,571
Surplus of the Insurance Operations						143,863

#### Insurance Operations

For the year ended at December 31, 2015, SR Thousands

	The Properties	The Engineering	The Motor	Health care	other	Total
Grand Total of the Underwriting Premiums	80,367	43,757	1,585,736	91,653	61,965	1,863,478
Net of the Underwriting Premium	10,597	1,796	1,594,635	98,875	15,371	1,721,274
Reinsurance Commissions	18,781	11,554	15,337	-	10,810	56,482
Other Revenues	79	46	8,930	888	123	10,066
Net of the paid /settled claims	1,128	232	1,423,424	56,102	6,830	1,485,420
Other Expenses	9,612	3132	169,909	9,780	6,705	199,138
Consumption	129	70	2,537	147	98	2,981
Operative and administrative salaries experiences , and other administrative and public experiences	4,913	2,675	96,948	5,603	3,791	113,930
Income / (Loss) of the Insurance business	15,931	7,287	73,926	28,131	8,880	13,697
Commissions on the short-term Islamic Investments						5,300
Surplus of the Insurance Operations						8,397

## Statement of the Financial Position:

Insurance Operations		At December 31, 2016, SR Thousands					
Assets of the Insurance Operations		The Properties	The Engineering	The Motor	Health care	other	Total
Share of Reinsurers from the unearned premiums		20,852	20,710	68,210	-	8,377	118,149
Share of Reinsurers from the claims under processing		98,398	27,187	25,860	-	12,295	163,740
The outstanding costs for underwriting policies		1,940	1,063	39,170	2,423	3,351	47,947
Unclassified assets							1,220,587
Total of the assets							1,550,423
Assets of the Insurance Operations							
Unearned Premiums		21,262	21,124	370,447	40,112	29,218	482,163
Commissions of Unearned Reinsurance		5,883	6,292	8,526	-	2,913	23,614
Under Processing Claims		99,849	30,294	492,444	13,636	17,817	654,040
Unclassified requirements							390,606
Total of the requirements							1,550,423

Insurance Operations		At December 31, 2015, SR Thousands					
Assets of the Insurance Operations		The Properties	The Engineering	The Motor	Health care	other	Total
Share of Reinsurers from the unearned premiums		21,695	25,812	132,138	-	9,079	188,724
Share of Reinsurers from the claims under processing		167,881	29,492	43,859	-	23,335	264,567
The outstanding costs for underwriting policies		1,768	1,312	38,969	1,724	3,354	47,127
Unclassified assets							1,108,642
Total of the assets							1,609,060
Assets of the Insurance Operations							
Unearned Premiums		22,175	26,917	367,592	29,037	30,167	475,888
Commissions of Unearned Reinsurance		6,341	8,058	16,517	-	3,043	33,959
Under Processing Claims		169,812	33,001	483,049	14,165	32,869	732,896
Unclassified requirements							366,317
Total of the requirements							1,609,060

### The Geographic Locations /Sites SR Thousands

Statement	Grand Total of the Premiums	Percentage
Central Region	950	43.8
Western Region	1070	49.4
Eastern Region	148	6.8
<b>Grand Total</b>	<b>2168</b>	<b>100%</b>

### Ninth: The Disclosure as per the regulations

#### a) **Corporate Governance Regulations**

The Company has updated its Corporate Governance Regulations, which determine the rules and standards governing the performance of the Company. These regulations go along with the regulations issued by SAMA, the regulations issued by the Capital Market Authority and the Companies Law issued by Ministry of Trade and Investment. These regulations will be approved by the General Assembly of the shareholders of the Company.

The Board of Directors of the Company has submitted a request to SAMA to approve regulations of Malath Insurance Company. Malath's regulations have been updated to comply with the regulations issued by SAMA, the Capital Market Authority and the new corporate law issued by the Ministry of Trade and Investment. SAMA has approved waiting for holding the general assembly to be presented to the shareholders of the company.

In view of absence the legal status members at the Board of Directors or presence of legal status investors, there is no way for applying the paragraph (d), of the article -6- and the paragraph (t) of the Article 12 of the Corporate Governance Regulations.

#### b) **Formation of the Board of Directors and the Executive Management of the Company**

According to Article (13) of the Articles of Association of the Company, the Company shall be managed by a Board of Directors composed of nine members appointed by the Ordinary General Assembly for a period not exceeding three years, as this assembly appoints the first Board of directors. Such appointment shall not prejudice the right of the legal person to replace his representative in the Board. Board of Directors for a period of three years from date of issuance the Ministerial Resolution announcing establishment of the company.

The Board of Directors has been elected for the fourth session that begins on 6 April 2016 for a period of three years at the Ordinary General Assembly Meeting on 25 Jumada II 1437H (03 April 2016). All members are non-executive members and the majority are independent. All members have been provided with the company's boards and regulations in the Kingdom of Saudi Arabia. The following members were elected:

- Eng. Mubarak Bin Abdullah Al-Khafra
- Mr. Mohammed bin Ali Al-Ammari
- Dr. Ghassan bin Abdurahman Al-Shebl

- Mr. Abdulmuhsen bin Mohammad Al-Saleh
- Eng. Mohammad bin Abdulaziz Al-Namla
- Mr. Obaid Abdullah Al-Rashid
- Mr. Mohammed Saleh Al-Athel
- Mr. Tarek Othman Al-Abd Alajabbar
- Mr. Fawaz Muhammed Al-Fawaz

Name	Type of the Membership	The other Joint Stock Companies that the member participates in Membership of its Board of Director	Number of the owned shares	Percentage (%) of the shares
Mubarak Bin Abdullah Al-Khafra	Non-Executive	National Industrialization Company (TASNEE) The first bank Gulf Chemicals And Industrial Oils Company.	80,477	0.268%
Mohammed bin Ali Al-Ammari	Non-Executive	Tabuk Cement Company Tabuk Fisheries Company Wajeef Insurance Brokerage Services Company	8,567	0.028%
Abdulmuhsen bin Mohammad Al-Saleh	Non-Executive	Saudi Industrial Services Co. (SISCO) - Integrated Logistic Services Providers (LSC) FALCOM Financial Services	1,000	0.003%
Obaid Abdullah Al-Rashid	Independent	Saudi Chemical Company Saudi Home Loans (SHL) Al-Arabi Heavy Equipment Lease Company (AHEL) Dr. Sulaiman Al Habib Medical Group	1,000	0.003%
Ghassan bin Abdurahman Al-Shebl	Independent	Saudi Airlines	30,000	0.100%
Mohammad bin Abdulaziz Al-Namla	Independent	Middle East Specialized Cables (MESK) Gulf Isolation Group company Abdulaziz Mohammed Al Namla Holding Company Emirates Pipe Insulation Co., Ltd. Eastern Industrial Co.	1,000	0.003%
Fawaz Muhammed Al-Fawaz	Independent	Manufacturing and Sahara Company for Olefin Industrialization and Power Company (TASNEE) Saudi Shipping Co	1,059	0.003%
Tarek Othman Al-Abd Alajabbar	Independent	Saudi Advanced Industries Company	1,000	0.003%
Mohammed Saleh Al-Athel	Independent	Venture Capital Bank - Bahrain Packaging Materials Manufacturing Co. (FIPCO) Delta Company - a Saudi Closed Joint Stock Company	1,000	0.003%



The executive management of the company consists of a distinguished group of the qualified and experienced individuals in the field of insurance, they are as follows:

Name	Position	Experience	Qualifications	Number of the owned shares	Percentage (%) of the shares
Nasser Hashem Al-Bunni	CEO	Experience 22 years in Insurance Field	PC engineering from King Fahd University of Petroleum and Minerals	-	-
Theib Hudaiban Al-Adhela	Vice CEO	Experience more than 17 years in Insurance sales	IFC	-	-
Rami Omer Al-Hushan	Vice CEO for sales & Marketing	Experience more than 16years in Insurance - marketing & Accounting	Master in Business Administration- PSU	-	-
Fawaz Abdulrahman Al-haji	Vice CEO for Motor Insurance	Experience 22 years in Insurance Field	Master in Business Administration- Germany	-	-
Sunil Waji Seri	Vice CEO for Motor Insurance	Experience 22 years in Insurance Field	Master in Business Administration- Germany	-	-
Abu Baker Ahmed Shehab	CFO	Experience more than 19 years in the Finance field	Finance Major from King Fahd University of Petroleum and Minerals	-	-

### c) Board of Directors Meetings

Board of Directors held 8 meetings during 2016, as per what recorded in the visors register as mentioned below:

Meeting Name	The Previous Session		The current Session					
	First 10-2-2016	Second 3-4-2016	Third 18-4-2016	Fourth 22-6-2016	Fifth 26-9-2016	Sixth 16-10-2016	Seventh 3-11-2016	Third 14-12-2016
Mubarak Bin Abdullah Al-Khafa	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Mohammed bin Ali Al-Ammari	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Mohammad bin Sulaiman Aba-Nomai	Attended	Did not attend	His membership ended	His membership ended	His membership ended	His membership ended	His membership ended	His membership ended
Abdulmuhsen bin Mohammad Al-Saleh	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Did not attend
Mohammad bin Abdulaziz Al-Namla	Attended	Attended	Attended	Attended	Attended	Attended	Did not attend	Attended
Abdulaziz Abdullah Al-Jalal	Attended	Did not attend	His membership ended	His membership ended	His membership ended	His membership ended	His membership ended	His membership ended
Obaid Abdullah Al-Rashid	Attended	Attended	Attended	Attended	Does not attend	Attended	Does not attend	Attended
Ghassan bin Abdulrahman Al-Shebl	Did not attend	Did not attend	Attended	Attended	Attended	Attended	Did not attend	Attended
Fawaz Muhammed Al-Fawaz	Before joining	Before joining	Attended	Attended	Attended	Attended	Attended	Attended
Mohammed Saleh Al-Athel	Before joining	Before joining	Attended	Attended	Attended	Attended	Attended	Did not attend
Tarek Othman Al-Abd Alajabbar	Before joining	Before joining	Did not attend	Did not attend	Attended	Did not attend	Attended	Did not attend

### d) Formation Committees Of The Board

#### ▪ Audit Committee

The Assembly approved the functions and responsibilities of the Audit Committee as follows:

- Overseeing the Internal Audit Department, the Company's Corporate Governance Department, and verifying their effectiveness in carrying out the works and tasks determined by the Board of Directors.
- Studying the system of internal control, the system of regular control and conducting the written reports about its opinion and recommendations in this regard.
- Studying the reports of internal audit, regular oversight and following up implementation of the corrective measures of the observations contained therein.



- Making the recommendation to the Board of Directors to appoint auditors, and determine their fees and not renew them.
- Follow up the work of the auditors and approve any work outside scope of the audit work assigned to them during their audit work.
- Studying the audit plan with the auditor and discussing any observations thereon.
- Studying the auditor's observations on the financial statements and following up what has been done.
- Studying the accounting policies adopted and expressing the opinion and recommending to the Board of Directors.
- Adoption publication of the preliminary financial statements before they are submitted to the Board of Directors. The Committee shall meet after the closure of the Saudi Stock Market. The lists shall be published before the opening of the Market on the following day. In case of failure, the Board of Directors shall authorize one of its members to approve the publication of the results.
- Examining the annual financial statements before presenting them to the Board of Directors and providing an opinion and recommendation thereon.

**The Audit Committee consists of:**

Name	Position / Title	Type of the Membership
Abdelmohsen Al-Saleh	Head of the Committee (In the Previous Session)	Chairman of Board of Directors
Ali Al-Otaibi	Member (In the Previous Session)	Independent Member (Out of the Company)
Fawaz Muhammed Al-Fawaz	Head of the Committee (the current Session) and member of Committee (the Previous Session)	Member of Board of Directors
Abdulaziz Sulaiman Al-Atiki	Member	Independent Member (Out of the Company)
Naif Mohammad Al-Khamshi	Member	Independent Member (Out of the Company)

The Audit Committee held six meetings during the period from January 01, 2016 to December 31, 2016 to carry out the tasks mentioned above as recorded in the attendance register below:

Meeting Name	The Previous Session		The current Session			
	First 13-1-2016	Second 9-2-2016	Third 23-7-2016	Fourth 27-7-2016	Fifth 18-10-2016	Sixth 11-12-2016
Abdulmehsen bin Mohammad Al-Saleh	Attended	Attended	Ended Membership	Ended Membership	Ended Membership	Ended Membership
Fawaz Muhammad Al-Fawaz	Attended	Attended	Attended	Attended	Attended	Attended
Ali Al-Otaibi	Attended	Attended	Ended Membership	Ended Membership	Ended Membership	Ended Membership
Abdulaziz Sulciman Al-Atiki	Before Joining	Before Joining	Attended	Attended	Attended	Attended
Naif Mohammad Al-Khamshi	Before Joining	Before Joining	Before Joining	Before Joining	Before Joining	Attended

#### ▪ The Executive Committee

The the Board of Directors adopted the composition, functions and responsibilities of the Executive Committee as follows:

The Committee shall be responsible for the reviewing and the submitting the recommendations to the Board of Directors concerning the various matters such as the strategic and action plans. The Committee also has some executive powers granted by the Board of Directors. The committee will coordinate with the investment committee in developing the investment strategy and plans of the company in line with the boards and regulations issued in this regard as well as monitoring the performance of the company's investments.

#### Review and Recommendations:

- Investment policy in coordination with the Investment Committee.
- The strategies, work plans and annual budget presented by the company's executive management.
- Operational developments and company performance.
- Boards and regulations relating to the functioning of the company.
- Important matters and obstacles related to the company's business.

#### ▪ Powers & Authorities

- The powers given by the Board of Directors to the Committee about the financial, technical, personnel and procurement matters as per the limits and amounts stated at the approved regulations.
- Any other powers that the Board deems to be granted to the Committee on basis of the decisions issued by the Board of Directors.

**The Executive Committee consists of:**

Name	Position / Title	Type of the Membership
Mohammad bin Suleiman Aba-Nomai	Head of the Committee (In the Previous Session)	Member of Board of Directors
Mohammed bin Ali Al-Ammari	Member	Member of Board of Directors
Ghassan bin Abdurahman Al-Shebl	Head of the Committee (In the Current Session)	Member of Board of Directors
Mohammad bin Abdulaziz Al-Namla	Member	Member of Board of Directors
Tarek Othman Al-Abd Alajabbar	Member	Member of Board of Directors
Nasser Hashem Al-Benni	Member	CEO of the Company

The Executive Committee held six meetings during the period from January 01, 2016 to December 31, 2016 to as recorded in the attendance register below:

Meeting Name	The Previous Session	The current Session				
	First 20-1-2016	Second 16-5-2016	Third 21-6-2016	Fourth 25-9-2016	Fifth 23-10-2016	Sixth 6-12-2016
Mohammad bin Sulciman Aba-Nama	Attended	His membership ended	His membership ended	His membership ended	His membership ended	His membership ended
Mohammed bin Ali Al-Ammari	Attended	Attended	Attended	Attended	Attended	Attended
Ghassan bin Abdurahman Al-Shebl	Attended	Attended	Attended	Attended	Attended	Attended
Mohammad bin Abdulaziz Al-Namla	Attended	Attended	Attended	Did not attend	Did not attend	Attended
Tarek Othman Al-Abd Alajabbar	Before Joining	Did not attend	Did not attend	Attended	Did not attend	Attended
Nasser Hashem Al-Benni	Before Joining	Attended	Attended	Attended	Attended	Attended

▪ **Committee of Risks Management:**

This committee was established in accordance with governance board of the insurance companies issued by SAMA. The Board of Directors approved formation, tasks and responsibilities of this Committee as follows:

- Identify the risks to which the Company may be exposed and maintain an acceptable level of risk to the Company.
- Supervising the risk management system and evaluating its effectiveness.
- Review policies of the risk management.
- Re-evaluate the company's ability to take risks and exposure to them periodically.
- Provide detailed reports to the Board of Directors about facing the risks and the proposed steps to manage these risks

- Provide the recommendations to the Board about the issues related to the risk management.
- Conduct periodic review and update the risk management strategy taking into consideration the internal and external variables of the company.

**The Risk Management Committee consists of:**

Name	Position / Title	Type of the Membership
Mohammed Saleh Al-Athel	Head of the Committee	Member of Board of Directors
Mohammed bin Ali Al-Ammari	Member	Member of Board of Directors
Abdulaziz Mohammad Al-Namla	Member	Member of Board of Directors

The Committee held two meetings during the period from January 01, 2016 to December 31, 2016 to as recorded in the attendance register below:

Meeting Name	First 25-04-2016	Second 30-05-2016
Mohammed Saleh Al-Athel	Attended	Attended
Mohammed bin Ali Al-Ammari	Attended	Attended
Mohammad bin Abdulaziz Al-Namaa	Attended	Attended

▪ **Committee Of the Candidates and Remunerations**

The the Board of Directors adopted the composition, functions and responsibilities of the Committee as follows:

- The Committee recommends to the Board of Directors to nominate for membership of the board, in accordance with the approved and the adopted policies and standards.
- The Committee shall perform an annual review for the skills required for the Board membership and prepare a description of the capabilities and qualifications required for the Board of Directors, including determining time of the member to be allocate for the Board of Directors.
- The Committee reviews the structure of the Board of Directors and makes recommendations regarding the possible changes that may be done.
- The committee evaluates performance of the Board (overall and individual performance of the members of the Board) and the members of the committees of the Council at least, on an annual basis and identifies the strengths and weakness points in the board and suggests methods to address the required points to ensure interests of the company.
- The Committee shall ensure on an annual basis, the independence of the members and committees of the Council and ensure that there is no conflict of interest.



- The recommendation regarding appointment and exemption of members of the senior management.
- Develop policy and procedures of succession of CEO, the executives and the senior management and control implementation of succession plans and procedures of them.
- Review rewarding and compensation plans for members of the senior management
- Supervise the induction program and the regular training for members of the Board.
- Recommend to the board in respect of the matters relating to the nominations and awards.

#### Committee of the Candidates and Remunerations

Name	Position / Title	Type of Membership
Mohammed bin Ali Al-Ammari	Head of the Committee (In the Previous Session)	Member of Board of Directors
Abdulaziz Abdullah Al-Jalal	Member	Member of Board of Directors
Ghassan bin Abdurahman Al-Shebl	Member (In the Previous Session)	Member of Board of Directors
Obaid Abdullah Al-Rashid	Member	Member of Board of Directors
Tareq Othman Al-Abd Alajabbar	Member (In the current Session)	Member of Board of Directors
Abdelmohsen Al-Saleh	Head of the Committee (In the Current Session)	Member of Board of Directors

The Committee held two meetings during the period from January 01, 2016 to December 31, 2016 to as recorded in the attendance register below:

	The Previous Session	The current Session
Meeting	First 18-1-2016	Second 7-12-2016
Name		
Mohammed bin Ali Al-Ammari	Attended	Attended
Abdulaziz Abdullah Al-Jalal	Attended	His membership ended
Obaid Abdullah Al-Rashid	Did not attend	Attended
Tareq Othman Al-Abd Alajabbar	Before Joining	Did not attend
Abdelmohsen Al-Saleh	Attended	Attended
Ghassan bin Abdurahman Al-Shebl	Attended	His membership ended

#### Investment Committee:

The Board of Directors adopted the formation, functions and responsibilities of the Committee as follows:

1. Define objectives of the investment and develop the necessary plans which include:
  - a) Develop the investment plans and policies in line with the issued boards and regulations.

- a) Develop the investment plans and policies in line with the issued boards and regulations.
  - b) State long-term goals and plans include risk levels, diversification of the assets and the currencies, and internal and external management options.
  - c) Method and duration of follow up and monitoring the investments performance.
2. Recommending appointment of investment managers, evaluating in regular their performance and setting the required standards.
3. Preparation of a written investment policy including limits of the risk and the supported authority, with taking into consideration the volatility, risk, performance, liquidity, duration, revenue and all other factors deemed appropriate by the Commission. All risk limits and exposure cases to the investment activities should be periodically reviewed to ensure that they are relevant to current market conditions and the Company's overall risk appetite.
4. Review implementation of the investment policy on a quarterly basis, including but not limited to:
  - a. Review performance of each asset class.
  - b. Follow-up the general risks of investment policy.
  - c. Issuing the investment portfolio performance report.
  - d. Development of the technical standards for the approved investment activities.
5. Evaluate the results of the investments periodically and submit the necessary reports to the Board of Directors, including:
  - A. Review the components of the current and future investment portfolio.
  - B. Ensuring that responsables for the funds are in compliance with the investment policy.
  - C. Review purchase and sale decisions.
6. The Committee may, after taking the Board of Directors approval to appoint members outside the Board of Directors and outside the Company's management and recommend their fees.
7. The Committee shall have the power and the authorities to obtain the advice, legal assistance and investment advisory services (internal or external), and to take such other arrangements as it deems proper and in accordance with the granted powers and the authorities.
8. Review the actuarial assumptions and reports as part of the assets allocation and the analysis plan.
9. Assess the data and the methodology used by the actuarial expert upon developing the inflation assumptions and the investments return.
10. Studying the actuarial value of the assets and ensuring that actuarial data are taken into account with the asset and liability management studies of the company.
11. Studying and evaluating any private investment outside the policy.



12. To carry out any other work assigned to the Committee by the Board.

**The Investment Committee consists of:**

Name	Position / Title	Type of the Membership
Mohammad bin Abdulaziz Al-Namla	Head of the Committee	Member of Board of Directors
Abdulmuhsen bin Mohammad Al-Saleh	Member	Member of Board of Directors
Abdulaziz Abdullah Al-Jalal	Member (In the Previous Session)	Member of Board of Directors
Nasser Hashem Al-Bunni	Member (In the Previous Session)	CEO
Ghassan Abdulrahman Al-Shebl	Member (In the current Session)	Member of Board of Directors
Mohammed Saleh Al-Athel	Member (In the current Session)	Member of Board of Directors

The Committee held four meetings during the period from January 01, 2016 to December 31, 2016

Meeting Name	The Previous Session		The current Session	
	First 26-1-2016	Second 6-3-2016	Third 9-5-2016	Fourth 25-9-2016
Mohammad bin Abdulaziz Al-Namla	Attended	Attended	Attended	Attended
Abdulmuhsen bin Mohammed Al-Saleh	Attended	Attended	Attended	Attended
Abdulaziz Abdullah Al-Jalal	Attended	Attended	His membership ended	His membership ended
Nasser Hashem Al-Benni	Attended	Attended	His membership ended	His membership ended
Ghassan Abdulrahman Al-Shebl	Before Joining	Before Joining	Attended	Attended
Mohammed Saleh Al-Athel	Before Joining	Before Joining	Did not attend	Attended

The total cost and allowances of attendance the Board of Directors and its committees amounted SR 264,000 for the period from 01 January 2016 to 31 December 2016 compared with SR 216,000 for the year 2015.

The total remunerations of the Board of Directors approved by the General Assembly held on 25 Jumada Al-Thani 1437H (corresponding to 03 April 2016) was SAR 1,020,000. The Board of the General Assembly did not recommend any bonus or rewards for their work for the fiscal year 2016.

The following table declares details of the remuneration and rewards received by the Board of Directors and the senior executives:

Statement	Executives Board Members	Independent Board Member	Six of the senior executives who received the highest Salaries & Remunerations including the CEO and the CFO
	SR Thousands		
Salaries & Remunerations	-	-	7,613
Allowances	-	264	11
The regular and annual bonuses and rewards	-	1,020	1,135
The motivation plans	-	-	Program of the savings as per the Company's regulations
Any compensation or any other tangible benefits paid monthly or annually	-	-	Health care insurance for the employee and his dependents, insurance for the death cases and the personal accidents as per the company's boards and regulations

Senior executives are CEO, First Vice CEO, Vice President of Sales, Vice President for Technical Affairs, Deputy Chief Executive Officer of Motor Insurance and Chief Financial Officer.

**e) Saving system for the company's employees**

The total contribution of employees during the period ended 31 December 2016 in the savings system amounted SR 4,741 thousand Saudi Riyals, while the contribution of the company reached SR 2,711 thousand, noting that the savings system was stopped in the company as of 01/01/2017.

**f) Transactions and dealing with the related parties**

The Board of Directors has approved the amendments to Policy of arranging the Conflict of Interests for Board Members, Directors, the executive managers and Shareholders to comply with the regulations and regulations issued by the Capital Market Authority. Some transactions and contracts in which the company was a party and there is interest for some of the Board of Directors and senior executives have been conducted without giving the company any special advantage because of these these transactions, which were as follows:

- Saudi NASCO for Insurance Brokerage Company, which is co-owned by H.E. Eng. Mubarak Abdullah Al Khafrah, Chairman of the Board of Directors and is a reinsurance contracts in the same form approved with all reinsurance brokers with whom the company deals. The total transactions for 2016 amounted SR 1,234 thousand, reinsurance installments and SR 123.00 Thousand recoverable compensation through them
- Personal insurance of the member Mr. Mohamed Ali Al-Ammari amounting SR 16 thousand, insurance premiums and claims paid in SR 2 thousand
- Personal insurance of Mr. Abdul Mohsin Al Saleh of SR 34,000 as insurance premiums and paid claims of SR 0.53 thousand.

- d) Group of Aba-Nomai Companies. It is reaching to H.E. Mr. Mohammed Bin Sulaiman Aba-Nomai, member of the previous Board of Directors. These are insurance policies according to the Company's approved policies without any special conditions or benefits. Its premiums reached SR 330 thousand.
- e) Tabuk Cement Company, which is co-owned by HE Mr. Mohamed Ali Al-Ammari, they are insurance policies according to the company's approved policies without any special conditions or benefits. Its duration was one year, of SR 3,581 thousand and paid claims of SR 240 thousand.

The members of the Board of Directors who obtained insurance policies from the company paid the due premiums and installments in full in the same characteristics of the policies given to all customers.

Otherwise, there are no contracts during this period, for which the Company was a party and there is no any interest for the Chief Executive Officer, the Chief Financial Officer or any relevant individual. There is no any arrangements or agreements whereby a board member or a senior executive waives any salary or compensation.

**g) Equity and debt instruments activities:**

During the period ended at December 31, 2016, there are no any debt instruments issued by the Company, and there is no interest in class of shares entitled to vote by any persons, as well as there is no interest, option rights and underwriting rights belonging to any of the directors and senior executives or their family members in shares Company. There are no any convertible debt instruments, warrants or similar rights issued or granted by the Company during that period. There are also no rights of transfer or underwriting under debt instruments convertible into shares, option rights or similar rights certificates issued or granted by the Company during the same period. There is no any refund, purchase or cancellation by the Company for any redeemable debt instruments, there is no any arrangement or agreement whereby any Shareholder waives any rights in profits.



The following table shows percentage of board of directors and senior executives in shares of the company:

Name	Position	number of the shares owned by the company at the beginning of the year	number of the shares owned by the company at the end of the year	Net of the change Shares of the company	Percentage of the change at the company's shares
Mubarak Bin Abdullah Al-Khafra	Chairman of Board of Directors	80,477	80,477	-	-
Mohammed bin Ali Al-Ammari	Deputy Chairman of the board of directors	8,567	8,567	-	-
Mohammad bin Suleiman Aba-Nomai	Member (In the Previous Session)	9,150	1,000	-8,150	-89.07%
Abdulmuhsen bin Mohammad Al-Saleh	Member of Board of Directors	41,150	1,000	-40,150	-97.57%
Abdulaziz Abdullah Al-Jalal	Member of Board of Directors (In the Previous Session)	1,000	0	-1,000	100
Obaid Abdullah Al-Rashid	Member of Board of Directors	1,000	1,000	-	-
Ghassan bin Abdurahman Al-Shebl	Member of Board of Directors	30,000	30,000	-	-
Abdulaziz Mohammad Al-Namla	Member of Board of Directors	1,000	1,000	-	-
Fawaz Muhammed Al-Fawaz	Member of Board of Directors (In the New Session)	59	1,059	1,000	1695%
Mohammed Saleh Al-Athel	Member of Board of Directors (In the New Session)	0	1,000	1,000	
Tarek Othman Al-Abd Alajabbar	Member of Board of Directors (In the New Session)	0	1,000	1,000	
Nasser Hashem Al-Bunni	CEO	-	-	-	-
Theib Hudaiban Al-Adhela	Vice CEO	-	-	-	-
Rami Omer Al-Hushan	Vice CEO for sales & Marketing	-	-	-	-
Fawaz Abdulrahman Al-haji	Vice of CEO for Motor Insurance	-	-	-	-
Sunil Wijesiri	Vice CEO for Motor Insurance	-	-	-	-
Abu Baker Ahmed Shehab	CFO	-	-	-	-

The following table shows percentage of the directors' wives and senior executives and their minor children in shares of the company:

Name	Position	number of the shares owned by the company at the beginning of the year	number of the shares owned by the company at the end of the year	Net of the change Shares of the company	Percentage of the change at the company's shares
Mubarak Bin Abdullah Al-Khafra	Chairman of Board of Directors	-	-	-	-
Mohammed bin Ali Al-Ammari	Deputy Chairman of the board of directors	-	-	-	-
Mohammad bin Suleiman Aba-Nama	Member of Board of Directors (In the Previous Session)	-	-	-	-
Abdulmuhsen bin Mohammad Al-Saleh	Member of Board of Directors	-	-	-	-
Abdulaziz Abdullah Al-Jalal	Member of Board of Directors (In the Previous Session)	-	-	-	-
Obaid Abdullah Al-Rashid	Member of Board of Directors	-	-	-	-
Ghassan bin Abdurahman Al-Shebl	Member of Board of Directors	-	-	-	-
Mohammad bin Abdulaziz Al-Namla	Member of Board of Directors	-	-	-	-
Fawaz Muhammed Al-Fawaz	Member of Board of Directors (In the New Session)	-	-	-	-
Mohammed Saleh Al-Athel	Member of Board of Directors (In the New Session)	-	-	-	-
Tarek Othman Al-Abd Alajabbar	Member of Board of Directors (In the New Session)	-	-	-	-
Nasser Hashem Al-Benni	CEO	-	-	-	-
Theib Hudaiban Al-Adhela	Vice CEO	-	-	-	-
Rami Omer Al-Hushan	Vice CEO for sales & Marketing	-	-	-	-
Fawaz Abdulrahman Al-haji	Vice of CEO for Motor Insurance	-	-	-	-
Sunil Wijesiri	Vice CEO for Motor Insurance	-	-	-	-
Abu Baker Ahmed Shehab	CFO	-	-	-	-

#### **h) Zakat and the statutory debits and payments**

The statutory payments due on the Company as of December 31, 2016 contain the Zakat payables due on the shareholders, supervision fees of the Saudi Arabian Monetary Authority (SAMA) and the Council Of Cooperative Health Insurance, as well as an amount due for General Organization for Social Insurance (GOSI), representing contributions of the employees, as well as deduction taxes for General Authority of Zakat and Tax (GAZT) The next table shows the due statutory payment

Entity	Statement	Amounts
		SR Thousands
Saudi Arabian Monetary Authority (SAMA)	Supervision Fees	969
Council Of Cooperative Health Insurance	Supervision Fees	272
General Organization for Social Insurance (GOSI)	Contributions /Subscriptions	578
General Authority of Zakat and Tax (GAZT)	Zakat and deduction tax	6,186

An amount of SR13.5m. Employees' end of service benefits are calculated on the basis of the employees' last salaries, and their allowances and accumulated years of service. The accounting value of this allocations calculated as at 31 December 2016 in accordance with International Accounting Standard (IAS) no. 19).

#### **i) Remunerations of the Board of Directors 2016**

The Board of Directors did not recommend of any annual bonus for president of the board of directors and its members against their fees and their efforts during the fiscal year 2016.

#### **j) External auditors and the accounting standards:**

The General Assembly of Malath shareholders, that held on 25 Jumada II 1437H. (Corresponding to April 03, 2016) approved the recommendation of the Audit Committee and the Board of Directors to appoint Office of Dr. Mohammed Al Amri& Partners, and Office of the International Accountants to be the auditors for the company's accounts during the financial year ended at December 31, 2016.

At its next meeting, the General Assembly will consider reappointing or replacing them and determining their fees for auditing the Company's accounts for the financial year ended December 31, 2017, after reviewing the recommendations of the Audit Committee and the Board of Directors in this regard.



The financial statements have been prepared in accordance with international standards and in view of SAMA directives as the regulator supervisor of the insurance sector and exempting the CMA for the insurance companies from complying with the standards issued by the Saudi Organization for Certified Public Accountants.

The External Auditor's report states that the Company has prepared the financial statements as per the International Financial Reporting Standards and has not been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia. The Company confirms that there are no significant differences or financial impact as a result of its preparation the financial statements in accordance with international standards on the Saudi accounting standards.

The Board of Directors acknowledges that:

- The Company's accounting records have been prepared correctly.
- There is no doubt in the company's ability to continue its activity.
- There are no any loans due on the company.
- The internal audit and control system has been properly established and implemented effectively.
- Except for the company's receipt of SAMA letter regarding the Company's failure to fully comply with the regulatory requirements relating to settlement of motor insurance claims and handling customer complaints, therefore SAMA decision will stop the Company from accepting new underwriting in the motor insurance activity as of 29-11-2016, noting that suspension of the Company was lifted by SAMA on 11-1-2017. Because the Company has taken the corrective actions and developed the system of handling the motor claims insurance and the customer complaints, there is no penalty, or restriction imposed on the Company by any supervisory or Judicial entity
- There is no contract has the company as a party and the company has no any material or fundamental interest in any one same of that nor any member of the board of directors, i.e. the chief executive officer, the financial manager or any person related to any of them except as mentioned above.

**k) Results of the annual audit of the effectiveness of internal audit and control procedures:**

The internal audit department has implemented its tasks in accordance with the approved plan of the Audit Committee for year of 2016, which included audit, review and follow-up the following operations:

- Follow-up the observations and recommendations contained in the previous reports.
- Review and audit the risk management processes.
- Review and audit the operations of the medical insurance underwriting management.
- Review and audit the motor claims department
- Review and audit the motor underwriting department.
- Review and audit operations of the Branches and the Points of Sales.

The Internal Audit Department also reviewed and audited the policies and procedures of the relevant departments in plan of 2016. The Internal Audit Department issued additional reports and carried out additional audits to meet the new regulatory requirements as requested by the Audit Committee to increase effectiveness of internal controls, specially what related to decision of SAMA's suspension to issue new motor insurance policies w.e.f. 29/11/2016 until 11/01/2017. The internal compliance and control reports contributed in the rapid response to address and achieve SAMA's comments, which contributed to non-stop of the company. The committee has confirmed on the need for the continuous follow-up of the work and submitting periodic reports by the compliance and control department and to the commitment of addressing the motor claims operations and ensure compliance with the regulatory standards in this regard. The total results of the Internal Audit Department, based on audit and review of its internal audit reports completed during 2016, reinforce and enhance the Audit Committee's conviction that the internal control procedures are so effective. There are no significant weak points. The Audit Committee confirms that the Company continues to update and document its procedures and policies in all the areas and the lines of business to maintain the control environment and to strength this in all the internal fields.

#### **I) Profit Distribution Policy**

As the company did not make profits this year, the company will work in future when making profits to take the right decision in respect of distribution of profits to the shareholders, as per the company's Articles 44, which states:

Profits of the shareholders will be distributed as follows:

1. Avoiding the zakat and the prescribed income tax.
2. Allocate (20%) of the net profit to form a statutory reserve, the General Assembly may stop this retainer reserve in case the the reserve total of the paid capital.
3. The Ordinary General Assembly, based on proposal of the Board of Directors to allocate a percentage of the annual net profit to form a reserve and to be allocated for purpose of the specific purposes determined by the General Assembly.
4. The rest amounts are distributed as a first payment to the shareholders of not less than 5% of the paid capital.
5. The remainder amount shall be distributed to the shareholders as a share of the profits or transferred to the retained earnings account.
6. By a resolution of the Board of Directors, may distribute a periodic dividends to be deducted from the specified annual profits in the paragraph of the organizing rules and issued by the competent authorities.

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# INDEPENDENT AUDITORS' REPORT







International  
Accountants  
المحاسبون الدوليون

An Independent Member of IIA International



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

## INDEPENDENT AUDITORS' REPORT

To the shareholders of Malath Cooperative Insurance & Reinsurance Company

### SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of Malath Cooperative Insurance & Reinsurance Company (A Saudi Joint Stock Company) (the "Company") as at December 31, 2016, and the related statement of income – insurance operations, statement of comprehensive income – insurance operations and statement of comprehensive income – shareholders' operations, statement of changes in shareholders' equity and statements of cash flows for insurance and shareholders' operations for the year then ended and notes 1 to 27 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provisions of Article 126 of the Regulations for Companies and the Company's by-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

### UNQUALIFIED OPINION:

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

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

### EMPHASIS OF MATTER:

We draw attention to the following matters:

- a) As stated in note 2 to the financial statements, solvency margins have declined below regulatory levels prescribed by Saudi Arabian Monetary Authority ('SAMA'). The accumulated loss has reached 71% of the share capital as at December 31, 2016. The management believes the Company will be able to comply with SAMA's solvency requirements through the issue of rights shares. Management is also of the opinion that the Company has a profitable future. Accordingly, these financial statements are prepared on going concern basis;



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

**EMPHASIS OF MATTERS (Continued):**

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

**International Accountants**

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Kingdom of Saudi Arabia

Khalid Ali Ibrahim Otain  
Certified Public Accountant  
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**Dr. Mohamed Al Amri & Co**

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Gihad M. Al-Amri  
Certified Public Accountant  
Registration No. 362



March 1, 2017 G  
Jumada II' 02, 1438 H

# STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016

	<u>Notes</u>	<u>2016</u> <u>SR'000</u>	<u>2015</u> <u>SR'000</u>
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	5	807,533	538,794
Short term Murabaha deposits	6	75,000	235,766
Available for sale investments	7	5,346	36,869
Receivables, net	8	158,624	263,678
Reinsurers' share of unearned premiums	9	118,149	188,724
Reinsurers' share of outstanding claims	9,12	163,740	264,567
Deferred policy acquisition costs	9	47,947	47,127
Prepaid expenses and other assets	13	22,819	18,462
Property and equipment, net	14	7,402	6,676
Due from shareholders' operations		143,863	8,397
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>		<b>1,550,423</b>	<b>1,609,060</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	5	151,498	80,324
Available for sale investments	7	72,834	174,907
Statutory deposit	15	45,000	30,000
Investment return on statutory deposit	15	3,446	-
Prepaid expenses and other assets		1,249	1,078
<b>TOTAL SHAREHOLDERS'ASSETS</b>		<b>274,027</b>	<b>286,309</b>
<b>TOTAL ASSETS</b>		<b>1,824,450</b>	<b>1,895,369</b>

	<u>Notes</u>	<u>2016</u> <u>SR'000</u>	<u>2015</u> <u>SR'000</u>
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
<b>INSURANCE OPERATIONS' LIABILITIES</b>			
Reinsurers' balances payable		42,122	180,203
Gross unearned premiums	9	482,163	475,888
Unearned reinsurance commission	9	23,614	33,959
Gross outstanding claims and reserves	9, 10	654,040	732,896
Claims payable, accrued expenses and other liabilities	16	339,586	175,944
Surplus distribution payable		8,301	8,301
Assets mismatch reserve		2,005	-
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>		<b>1,551,831</b>	<b>1,607,191</b>
<b>INSURANCE OPERATIONS' (DEFICIT) / SURPLUS</b>			
Fair value reserve for available for sale investments	7	346	1,869
Re-measurement losses on defined benefit plans		(1,754)	-
<b>TOTAL INSURANCE OPERATIONS' (DEFICIT) / SURPLUS</b>		<b>(1,408)</b>	<b>1,869</b>
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES AND (DEFICIT) / SURPLUS</b>		<b>1,550,423</b>	<b>1,609,060</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>SHAREHOLDERS' LIABILITIES</b>			
Zakat provision	17	20,307	18,923
Accrued expenses and other liabilities	16	586	555
Investment return on statutory deposit	15	3,446	-
Assets mismatch reserve		16,466	-
Due to insurance operations		143,863	8,397
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>184,668</b>	<b>27,875</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	18	300,000	300,000
Statutory reserve	18	2,131	2,131
Accumulated loss		(213,080)	(56,906)
Fair value reserve for available for sale investments	7	308	13,209
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>89,359</b>	<b>258,434</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>274,027</b>	<b>286,309</b>
<b>TOTAL LIABILITIES, INSURANCE OPERATIONS' (DEFICIT) / SURPLUS AND SHAREHOLDERS' EQUITY</b>		<b>1,824,450</b>	<b>1,895,369</b>



# STATEMENT OF INCOME -INSURANCE OPERATIONS

FOR THE YEAR ENDED  
DECEMBER 31, 2016

	<u>Note</u>	<u>2016</u> <u>SR'000</u>	<u>2015</u> <u>SR'000</u>
<b>REVENUES</b>			
Gross written premiums		2,167,856	1,863,478
Less: Reinsurance ceded premiums		(667,164)	(339,695)
Net written premiums	9	1,500,692	1,523,783
Changes in unearned premiums - net		(76,850)	197,491
Net earned premiums	9	1,423,842	1,721,274
Reinsurance commission	9	415,332	56,482
Investment income	11	17,571	5,300
Other income		11,527	10,066
<b>TOTAL REVENUES</b>		<b>1,868,272</b>	<b>1,793,122</b>
<b>COSTS AND EXPENSES</b>			
Gross claims paid	9	1,955,189	1,444,794
Less: Reinsurance share of claims paid	9	(353,885)	(62,084)
Net claims paid	9	1,601,304	1,382,710
Changes in outstanding claims and reserves		21,970	102,760
Net incurred claims	9	1,623,274	1,485,470
Policy acquisition costs	9	217,666	171,927
Excess of loss expenses		38,750	27,211
Assets mismatch reserve		2,005	-
Operating and administrative salaries	19	78,560	72,006
Other general and administrative expenses	20	51,880	44,905
<b>TOTAL COSTS AND EXPENSES</b>		<b>2,012,135</b>	<b>1,801,519</b>
Deficit from insurance operations		(143,863)	(8,397)
Shareholders' appropriation from deficit	2	143,863	8,397
<b>NET RESULT FOR THE YEAR</b>		<b>-</b>	<b>-</b>

# STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS

FOR THE YEAR ENDED  
DECEMBER 31, 2016

	<u>Note</u>	<u>2016</u> <u>SR'000</u>	<u>2015</u> <u>SR'000</u>
Net result for the year		-	-
<b>Other comprehensive income to be reclassified to statement of income in subsequent years</b>			
Net change in fair value reserve for available for sale investments	7 (i)(b)	(1,523)	1,566
<b>Other comprehensive income not to be reclassified to statement of income in subsequent periods</b>			
Re-measurement losses on defined benefit plans		(1,754)	-
<b>Total comprehensive (loss) / income for the year</b>		<u>(3,277)</u>	<u>1,566</u>

# STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS

FOR THE YEAR ENDED  
DECEMBER 31, 2016

	<u>Note</u>	<u>2016</u> <u>SR'000</u>	<u>2015</u> <u>SR'000</u>
Deficit transferred from insurance operations	2	(143,863)	(8,397)
Investment income	11	11,670	7,974
Assets mismatch reserve		(16,466)	-
General and administrative expenses		(1,515)	(1,460)
<b>Loss before zakat</b>		<b>(150,174)</b>	<b>(1,883)</b>
Provision for zakat	17	(6,000)	(8,000)
<b>Net loss for the year</b>		<b>(156,174)</b>	<b>(9,883)</b>
<b>Other comprehensive income to be reclassified to statement of income in subsequent years</b>			
Change in fair value reserve for available for sale investments		(6,441)	(4,487)
Realized gain on sale of available for sale investments	7 (ii) (b)	(6,460)	(3,415)
		(12,901)	(7,902)
<b>Total comprehensive loss for the year</b>		<b>(169,075)</b>	<b>(17,785)</b>
<b>Basic and diluted loss per share before zakat (in SR)</b>	21	<b>(5.006)</b>	<b>(0.063)</b>
<b>Basic and diluted loss per share after zakat (in SR)</b>	21	<b>(5.206)</b>	<b>(0.329)</b>
<b>Weighted average number of shares in issue throughout the year (in thousands)</b>		<b>30,000</b>	<b>30,000</b>



# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED  
DECEMBER 31, 2016

	Share capital	Statutory reserve	Accumulated deficit SR'000	Fair value reserve for available for sale investments	Total
<b>Balance at January 1, 2015</b>	300,000	2,131	(47,023)	21,111	276,219
Net loss for the year	-	-	(9,883)	-	(9,883)
Change in fair value reserve for available for sale investments	-	-	-	(4,487)	(4,487)
Realized gain on sale of available for sale investments	-	-	-	(3,415)	(3,415)
Total comprehensive loss for the year	-	-	(9,883)	(7,902)	(17,785)
<b>Balance at December 31, 2015</b>	300,000	2,131	(56,906)	13,209	258,434
<b>Balance at January 1, 2016</b>	300,000	2,131	(56,906)	13,209	258,434
Net loss for the year	-	-	(156,174)	-	(156,174)
Change in fair value reserve for available for sale investments	-	-	-	(6,441)	(6,441)
Realized gain on sale of available for sale investments	-	-	-	(6,460)	(6,460)
Total comprehensive loss for the year	-	-	(156,174)	(12,901)	(169,075)
<b>Balance at December 31, 2016</b>	300,000	2,131	(213,080)	308	89,359

# STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS

FOR THE YEAR ENDED  
DECEMBER 31, 2016

	2016	2015
Note	SR' 000	
<b>Cash flows from operating activities</b>		
Net result for the year	-	-
<i>Adjustments for:</i>		
Depreciation expense	2,627	2,981
Loss on sale of available for sale investments	1,184	-
Provision for doubtful receivables	7,400	1,000
Shareholders' appropriation from deficit	(143,863)	(8,397)
	(132,652)	(4,416)
<i>Changes in operating assets and liabilities:</i>		
Receivables	97,654	192,958
Reinsurers' share of unearned premiums	70,575	(128,796)
Reinsurers' share of outstanding claims and reserves	100,827	213,500
Deferred policy acquisition costs	(820)	(3,390)
Prepaid expenses and other assets	(4,357)	(2,051)
Reinsurers' balances payable	(138,081)	142,513
Unearned premiums	6,275	(68,695)
Unearned reinsurance commission	(10,345)	16,994
Outstanding claims and reserves	(78,856)	(110,739)
Claims payable, accrued expenses and other liabilities	161,888	(2,675)
Assets mismatch reserve	2,005	-
Due from shareholders' operations	8,397	23,095
<b>Net cash generated from operating activities</b>	<b>82,510</b>	<b>268,298</b>
<b>Cash flows from investing activities</b>		
Additions to property and equipment, net	(3,353)	(1,613)
Proceeds from sale of available for sale investments	28,816	-
Short term Murabaha deposits, net	160,766	(185,145)
<b>Net cash generated from / (used in) investing activities</b>	<b>186,229</b>	<b>(186,758)</b>
<b>Net change in cash and cash equivalents</b>	<b>268,739</b>	<b>81,540</b>
Cash and cash equivalents, beginning of the year	538,794	457,254
<b>Cash and cash equivalents, end of the year</b>	<b>807,533</b>	<b>538,794</b>
<b>Non-cash supplemental information:</b>		
Re-measurement losses on defined benefit plans	1,754	-
Change in fair value of available for sale investments	1,523	1,566
Transfer from capital work in progress to leasehold improvements	-	(171)

# STATEMENT OF CASH FLOWS SHAREHOLDERS' OPERATIONS

FOR THE YEAR ENDED  
DECEMBER 31, 2016

	2016	2015
Note	SR' 000	
<b>Cash flows from operating activities</b>		
Loss before zakat	(150,174)	(1,883)
<i>Adjustments for:</i>		
Impairment on available for sale investments	517	-
Gain on sale of available for sale investments	(6,460)	(3,415)
Shareholders' appropriation from deficit of insurance operations	143,863	8,397
	(12,254)	3,099
<i>Changes in operating assets and liabilities:</i>		
Accrued commission receivable	-	(612)
Prepaid expenses and other assets	(171)	-
Accrued expenses and other liabilities	31	-
Assets mismatch reserve	16,466	-
Due to insurance operations	(8,397)	(23,095)
Zakat paid	(4,616)	(6,198)
<b>Net cash used in operating activities</b>	<b>(8,941)</b>	<b>(26,806)</b>
<b>Cash flows from investing activities</b>		
Short-term Murabaha deposits	-	15,000
Statutory deposit	(15,000)	-
Additions to available for sale investments	(1,913)	(20,798)
Proceeds from sale of available for sale investments	97,028	33,410
<b>Net cash generated from investing activities</b>	<b>80,115</b>	<b>27,612</b>
<b>Net change in cash and cash equivalents</b>	<b>71,174</b>	<b>806</b>
Cash and cash equivalents, beginning of the year	80,324	79,518
<b>Cash and cash equivalents, end of the year</b>	<b>151,498</b>	<b>80,324</b>
<b>Non-cash supplemental information:</b>		
Change in fair value of available for sale investments	(12,901)	(7,902)
Investment return on statutory deposit	3,446	-



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
DECEMBER 31, 2016

## **1. GENERAL**

Malath Cooperative Insurance & Reinsurance Company (the "Company") is a Saudi joint stock company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/60 and incorporated on Rabi Al-Awal 21, 1428H corresponding to April 9, 2007 under Commercial Registration No. 1010231787. The Company's head office is at Mohammad Bin Abdelaziz Street, P.O. Box 99763, Riyadh 11625, Kingdom of Saudi Arabia.

The objectives of the Company are to engage in providing insurance and reinsurance and related services in accordance with its Articles of Association and the applicable regulations in the Kingdom of Saudi Arabia.

## **2. BASIS OF PREPARATION**

### **Statement of Compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws.

As at 31 December 2016, the Company's solvency margin is below 25% and as per article sixty-eight of implementing regulations Saudi Arabian Monetary Authority "SAMA" could appoint an advisor to the Company or issue a cease and desist order to the Company and recommend the withdrawal of its license.

The Company is taking corrective actions to comply with article 150 of the new companies law and also received SAMA letter 381000049776 dated 06 February 2017 to take corrective actions not later than 05 March 2017. The Company received SAMA approval through letter 381000028557 dated 12 December 2016 to reduce the share capital by SR 180 million subject to remaining regulatory approvals and shareholders through general assembly.

Considering the future business prospects and improvement in prospective operating results, Management believes that the Company expects profitable growth in future, based on retention of key corporate customers, more cross-selling of profitable lines and by underwriting management through regular rate reviews for new and renewed business in key lines.

Management believes that business growth can be achieved by maintaining high level of service quality as a differentiator. The effective long term cost cutting strategy based on claims management, prudent reinsurance arrangements, improved collection of outstanding receivables and investment strategy review will result in profitability.

The board confirms its commitment to business continuation, and recommended raise in capital amounting to SR 380 million through right issue subject to approval of regulators and shareholders through general assembly to support business growth and to meet solvency requirements. The Company has received SAMA's approval in this regard on 2 January 2017. Accordingly, these financial statements are prepared on going concern basis.

As at 31 December 2016 underwriting of new motor business was under suspension based on SAMA's letter 381000022825 dated 28 November 2016, however SAMA revoked its suspension through letter 381000041057 dated 11 January 2017.

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

In accordance with Saudi Arabian Insurance Regulations, the Company is required to distribute 10% of the net annual surplus from the insurance operations to the policyholders and remaining 90% of the surplus to be transferred to shareholders' operations. Any deficiency arising on insurance operations is transferred to shareholders' operations in full.

**Basis of measurement**

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

**Functional and presentation currency**

The financial statements are presented in Saudi Riyals being the functional currency of the Company. All financial information presented in Saudi Riyals have been rounded to the nearest thousands, except otherwise indicated.

**Fiscal year**

The Company follows a fiscal year ending December 31.

**3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS:**

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements as of and for the year ended December 31, 2015, except for the adoption of new standards, amendments and revisions to existing standards mentioned below which are applicable for the annual periods beginning on or after January 1, 2016 and had no significant financial impact on the financial statements of the Company:

-IFRS 14 – “Regulatory Deferral Accounts” allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers.

-‘Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 28 – “Investments in Associates” address issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value.
- Only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
- The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

-‘Amendments to IFRS 11 – “Joint Arrangements” require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business to,

- apply all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11.
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation, in the later case, previously held interests are not remeasured if the joint operator retains joint control.

- Amendments in IAS 1 – ‘Presentation of Financial Statements’ to address perceived impediments to preparers exercising their judgments in presenting the financial reports.

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



- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

'- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets” restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

'- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 41 – “Agriculture” change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41.

#### *Standards issued but not yet effective*

The following new or amended standards are not expected to have significant impact on the financial statements and the Company has chosen not to early adopt the following standards:

- IFRS 9 – Financial instruments (effective on or after January 1, 2018)
- IFRS 15 – Revenue from contracts with customers (effective on or after January 1, 2018)
- IFRS 16 – Leases (effective on or after January 1, 2019)

#### **4. SUMMARY OF 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 bank current accounts and short term Murabaha deposits with an original maturity of three months or less at the date of acquisition.

##### **Insurance contracts**

Insurance contracts are defined as those containing insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance of the existence of insurance risk. This insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this year.

##### **Impairment and uncollectibility of financial assets**

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets (including insurance receivables) may be impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

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

For presentation purposes, the resulting allowance is carried in the respective category within the statement of financial position and the related statements of income - insurance operations or statement of comprehensive income - shareholders' operations are adjusted.



When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the event can be related objectively to an event occurring after the impairment was recognized then the previously recognized impairment loss is reversed through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

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

#### **Impairment of non-financial assets**

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

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### **Deferred policy acquisition costs**

Direct and indirect costs incurred during the financial year arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized on a pro-rata basis based on the term of expected future premiums, except for marine cargo where the deferred portion shall be the cost incurred during the last quarter. Amortization is recorded in the statement of income insurance operations.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying values an impairment loss is recognized in the statement of income insurance operations. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting period.

Deferred policy acquisition costs are derecognized when the related contracts are either settled or disposed of.

#### **Salvage and subrogation reimbursement**

Some insurance contracts permit the Company to sell assets acquired in settling a claim. The Company may also have the right to pursue third parties for payment of some or all costs.

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

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

**Available for sale investments**

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Such investments are initially recognized at cost and subsequently measured at fair value. Cumulative changes in fair value of investments are shown as a separate component in the statement of financial position, statement of comprehensive income-insurance operations and shareholders' comprehensive income.

Realized gains or losses on sale of these investments are reported in the related statements of income - insurance operations or shareholders' comprehensive income. Dividends, commission income and foreign currency gain/loss on available for sale investments are recognized in the statement of income - insurance operations or statement of shareholders' comprehensive income.

Any significant or prolonged decline in value of investments is adjusted for and reported in the related statements of income - insurance operations or statement of comprehensive income - shareholders' operations as impairment charges.

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics. Where the fair value is not readily determinable, such investments are stated at cost less allowance for impairment in value, if any.

**Trade date accounting**

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

**Property and equipment**

Property and equipment are stated at cost net of accumulated depreciation and any impairment in value. When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in the statement of income as incurred. The cost of Property and equipment, net is depreciated on the straight-line method over the estimated useful lives of the assets as follows:

	Percentage
Leasehold improvements	20%
Computer hardware	25%
Computer software	10%
Furniture and fixtures	10%
Office equipment	20%-25%
Motor vehicles	25%

An item of property and equipment, net and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income of insurance operations when the asset is derecognized.

**Provisions**

Provisions are recognized when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is recognized when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of economic resources will be required to settle the obligation and the amount has been reliably estimated.

**Foreign currency translation**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position.



date are translated at the exchange rates prevailing at that date. Gains and losses from settlement of such transactions and from translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in the statement of income - insurance operations or shareholders' comprehensive income.

#### **Liability adequacy test**

At the end of each 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 initially by writing off related deferred policy acquisition costs and subsequently by establishing a provision for losses arising from liability adequacy tests.

#### **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.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance 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 recognized consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

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 recognized in the statement of insurance operations.

#### **Leases**

Operating lease payments are recognized as an expense in the statement of income - insurance operations on a straight-line basis over the lease term.

#### **Expense**

Expenses are recognized in statements of income - insurance operations 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 income - insurance operations 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 income - insurance operations and shareholders' comprehensive income are presented using the nature of expense method.

#### **Receivables**

Receivable are non-derivative financial assets with fixed or determinable payments. Receivables arising from insurance contracts are classified in this category. These are recognized when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income - insurance operations. Receivable are derecognized when the derecognition criteria for financial assets have been met.

#### **Revenue recognition**

##### *Recognition of premium and commission revenue*

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:

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

The Company commenced using the pre-defined calculation for engineering class of business starting 1 January 2014. As only the calculation for deferring the premiums has been amended, this is a change in accounting estimate.

This change in calculation is expected to have minimal impact on the net earned premiums of the Company for future years as the net retention of the Company in respect of engineering business is considered to be minimal by management.

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

#### Fee income on insurance contracts

Insurance policyholders are charged for policy administration services and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over future periods.

#### Investment income

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

#### Dividend income

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

#### **Claims**

Gross claims consist of benefits and claims paid to policyholders, changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses net of salvage recoveries.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following period is included in the statement of income - insurance operations for that year.

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

#### **End-of-service benefits**

Employees' end-of-service benefits provision is determined using actuarial valuations. The actuary uses Projected Unit Credit (PUC) method. This involves projecting benefits to leaving service, retirement or death allowing for probabilities of reaching those states, also allowing for salary escalation over time, and then discounting those benefits to the valuation date. The significant assumptions have been disclosed in Note 16.1.

#### **De-recognition of financial instruments**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:



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

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

#### **Zakat**

The Company is subject to zakat in accordance with the Regulations of the General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat is accrued and charged to statement of shareholders' comprehensive income.

#### **Segment reporting**

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

- Property provides coverage against fire insurance, and any other insurance included under this class of insurance.
- Engineering provides coverage for builders' risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance.
- Motor provides coverage against losses and liability related to motor vehicles.
- Medical provides coverage for health.
- Others include miscellaneous accident and marine.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

No inter-segment transactions occurred during the period. If any transactions 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 be eliminated at the level of the financial statements of the Company.

#### **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 and shareholders' comprehensive operations as they are consumed or expire with the passage of time.

#### **Accrued expenses and other liabilities**

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

#### **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.

### Critical accounting judgments, estimates and assumptions

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key assumptions concerning the future and other key sources of estimating uncertainty at the statement of financial position date are discussed below.

Further details of the specific estimate and judgments made by management are given in the relevant accounting policies notes:

#### *(i) The 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 (IBNR) is an estimation of claims which are expected to be reported subsequent to the statement of financial position date, for which the insured event has occurred on or before the statement of financial position date. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

#### *(ii) Impairment of available for sale financial assets*

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

#### *(iii) Impairment losses on receivables*

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms (Refer note 8).

#### *(iv) Deferred acquisition costs*

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs and are amortized in the statement of income - insurance operations 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 write-offs in the statement of income - insurance operations.

(v) *Going concern*

The Company's management has made an assessment of its liability to continue as a going concern and is satisfied that it has the resources to continue on the business for the foreseeable future. Furthermore, management is not aware

of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**5. CASH AND CASH EQUIVALENTS**

**i) Insurance operations:**

Insurance operations' cash and cash equivalents comprise of the following:

	2016 SR'000	2015 SR'000
Cash in hand	10	85
Bank current accounts	86,499	83,709
Short term Murabaha deposits having original maturities of less than three months	721,024	455,000
	<u>807,533</u>	<u>538,794</u>

**ii) Shareholders' operations:**

Shareholders' cash and cash equivalents comprise of the following:

	2016 SR'000	2015 SR'000
Bank accounts	6,498	324
Short term Murabaha deposits having original maturities of less than three months	145,000	80,000
	<u>151,498</u>	<u>80,324</u>

Bank current accounts and short term Murabaha deposits are placed with counterparties which have at least investment grade credit ratings.

Short term Murabaha deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. The above short term Murabaha deposits are subject to an average commission rate of 2.71% per annum as at December 31, 2016 (December 31, 2015: 1.90% per annum).

The carrying amounts disclosed above reasonably approximate fair value at the statement of financial position date.

**6. SHORT TERM MURABAHA DEPOSITS**

**i) Insurance operations:**

	2016 SR'000	2015 SR'000
Short term Murabaha deposits	<u>75,000</u>	<u>235,766</u>

The above short term Murabaha deposits have original maturities period of more than three months from the date of acquisition. These deposits are subject to an average commission rate of 3.18% per annum as at December 31, 2016 (December 31, 2015: 1.70% per annum).

The carrying amounts disclosed above are not materially different from their fair values at the reporting date.



## 7. AVAILABLE FOR SALE INVESTMENTS

### i) Insurance operations

#### a) Available for sale investments comprise of the following:

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
<b>Quoted</b>		
HSBC - Sukuk portfolio holding	-	20,383
<b>Unquoted</b>		
General Authority of Civil Aviation Sukuk 2 (Maturing October 2023)	-	10,011
NCB Capital- Real Estate Development Fund	5,346	6,475
	<u>5,346</u>	<u>36,869</u>

The accumulated balance of changes in fair value of available for sale investments amounting to SR 0.35 million as at December 31, 2016 (December 31, 2015: SR 1.87 million) is reflected in the statement of financial position as a separate component under insurance operations' surplus.

The fair values of the unquoted mutual funds computed above are based on the latest reported net assets as at the reporting date. Further, the unquoted sukuk are carried at an amount which as per the management is the best estimate of the exit price i.e. fair value.

#### b) Movements in available for sale investments is as follows:

	Quoted securities <u>SR'000</u>	Unquoted securities <u>SR'000</u>	Total <u>SR'000</u>
Balance at December 31, 2015	20,383	16,486	36,869
Proceeds from sale of available for sale investments	(19,120)	(9,696)	(28,816)
Available for sale reserve transferred to statement of income – Insurance Operations	(880)	(304)	(1,184)
Net change in fair value reserve for available for sale investments	(383)	(1,140)	(1,523)
Balance at December 31, 2016	<u>-</u>	<u>5,346</u>	<u>5,346</u>
Balance at December 31, 2014	20,262	15,041	35,303
Net change in fair value reserve for available for sale investments	121	1,445	1,566
Balance at December 31, 2015	<u>20,383</u>	<u>16,486</u>	<u>36,869</u>



ii) **Shareholders' operations:**

a) *Available for sale investments comprise of the following:*

	<b>2016</b>	2015
	<b><u>SR'000</u></b>	<b><u>SR'000</u></b>
<b>Quoted</b>		
HSBC - Sukuk portfolio holding	-	25,479
HSBC - Shares portfolio holding	-	22,378
Jadwa discretionary Investment portfolio	-	19,375
Saudi Re-insurance Cooperative Company (Saudi Re) - Shares	<b>603</b>	715
<b>Unquoted</b>		
General Authority of Civil Aviation Sukuk (Maturing January 2022)	<b>30,000</b>	30,032
General Authority of Civil Aviation Sukuk 2 (Maturing October 2023)	<b>5,000</b>	10,011
Derayah Trading Finance Fund	-	27,032
TASNEE Sukuk (Maturing May 2019)	<b>10,000</b>	10,011
NCB Capital-Real Estate Development Fund	<b>10,693</b>	12,951
SEDCO Capital-Real Estate Income Fund 2	<b>14,615</b>	15,000
Najm Company for Insurance Services - Shares	<b>1,923</b>	1,923
<b>Total</b>	<b><u>72,834</u></b>	<b><u>174,907</u></b>

The balance resulting from the change in fair value of available for sale investments amounting to SR 0.3 million as at December 31, 2016 (December 31, 2015: SR 13.21 million) is reflected under shareholders' equity in the statement of financial position.

b) *Movements in available for sale investments is as follows:*

	<b>Quoted securities <u>SR'000</u></b>	<b>Unquoted securities <u>SR'000</u></b>	<b>Total <u>SR'000</u></b>
Balance at December 31, 2015	67,947	106,960	174,907
Additions to available for sale investments	1,913	-	1,913
Proceeds from sale of available for sale investments	(64,878)	(32,150)	(97,028)
Available for sale reserve transferred to statement of shareholders comprehensive income	4,311	2,149	6,460
Impairment on available for sale investments	(517)	-	(517)
Net change in fair value reserve for available for sale investments	<b>(8,173)</b>	<b>(4,728)</b>	<b>(12,901)</b>
Balance at December 31, 2016	<b><u>603</u></b>	<b><u>72,231</u></b>	<b><u>72,834</u></b>
Balance at December 31, 2014	75,769	116,237	192,006
Additions to available for sale investments	5,798	15,000	20,798
Proceeds from sale of available for sale investments	(7,510)	(25,900)	(33,410)
Available for sale reserve transferred to statement of shareholders comprehensive income	2,515	900	3,415
Net change in fair value reserve for available for sale investments	<b>(8,625)</b>	<b>723</b>	<b>(7,902)</b>
Balance at December 31, 2015	<b><u>67,947</u></b>	<b><u>106,960</u></b>	<b><u>174,907</u></b>

c) The analysis of available for sale investments by counter-party is as follows:

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
<b>Insurance operations</b>		
Government and quasi government	-	13,485
Corporate	5,346	23,384
	<u>5,346</u>	<u>36,869</u>
<b>Shareholders' operations</b>		
Government and quasi government	35,000	44,385
Insurance	603	715
Corporate	37,231	129,807
	<u>72,834</u>	<u>174,907</u>

#### 8. RECEIVABLES, NET

Receivables under insurance operations comprise of due from the following:

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
Policyholders	166,421	272,657
Reinsurers	29,915	22,714
Insurance companies	2,884	1,724
Agents and brokers	2,404	2,183
	<u>201,624</u>	<u>299,278</u>
Provision for doubtful receivables	(43,000)	(35,600)
	<u>158,624</u>	<u>263,678</u>

a) The movements in provision for doubtful receivables were as follows:

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
At the beginning of the year	35,600	34,600
Charge for the year	7,400	1,000
At the end of the year	<u>43,000</u>	<u>35,600</u>

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

SR'000	Total	Neither past due nor impaired	Past due but not impaired		Past due and impaired
			Less than 60 days	61-90 days	
2016	<u>201,624</u>	<u>17,801</u>	<u>66,152</u>	<u>33,799</u>	<u>83,872</u>
2015	<u>299,278</u>	<u>57,488</u>	<u>193,882</u>	<u>8,933</u>	<u>38,975</u>

Receivables comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid within the due date of the transaction. Arrangements with reinsurers normally require settlement within a certain agreed period.

The five largest non-government customers, including reinsurance receivable, account for 52% of outstanding accounts receivable as at December 31, 2016 (2015: 67%).

#### 9. MOVEMENTS IN GROSS UNEARNED PREMIUM, UNEARNED REINSURANCE COMMISSION, OUTSTANDING CLAIMS AND DEFERRED POLICY ACQUISITION COSTS

##### a) Gross unearned premiums

	2016 SR'000	2015 SR'000
At the beginning of the year	287,164	484,655
Net written premiums	1,500,692	1,523,783
Net earned premiums	<u>(1,423,842)</u>	<u>(1,721,274)</u>
At the end of the year	364,014	287,164
Reinsurers' share of unearned premiums	<u>118,149</u>	<u>188,724</u>
Gross unearned premiums	<u>482,163</u>	<u>475,888</u>

##### b) Unearned reinsurance commission

	2016 SR'000	2015 SR'000
At the beginning of the year	33,959	16,965
Commission received during the year	404,987	73,476
Commission earned during the year	<u>(415,332)</u>	<u>(56,482)</u>
At the end of the year	<u>23,614</u>	<u>33,959</u>

c) Outstanding claims

Movement of outstanding claims

	2016			2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	SR'000			SR'000		
Outstanding claims	276,079	(220,276)	55,803	477,079	(420,032)	57,047
Incurred but not reported	456,817	(44,291)	412,526	366,557	(58,035)	308,522
Total at the beginning of the year	732,896	(264,567)	468,329	843,636	(478,067)	365,569
Claims paid	(1,955,189)	353,885	(1,601,304)	(1,444,794)	62,084	(1,382,710)
Claims incurred	1,876,333	(253,058)	1,623,274	1,334,054	151,416	1,485,470
Total at the end of the year	<u>654,040</u>	<u>(163,740)</u>	<u>490,300</u>	<u>732,896</u>	<u>(264,567)</u>	<u>468,329</u>

Composition of outstanding claims

	2016			2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	SR'000			SR'000		
Outstanding claims	167,780	(150,896)	16,884	276,079	(220,276)	55,803
Incurred but not reported	448,691	(12,844)	435,847	456,817	(44,291)	412,526
Premium deficiency & other reserves	37,569	-	37,569	-	-	-
Total at the end of the year	<u>654,040</u>	<u>(163,740)</u>	<u>490,300</u>	<u>732,896</u>	<u>(264,567)</u>	<u>468,329</u>

d) Deferred policy acquisition costs

	2016	2015
	SR'000	SR'000
At the beginning of the year	47,127	47,737
Incurred during the year	218,486	171,317
Amortized during the year	(217,666)	(171,927)
At the end of the year	<u>47,947</u>	<u>47,127</u>



###### 10. CLAIMS DEVELOPMENT TABLE

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

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

#### Gross outstanding claims and reserves for 2016:

Accident year	2013 and earlier	2014	2015 SR'000	2016	Total
Estimate of ultimate claims cost:					
At the end of accident year	2,286,706	1,054,709	1,670,697	1,965,668	1,965,668
One year later	2,266,040	976,761	1,560,835	-	1,560,835
Two years later	2,025,835	984,107	-	-	984,107
Three years later	1,949,531	-	-	-	1,949,531
Current estimate of cumulative claims	1,949,531	984,107	1,560,835	1,965,668	6,460,141
Cumulative payments to date	(1,877,413)	(934,540)	(1,485,749)	(1,508,399)	(5,806,101)
Liability recognized in statement of financial position	72,118	49,567	75,086	457,269	654,040

#### Gross outstanding claims and reserves for 2015:

Accident year	2012 and earlier	2013	2014 SR'000	2015	Total
Estimate of ultimate claims cost:					
At the end of accident year	1,367,660	919,046	1,054,709	1,670,697	1,670,697
One year later	1,397,877	868,163	976,761	-	976,761
Two years later	1,332,145	693,690	-	-	693,690
Three years later	1,242,660	-	-	-	1,242,660
Current estimate of cumulative claims	1,242,660	693,690	976,761	1,670,697	4,583,808
Cumulative payments to date	(1,183,368)	(586,349)	(875,059)	(1,206,136)	(3,850,912)
Liability recognized in statement of financial position	59,292	107,341	101,702	464,561	732,896

Net outstanding claims and reserves for 2016:

Accident year	2013 and earlier	2014	2015 SR'000	2016	Total
Estimate of ultimate claims cost:					
At the end of accident year	1,398,618	916,226	1,501,210	1,584,846	1,584,846
One year later	1,412,600	924,001	1,509,402	-	1,509,402
Two years later	1,420,309	931,866	-	-	931,866
Three years later	1,423,732	-	-	-	1,423,732
Current estimate of cumulative claims	1,423,732	931,866	1,509,402	1,584,846	5,449,846
Cumulative payments to date	(1,395,996)	(884,808)	(1,473,729)	(1,205,013)	(4,959,546)
Liability recognized in statement of financial position	27,736	47,058	35,673	379,833	490,300

Net outstanding claims and reserves for 2015:

Accident year	2012 and earlier	2013	2014 SR'000	2015	Total
Estimate of ultimate claims cost:					
At the end of accident year	850,490	548,128	916,226	1,501,210	1,501,210
One year later	859,176	553,424	924,001	-	924,001
Two years later	866,473	553,836	-	-	553,836
Three years later	847,524	-	-	-	847,524
Current estimate of cumulative claims	847,524	553,836	924,001	1,501,210	3,826,571
Cumulative payments to date	(836,160)	(534,701)	(861,630)	(1,125,751)	(3,358,242)
Liability recognized in statement of financial position	11,364	19,135	62,371	375,459	468,329

## **11. INVESTMENT INCOME**

<b>i) Insurance operations:</b>	<b>2016 <u>SR'000</u></b>	<b>2015 <u>SR'000</u></b>
Commission income on short term Murabaha deposits	18,209	4,192
Commission income on available for sale investments	546	1,108
Loss on sale of available for sale investments	(1,184)	-
	<u>17,571</u>	<u>5,300</u>
<b>ii) Shareholders' operations:</b>	<b>2016 <u>SR'000</u></b>	<b>2015 <u>SR'000</u></b>
Gain on sale of available for sale investments	5,943	3,415
Commission income on available for sale investments	1,586	2,318
Dividend income from available for sale investments (quoted)	1,460	1,729
Commission income on short term Murabaha deposits	2,681	512
	<u>11,670</u>	<u>7,974</u>

## **12. REINSURERS' SHARE OF OUTSTANDING CLAIMS**

	<b>2016 <u>SR'000</u></b>	<b>2015 <u>SR'000</u></b>
Reinsurers' share of outstanding claims	<u>163,740</u>	<u>264,567</u>

Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the statement of financial position date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

Amounts due from reinsurers relating to claims already paid by the Company are included in receivables, net (note 8).

## **13. PREPAID EXPENSES AND OTHER ASSETS**

<b>Insurance operations:</b>	<b>2016 <u>SR'000</u></b>	<b>2015 <u>SR'000</u></b>
Prepaid employee benefits and others	7,724	6,217
Deferred expenses	3,202	3,181
Prepaid rent	3,893	3,960
Advance to employees	1,845	97
Advance to suppliers	566	1,292
Accrued commission receivable	3,389	1,880
Guarantee deposits	300	300
Others	1,900	1,535
Total	<u>22,819</u>	<u>18,462</u>



**14. PROPERTY AND EQUIPMENT, NET**

	Leasehold improvements SR'000	Computer hardware SR'000	Computer software SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Total 2016 SR'000
<b>Cost</b>							
At the beginning of the year	13,080	10,212	3,325	3,742	2,819	84	33,262
Additions	2,610	518	20	94	111	-	3,353
At the end of the year	15,690	10,730	3,345	3,836	2,930	84	36,615
<b>Accumulated depreciation</b>							
At the beginning of the year	11,481	8,422	1,960	2,223	2,416	84	26,586
Charge during the year	914	837	334	361	181	-	2,627
At the end of the year	12,395	9,259	2,294	2,584	2,597	84	29,213
Net book value December 31, 2016	3,295	1,471	1,051	1,252	333	-	7,402

	Leasehold improvements SR'000	Computer hardware SR'000	Computer software SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Capital work in progress SR'000	Total 2015 SR'000
<b>Cost</b>								
At the beginning of the year	12,580	9,300	3,325	3,666	2,524	84	171	31,650
Additions	329	912	-	76	295	-	-	1,612
Transfers	171						(171)	-
At the end of the year	13,080	10,212	3,325	3,742	2,819	84	-	33,262
<b>Accumulated depreciation</b>								
At the beginning of the year	10,212	7,616	1,628	1,851	2,214	84	-	23,605
Charge during the year	1,269	806	332	372	202	-		2,981
At the end of the year	11,481	8422	1,960	2,223	2,416	84	-	26,586
<b>Net book value</b>								
December 31, 2015	1,599	1,790	1,365	1,519	403	-	-	6,676

## **15. STATUTORY DEPOSIT**

In compliance with Article 58 of the Implementing Regulations of the Saudi Arabian Monetary Authority ('SAMA'), the Company has deposited 15 percent (December 31, 2015: 10 percent) of its share capital, amounting to SR 45 million (December 31, 2015: 30 million) in a bank designated by SAMA. The statutory deposit is maintained with a reputed local bank and can be withdrawn only with the consent of SAMA. The Company is not entitled to receive the investment return on this deposit. This investment return is shown as a separate line item in the Statement of Financial Position.

## **16. CLAIMS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

### **i) Insurance operations:**

Claims payable, accrued expenses and other liabilities of the insurance operations comprise of the following:

	<i>Note</i>	<b>2016</b> <b><u>SR'000</u></b>	<b>2015</b> <b><u>SR'000</u></b>
Claims payable		126,573	49,844
Commissions payable		40,818	42,172
Provision for withholding tax on reinsurance payments		22,149	19,943
Accrued employees' salaries and other benefits		8,191	8,769
End-of-service benefits	16.1	13,544	9,865
Accrued vacation allowance		2,799	2,066
Accrued SAMA inspection fees		969	1,083
Advances received from customers		8,672	18,415
Accounts payable - GOSI and others		2,131	908
Accrued CCHI inspection fees		272	916
Accrued professional fees		542	587
Accrued profit commission		77,684	-
Other liabilities		35,242	21,376
		<u>339,586</u>	<u>175,944</u>

### **ii) Shareholders' operations:**

	<b>2016</b> <b><u>SR'000</u></b>	<b>2015</b> <b><u>SR'000</u></b>
Due to founding shareholders	236	255
Others	350	300
	<u>586</u>	<u>555</u>

## **16.1 END-OF-SERVICE BENEFITS**

During the year, the Company has valued the provision for end of service benefits using the Projected Unit Credit ("PUC") method. This involves projecting benefits to leaving service, retirement or death allowing for probabilities of reaching those states, also allowing for salary escalation over time, and then discounting those benefits to the valuation date.

The effect of using PUC method has been recognized in the current year as the impact on previous years was not material.



**Movement of end of service benefits:**

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
At the beginning of the year	9,865	10,194
Charge for the year	3,857	1,454
Re-measurement loss on defined benefit plan	1,754	-
Paid during the year	(1,932)	(1,783)
At the end of the year	<u>13,544</u>	<u>9,865</u>

**Actuarial assumptions:**

The following were the principal actuarial assumptions at the reporting date:

	2016	2015
Discount rate	4.5 %	6%
Salary escalation	4.5 %	5%
Average expected remaining years of service	8 years	11.5 years

**Sensitivity analysis:**

A 50 basis point change to above stated actuarial assumptions, keeping all other assumptions same, have negligible impact on the financial statements.

**17. ZAKAT**

The estimated zakat base of the Company, which is subject to adjustments under zakat regulations, consists of the following:

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
Share capital	300,000	300,000
Loss before zakat	(150,174)	(1,883)
Property and equipment, net	(16,088)	(15,725)
Adjusted available for sale investments	(44,833)	(6,605)
Statutory deposit	(45,000)	(30,000)
Accumulated losses	(5,003)	(15,143)
Provision for withholding tax on reinsurance payments	22,149	19,943
Provision for doubtful receivables	43,000	35,600
Accrued end-of-service benefits	13,544	9,865
Estimated zakat base	<u>117,595</u>	<u>296,052</u>

The movement in the zakat provision is as follows:

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
At the beginning of the year	18,923	17,121
Charge for the year	6,000	8,000
Paid during the year	(4,616)	(6,198)
At the end of the year	<u>20,307</u>	<u>18,923</u>

**Status of Assessment**

The Company had filed Zakat returns with the General Authority of Zakat and Tax ("GAZT") for the years from 2007 to 2015. The Company has received assessment from GAZT for the years from 2007 to 2010.

**Status of Appeal**

The Company had filed an appeal against the assessment of GAZT for the years 2007 to 2010, which is pending in Board of Grievances.

**18. SHARE CAPITAL AND STATUTORY RESERVE**

The share capital of the Company as at December 31, 2016 is SR 300 million (December 31, 2015: SR 300 million) divided into 30 million (December 31, 2015: 30 million) shares of SR 10 each.

In accordance with the Company's Articles of Association and in compliance with Article 70 (2g) of the Insurance Implementing Regulations of SAMA, the Company allocates 20% of its net income each year to the statutory reserve until it has built up a reserve equal to the capital. The statutory reserve is not available for distribution to shareholders until liquidation of the Company. No amount has been allocated to reserve as the Company has incurred a loss for the year.

**19. OPERATING AND ADMINISTRATIVE SALARIES**

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
Basic salaries	41,969	40,947
Housing allowances	9,904	9,652
Staff bonus	2,000	3,000
Transportation allowances	6,595	6,494
Insurance	4,742	4,870
End-of-service benefits	3,857	1,454
Social security charges	4,496	3,767
Others	4,997	1,822
	<u>78,560</u>	<u>72,006</u>

**20. OTHER GENERAL AND ADMINISTRATIVE EXPENSES**

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
Occupancy charges	7,218	7,022
Inspection fees	8,601	9,785
Professional fees	6,177	3,729
Depreciation expense (note 14)	2,627	2,981
Advertisement and promotion	1,679	752
Withholding tax	3,401	7,972
Office supplies	1,076	1,521
Communication expenses	1,792	1,613
Training and development	456	404
Charge for doubtful receivables (note 8)	7,400	1,000
IT expenses	2,454	1,360
Others	8,999	6,766
	<u>51,880</u>	<u>44,905</u>

## **21. LOSS PER SHARE**

Loss per share have been calculated by dividing the net loss for the year by the weighted average number of issued and outstanding shares for the years.

Diluted loss per share are the same as basic loss per share as the Company has not issued any instruments which would have an impact on earnings per share when exercised.

## **22. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are mutually agreed and are approved by the Company's management.

The transactions with related parties and the related amounts are as follows:

	<b>2016</b> <b>SR'000</b>	<b>2015</b> <b>SR'000</b>
Gross premiums written to companies related to the members of Board of Directors (BOD)	3,911	4,229
Commission charged by a brokerage firm related to a BOD member	-	3
Gross premiums received from BOD members	50	24
Gross claims paid to companies related to BOD members	240	33
Gross claims paid to BOD members	3	(5)
Board of Directors' and committees meeting fees	264	216
Net reinsurance premiums paid to a reinsurance brokerage firm related to a BOD member	1,234	1,536
Net reinsurance claims received from a reinsurance brokerage firm related to a BOD member	123	50
Board of directors' remuneration	1,020	1,020

Due to/from related parties as at December 31, 2016 and December 31, 2015 comprise of the following:

	<b>2016</b> <b>SR'000</b>	<b>2015</b> <b>SR'000</b>
Net reinsurance balance receivable from a reinsurance brokerage firm related to a BOD member	(55)	2
Premiums receivable from companies related to BOD members	4,209	3,205

## 22.1 Remuneration and compensation of BOD members and key management personnel

2016	Board of Director members (Non- executives)	Key management personnel including the CEO and CFO
	SR'000	
Salaries and compensation	-	7,613
Allowances	264	11
Annual remuneration	1,020	1,135
	<u>1,284</u>	<u>8,759</u>
2015	SR'000	
Salaries and compensation	-	8,396
Allowances	216	9
Annual remuneration	1,020	1,400
	<u>1,236</u>	<u>9,805</u>

## 23. CONTINGENT LIABILITIES

As at December 31, 2016, the Company has contingent liabilities in the form of letters of guarantees issued by banks amounting to SR 14.47 million (December 31, 2015: SR 15.39 million). Furthermore, the management is not aware of any major claims outstanding as at December 31, 2016 by or against the Company other than those recorded in these financial statements

## 24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The Company's financial assets consist of cash and cash equivalents, receivables, investments, accrued income and financial liabilities consisting of payables and accrued expenses.

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



### Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for identical assets or liabilities (i.e. without modification or repacking).

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

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

The table below presents the financial instruments at their fair values as at December 31, 2016 and December 31, 2015 based on the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2016	Carrying Amount (SAR'000)	Level 1	Level 2	Total
<b>Insurance Operations:</b>				
<u>Available for sale financial assets</u>				
Mutual Funds	5,346	-	5,346	5,346
	5,346	-	5,346	5,346
<b>Shareholders' Operations:</b>				
<u>Available for sale financial assets</u>				
Equities	603	603	-	603
Mutual Funds	25,308	-	25,308	25,308
Sukuk	45,000	-	45,000	45,000
	70,911	603	70,308	70,911
	76,257	603	75,654	76,257
<b>2015</b>				
<b>Insurance Operations:</b>				
<u>Available for sale financial assets</u>				
Mutual Funds	6,475	-	6,475	6,475
Sukuk	30,394	20,383	10,011	30,394
	36,869	20,383	16,486	36,869
<b>Shareholders' Operations:</b>				
<u>Available for sale financial assets</u>				
Equities	42,467	42,467	-	42,467
Mutual Funds	54,984	-	54,984	54,984
Sukuk	75,533	25,479	50,054	75,533
	172,984	67,946	105,038	172,984
	209,853	88,329	121,524	209,853

The fair values of all other financial assets and liabilities which are carried at cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and on account of the short duration of the assets and liabilities.

*Transfer between level 1 and level 2*

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

*Level 2 valuation technique:*

Level 2 investments comprise investment in private equity funds and debt instruments. The fair value of private equity funds computed is based on the funds latest reported net asset value as at the financial position date. Further, the debt instruments are carried at an amount which as per the management is the best estimate of the exit price i.e. fair value. The carrying values as at December 31, 2016 and December 31, 2015 approximate their fair value.

**25. 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. Information disclosed in the note is based on current reporting to the chief operating decision maker.

Segment results do not include commission on short term Murabaha deposits.

Segment assets do not include insurance operations' cash and cash equivalents, short term Murabaha deposits, available for sale investments, receivables, prepaid expenses and other assets and property and equipment.

Segment liabilities do not include reinsurers' balances payable, accrued expenses and other liabilities, surplus distribution payable and due to shareholders.

These unallocated assets and liabilities are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

## Operating segments

For the year ended December 31, 2016

Operating segments	Property	Engineering	Motor	Medical	Others	Total
	SR'000					
<b>Insurance operations</b>						
Gross written premiums	72,979	42,565	1,900,633	95,162	56,517	2,167,856
Reinsurance ceded premiums	(70,453)	(42,343)	(529,716)	-	(24,652)	(667,164)
Net written premiums	2,526	222	1,370,917	95,162	31,865	1,500,692
Net earned premiums	2,595	913	1,304,134	84,087	32,113	1,423,842
Reinsurance commission	19,164	15,426	371,056	-	9,686	415,332
Other income	139	82	10,832	318	156	11,527
Net incurred claims	(113)	26	(1,565,292)	(59,585)	1,690	(1,623,274)
Other costs	(7,729)	(3,083)	(212,079)	(7,601)	(25,924)	(256,416)
Depreciation	(88)	(52)	(2,303)	(116)	(68)	(2,627)
Operating and administrative salaries and other general and administrative expenses	(4,370)	(2,547)	(113,816)	(5,699)	(3,386)	(129,818)
<b>Surplus / (deficit) from insurance operations</b>	<b>9,598</b>	<b>10,765</b>	<b>(207,468)</b>	<b>11,404</b>	<b>14,267</b>	<b>(161,434)</b>
Commission on short term Murabaha deposits						17,571
Deficit from insurance operations						(143,863)

For the year ended December 31, 2015

Operating segments	Property	Engineering	Motor	Medical	Others	Total
	SR'000					
<b>Insurance operations</b>						
Gross written premiums	80,367	43,757	1,585,736	91,653	61,965	1,863,478
Reinsurance ceded premiums	(69,857)	(42,005)	(197,648)	-	(30,185)	(339,695)
Net written premiums	10,510	1,752	1,388,088	91,653	31,780	1,523,783
Net earned premiums	10,597	1,796	1,594,635	98,875	15,371	1,721,274
Reinsurance commission	18,781	11,554	15,337	-	10,810	56,482
Other income	79	46	8,930	888	123	10,066
Net incurred claims	1,128	(232)	(1,423,434)	(56,102)	(6,830)	(1,485,470)
Other costs	(9,612)	(3,132)	(169,909)	(9,780)	(6,705)	(199,138)
Depreciation	(129)	(70)	(2,537)	(147)	(98)	(2,981)
Operating and administrative salaries and other general and administrative expenses	(4,913)	(2,675)	(96,948)	(5,603)	(3,791)	(113,930)
<b>Surplus/ (deficit) / from insurance operations</b>	<b>15,931</b>	<b>7,287</b>	<b>(73,926)</b>	<b>28,131</b>	<b>8,880</b>	<b>(13,697)</b>
Commission on short Murabaha deposits						5,300
Deficit from insurance operations						(8,397)

As at December 31, 2016

Operating segments	Property	Engineering	Motor	Medical	Others	Total
	SR'000					
<b>Insurance operations' assets</b>						
Reinsurers' share of unearned premiums	20,852	20,710	68,210	-	8,377	118,149
Reinsurers' share of outstanding claims	98,398	27,187	25,860	-	12,295	163,740
Deferred policy acquisition costs	1,940	1,063	39,170	2,423	3,351	47,947
Unallocated assets						1,220,587
<b>Total assets</b>						1,550,423
<b>Insurance operations' liabilities</b>						
Gross unearned premiums	21,262	21,124	370,447	40,112	29,218	482,163
Unearned reinsurance commission	5,883	6,292	8,526	-	2,913	23,614
Gross outstanding claims	99,849	30,294	492,444	13,636	17,817	654,040
Unallocated liabilities						390,606
<b>Total liabilities</b>						1,550,423

As at December 31, 2015

Operating segments	Property	Engineering	Motor	Medical	Others	Total
	SR'000					
<b>Insurance operations' assets</b>						
Reinsurers' share of unearned premiums	21,695	25,812	132,138	-	9,079	188,724
Reinsurers' share of outstanding claims	167,881	29,492	43,859	-	23,335	264,567
Deferred policy acquisition costs	1,768	1,312	38,969	1,724	3,354	47,127
Unallocated assets	-	-	-	-	-	1,108,642
<b>Total assets</b>						1,609,060
<b>Insurance operations' liabilities</b>						
Gross unearned premiums	22,175	26,917	367,592	29,037	30,167	475,888
Unearned reinsurance commission	6,341	8,058	16,517	-	3,043	33,959
Outstanding claims	169,812	33,001	483,049	14,165	32,869	732,896
Unallocated liabilities	-	-	-	-	-	366,317
<b>Total liabilities</b>						1,609,060



## **26. RISK MANAGEMENT**

### **Risk governance**

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

### **Risk management structure**

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

### **Board of directors**

The apex of risk governance is the centralized oversight of the board of directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

### **Senior management**

Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

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

#### **26.1 Insurance risk**

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

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

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

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

A key feature of the liability adequacy testing is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognized, while significant enough deterioration in estimates is immediately recognized to make the liabilities adequate.

### ***Sensitivities***

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

December 31, 2016	Change in assumptions	Impact on net liabilities SR'000	Impact on net income SR'000
Ultimate loss ratio	+ 10%	142,384	(142,384)
	- 10%	(142,384)	142,384
December 31, 2015	Change in assumptions	Impact on net liabilities SR'000	Impact on net income SR'000
Ultimate loss ratio	+ 10%	172,127	(172,127)
	- 10%	(172,127)	172,127

## 26.2 Reinsurance risk

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

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

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

- Minimum acceptable credit rating by recognized rating agencies that is not lower than BBB.
- Reputation of particular reinsurance companies.
- Existing or past business relationship with the reinsurer.

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and matched against a list of requirements pre-set by the Company's board of directors and Reinsurance Committee before approving them for exchange of reinsurance business.

## 26.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management assesses that there is minimal risk of significant losses due to exchange rate fluctuations and, consequently, the Company does not hedge its foreign currency exposure.

## 26.4 Commission rate risk

The Company invests in securities and has deposits that are subject to commission rate risk. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates in the currencies in which its cash and cash equivalents and investments are denominated.

A hypothetical 100 basis points change in the effective commission rates of the floating rate financial assets balances at December 31, 2016 for the policyholders and shareholders would impact commission income annually by approximately SR 7.96 million (2015: SR 7.01 million) and SR 1.90 million (2015: SR 1.30 million) respectively, in aggregate.

Maturities of the Company's investments as at December 31, 2016 and December 31, 2015 are as follows:

<u>2016</u>	<u>Commission bearing</u>			<u>Non-commission bearing</u>	<u>Total</u>
	<u>Less than 1 year</u> <u>SR'000</u>	<u>1 to 5 years</u> <u>SR'000</u>	<u>Over 5 years</u> <u>SR'000</u>		
<b>Insurance operations</b>					
Cash and cash equivalents	721,024	-	-	86,509	807,533
Short term Murahaba deposits	75,000	-	-	-	75,000
Available for sale investments	-	-	-	5,346	5,346
December 31, 2016	796,024	-	-	91,855	887,879
<b>Shareholders' operations</b>					
Cash and cash equivalents	145,000	-	-	6,498	151,498
Available for sale investments	-	10,000	35,000	27,834	72,834
December 31, 2016	145,000	10,000	35,000	34,332	224,332
<u>2015</u>	<u>Commission bearing</u>			<u>Non-commission bearing</u>	<u>Total</u>
	<u>Less than 1 year</u> <u>SR'000</u>	<u>1 to 5 years</u> <u>SR'000</u>	<u>Over 5 years</u> <u>SR'000</u>		
<b>Insurance operations</b>					
Cash and cash equivalents	455,000	-	-	83,794	538,794
Short term Murahaba deposits	235,766	-	-	-	235,766
Available for sale investments	-	-	10,011	26,858	36,869
December 31, 2015	690,766	-	10,011	110,652	811,429
<b>Shareholders' operations</b>					
Cash and cash equivalents	80,000	-	-	324	80,324
Available for sale investments	-	-	50,054	124,853	174,907
December 31, 2015	80,000	-	50,054	125,177	255,231

There is no significant difference between contractual re-pricing and maturity dates.



## 26.5 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 assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the balance sheet.

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

- The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's investment portfolio is managed by the investment officer in accordance with the investment policy established by the board of directors.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks, private banking and counterparties having strong balance sheets and credit ratings.
- There are no significant concentrations of credit risk within the Company except as disclosed in note 8.

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

	2016 <u>SR'000</u>	2015 <u>SR'000</u>
<b>Insurance operations' assets</b>		
Cash and cash equivalents	807,533	538,709
Short term Murabaha deposits	75,000	235,766
Available for sale investments	-	30,394
Receivables, net	158,624	263,678
Reinsurers' share of outstanding claims	163,740	264,567
	<u>1,204,897</u>	<u>1,333,114</u>
<b>Shareholders' assets</b>		
Cash and cash equivalents	151,498	80,324
Available for sale investments	45,000	75,533
Statutory deposit	45,000	30,000
Prepaid expenses and other assets	1,249	1,078
	<u>242,747</u>	<u>186,935</u>



### 26.5.1 Credit quality

The credit quality of the financial assets is as follows:

Credit quality	Credit Rating *	Insurance Operations		Shareholders operations	
		2016 SR'000	2015 SR'000	2016 SR'000	2015 SR'000
Cash and cash equivalents					
Very strong	A - to A+	807,533	538,794	151,498	80,324
Satisfactory	BBB +	-	-	-	-
Unrated	Unrated	-	-	-	-
		<u>807,533</u>	<u>538,794</u>	<u>151,498</u>	<u>80,324</u>
Short term murabaha deposits					
Very strong	A - to A+	75,000	235,766	-	-
		<u>75,000</u>	<u>235,766</u>	<u>-</u>	<u>-</u>
Investments					
Very strong	A - to A+	-	30,394	35,000	107,274
Satisfactory	BBB +	-	-	603	715
Unrated	Unrated	5,346	6,475	37,231	66,918
		<u>5,346</u>	<u>36,869</u>	<u>72,834</u>	<u>174,907</u>

\* Credit rating source: Standard and Poors

All other financial assets are unrated.

**Very strong quality:** Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

**Strong quality:** Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

**Satisfactory quality:** Require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

## 26.6 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a daily basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarizes the maturities of the Company's undiscounted contractual obligations. As the Company does not have any commission bearing liabilities, the amounts in the table match the amounts in the statement of financial position:

### 2016

	Less than 12 months	More than 12 months	Total
	SR '000		
<b>Insurance operations' liabilities</b>			
Surplus distribution payable	8,301	-	8,301
Reinsurers' balances payable	42,122	-	42,122
Outstanding claims and reserves	654,040	-	654,040
Claims payable, accrued expenses and other liabilities	326,042	13,544	339,586
	<u>1,030,505</u>	<u>13,544</u>	<u>1,044,049</u>
<b>Shareholders' liabilities</b>			
Accrued expenses and other liabilities	<u>586</u>	<u>-</u>	<u>586</u>

### 2015

	Less than 12 months	More than 12 months	Total
	SR '000		
<b>Insurance operations' liabilities</b>			
Surplus distribution payable	8,301	-	8,301
Reinsurers' balances payable	180,203	-	180,203
Outstanding claims and reserves	732,896	-	732,896
Claims payable, accrued expenses and other liabilities	166,079	9,865	175,944
	<u>1,087,479</u>	<u>9,865</u>	<u>1,097,344</u>
<b>Shareholders' liabilities</b>			
Accrued expenses and other liabilities	<u>555</u>	<u>-</u>	<u>555</u>

## 26.7 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 commission rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's available for sale quoted investments related to shareholders' operations amounting to SAR 0.6 million (December 31, 2015: SR 88.3 million) are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its investment portfolio and by actively monitoring the developments in markets.

A hypothetical 10 percent change in market prices of available for sale quoted investments would impact the net results and shareholders' equity as follows:

SR'000	Price change	Fair value	Effect on shareholders' equity
December 31, 2016	10% increase	664	60
	10% decrease	543	(60)
December 31, 2015	10% increase	97,162	8,833
	10% decrease	79,496	(8,833)

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

## 26.8 Capital management

The Company manages its capital to ensure that it is able to continue as going concern and comply with the SAMA's capital requirements while maximizing the return to stakeholders through the optimization of the debt and equity balances. The capital structure of the Company consists of equity attributable to equity holders comprising paid capital, reserves net of accumulated losses.

The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Regulations detailing the solvency margin required to be maintained. According to the article, the Company shall maintain a solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

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

As at December 31, 2016 the Company's solvency margin is below the limits prescribed by SAMA. The board confirms its commitment to business continuation, and recommended raise in capital amounting to SR 380 million through right issue subject to approval of regulators and shareholders through general assembly to support business growth and to meet solvency requirements. The Company has received SAMA's approval in this regard on 2 January 2017.

## 26.9 Regulatory framework risk

The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the reinsurance companies and to enable them to meet unforeseen liabilities as these arise.

## 26.10 Geographical concentration of risk

The Company operates in the Kingdom of Saudi Arabia and substantially all of the insurance risk relate to policies written in the Kingdom of Saudi Arabia.



#### **26.11 Concentration of insurance risk**

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in motor. Approximately 40.2% of the gross written premiums arise from one major customer.

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

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

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of claim related reserves are given under note 4.

#### **26.13 Process used to decide on assumptions**

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

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

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve arising as a result of the liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of statement of financial position date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable. The details of liability adequacy test are given under note 4.

### **27. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the board of directors on 25 Jumaada Al Awal 1438 H corresponding to February 22, 2017.



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