
**AL RAJHI COMPANY FOR COOPERATIVE
INSURANCE**
(A SAUDI JOINT STOCK COMPANY)

**FINANCIAL STATEMENTS
TOGETHER WITH THE
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2015

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)
FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2015

INDEX	PAGE
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION	2-3
STATEMENT OF INCOME - TAKAFUL OPERATIONS	4
STATEMENT OF COMPREHENSIVE INCOME - TAKAFUL OPERATIONS	5
STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS	6
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS	7
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	8
STATEMENT OF CASH FLOWS - TAKAFUL OPERATIONS	9
STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS	10
NOTES TO THE FINANCIAL STATEMENTS	11-47

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

Scope of audit:

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

Unqualified opinion:

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

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

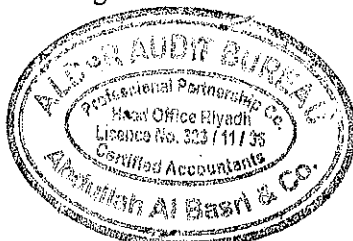
Emphasis of matters:

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

Aldar Audit Bureau
Abdullah Al Basri & Co
P. O. Box 2195
Riyadh 11451
Kingdom of Saudi Arabia



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



Dr. Mohamed Al Amri & Co
P. O. Box 8736
Riyadh 11492
Kingdom of Saudi Arabia



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



February 18, 2016 (G)
Jumada I 09, 1437 (H)

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2015 SR'000	2014 SR'000
TAKAFUL OPERATIONS' ASSETS			
Bank balances and cash	7	188,602	330,335
Due from shareholders' operations		203,259	204,561
Contributions and re-takaful balances receivable, net	6	261,743	123,409
Advances, prepayments and other assets	12	14,769	2,049
Re-takaful share of outstanding claims	13(a)	110,414	85,244
Re-takaful share of unearned contributions	14(c)	71,773	49,652
Re-takaful share of mathematical reserve		177	8
Investments held to maturity	11(i)(c)	330,000	-
Available for sale investments	11(i)(b)	6,578	19,807
Unit Linked Investments		4,978	1,111
Deferred policy acquisition costs	14(a)	17,080	10,940
TOTAL TAKAFUL OPERATIONS' ASSETS		1,209,373	827,116
SHAREHOLDERS' OPERATIONS' ASSETS			
Bank balances and cash	7	75,707	53,428
Management fees receivable		46,740	41,051
Matured murabaha deposit – receivable		39,038	-
Advances, prepayments and other assets	12	10,212	8,225
Investments at fair value through income statement	11(ii)(c)	77,314	52,004
Available for sale investments	11(ii)(b)	78,304	19,794
Investments held to maturity	11(i)(d)	190,000	108,808
Statutory deposit	10	40,000	20,000
Intangible assets, net	9	15,089	15,072
Property and equipment, net	8	8,926	11,597
TOTAL SHAREHOLDERS' OPERATIONS' ASSETS		581,330	329,979
TOTAL ASSETS		1,790,703	1,157,095

The accompanying notes 1 to 26 form an integral part of these financial statements.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December

	Notes	2015 SR'000	2014 SR'000
TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS			
TAKAFUL OPERATIONS' LIABILITIES			
Gross outstanding claims	13(a)	360,727	259,636
Management fees payable		46,740	41,051
Payables, accruals and other liabilities	15	45,265	39,852
Re-takaful balances payable		56,953	29,201
Mathematical reserves		5,712	1,102
Other reserves		801	-
Gross unearned contributions	14(c)	678,322	447,512
Unearned re-takaful commission income	14(b)	7,435	6,796
		<u>1,201,955</u>	<u>825,150</u>
TAKAFUL OPERATIONS' SURPLUS			
Surplus distributable to policyholders		7,396	1,933
Fair value reserve for available for sale investments		22	33
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS		<u>1,209,373</u>	<u>827,116</u>
SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY			
SHAREHOLDERS' OPERATIONS' LIABILITIES			
Provision for zakat	16(b)	9,368	5,069
Payables, accruals and other liabilities	15	19,597	11,528
Due to takaful operations		203,259	204,561
Employees' end of service benefits		8,611	6,777
TOTAL SHAREHOLDERS' OPERATIONS' LIABILITIES		<u>240,835</u>	<u>227,935</u>
SHAREHOLDERS' EQUITY			
Share capital	17	400,000	200,000
Accumulated losses		(59,766)	(98,007)
Fair value reserve for available for sale investments		261	51
TOTAL SHAREHOLDERS' EQUITY		<u>340,495</u>	<u>102,044</u>
TOTAL SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY		<u>581,330</u>	<u>329,979</u>
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY		<u>1,790,703</u>	<u>1,157,095</u>

The accompanying notes 1 to 26 form an integral part of these financial statements.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF INCOME - TAKAFUL OPERATIONS

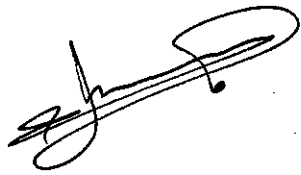
For the year ended 31 December

	Notes	2015 SR'000	2014 SR'000
Gross contributions written	14(c)	1,361,890	944,859
Re-takaful contributions ceded	14(c)	(111,445)	(80,279)
Excess of loss		(22,362)	(8,842)
NET CONTRIBUTIONS WRITTEN		1,228,083	855,738
Change in unearned contributions, net		(208,689)	(144,168)
NET CONTRIBUTIONS EARNED		1,019,394	711,570
Policy fees and other income		1,131	827
Re-takaful commission income	14(b)	15,409	12,757
TOTAL UNDERWRITING REVENUE		1,035,934	725,154
Gross claims paid	13(a)	(746,905)	(586,080)
Re-takaful share of claims paid	13(a)	31,351	58,342
NET CLAIMS PAID		(715,554)	(527,738)
Movement in outstanding claims, net		(75,921)	(34,985)
NET CLAIMS INCURRED		(791,475)	(562,723)
Inspection and supervision fees		(8,767)	(6,445)
Policy acquisition costs	14(a)	(31,410)	(26,620)
Allowance for doubtful receivables	6	(13,208)	(420)
Other expenses		(7,003)	(2,631)
Other income		3,270	605
TOTAL CLAIMS AND OTHER EXPENSES		(848,593)	(598,234)
NET UNDERWRITING SURPLUS		187,341	126,920
Investment income		4,737	2,366
Management fee for administration of takaful operations	4	(137,450)	(109,956)
Net surplus for the year		54,628	19,330
Management fee attributable to shareholders' operations	4	(49,165)	(17,397)
NET SURPLUS DISTRIBUTABLE TO POLICYHOLDERS		5,463	1,933

The accompanying notes 1 to 26 form an integral part of these financial statements.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)
 STATEMENT OF COMPREHENSIVE INCOME - TAKAFUL OPERATIONS
 For the year ended 31 December

	Note	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
Net surplus distributable to policyholders		5,463	1,933
<i>Other comprehensive loss to be reclassified subsequently to the statement of income:</i>			
Net change in fair value of available for sale investments	11(i)(b)	(11)	(18)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>5,452</u>	<u>1,915</u>





The accompanying notes 1 to 26 form an integral part of these financial statements

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF INCOME – SHAREHOLDERS’ OPERATIONS

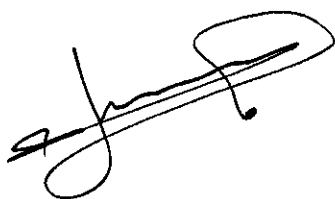
For the year ended 31 December

	Notes	2015 SR'000	2014 SR'000
REVENUE			
Management fee for administration of takaful operations	4	137,450	109,956
Management fee attributable to shareholders' operations	4	49,165	17,397
Dividend income		2,430	2,942
Net change in fair value of investments held as fair value through income statement	11(ii)(c)	(12,690)	(5,103)
Realized gains on available for sale investments		1,305	928
Special commission income on investments held to maturity		2,332	2,114
TOTAL REVENUE		179,992	128,234
General and administrative expenses	20	(137,450)	(109,956)
INCOME BEFORE ZAKAT		42,542	18,278
Provision for zakat	16(a)	(4,301)	(2,700)
NET INCOME FOR THE YEAR		38,241	15,578
BASIC AND DILUTED INCOME PER SHARE (SR)	21	1.04	0.54

The accompanying notes 1 to 26 form an integral part of these financial statements.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME – SHAREHOLDERS' OPERATIONS
For the year ended 31 December

	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
Net income for the year	38,241	15,578
<u><i>Other comprehensive income to be reclassified subsequently to the statement of income:</i></u>		
Net change in fair value of available for sale investments {note 11 (ii) (b)}	210	2
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>38,451</u>	<u>15,580</u>



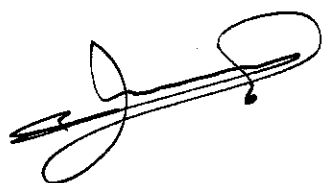

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Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December

	<i>Share capital</i> <i>SR'000</i>	<i>Accumulated</i> <i>losses</i> <i>SR'000</i>	<i>Fair value</i> <i>reserve for</i> <i>AFS</i> <i>investments</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
Balance as at 1 January 2014	200,000	(113,585)	49	86,464
Net income for the year	-	15,578	-	15,578
Other comprehensive income	-	-	2	2
Total comprehensive income for the year	-	15,578	2	15,580
Balance as at 31 December 2014	200,000	(98,007)	51	102,044
Issue of additional share capital (note 17)	200,000	-	-	200,000
Net income for the year	-	38,241	-	38,241
Other comprehensive income	-	-	210	210
Total comprehensive income for the year	200,000	38,241	210	238,451
Balance as at 31 December 2015	400,000	(59,766)	261	340,495


The accompanying notes 1 to 26 form an integral part of these financial statements.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS – TAKAFUL OPERATIONS

For the year ended 31 December

	Notes	2015 SR'000	2014 SR'000
OPERATING ACTIVITIES			
Net surplus distributable to policyholders		5,463	1,933
<i>Adjustments for:</i>			
Management fee for administration of takaful operations	4	137,450	109,956
Management fee attributable to shareholders' operations	4	49,165	17,397
Allowance for doubtful receivables		12,964	420
Net surplus before changes in operating assets and liabilities		205,042	129,706
Changes in operating assets and liabilities:			
Due from shareholders' operations		1,302	(1,760)
Contributions and re-takaful balances receivable, net		(151,298)	(52,448)
Advances, prepayments and other assets		(12,720)	(1,585)
Amount due from related parties		-	400
Re-takaful share of outstanding claims		(25,170)	(21,075)
Re-takaful share of unearned contributions		(22,121)	39,777
Re-takaful share of mathematical reserve		(169)	(8)
Deferred policy acquisition costs		(6,140)	(2,109)
Gross outstanding claims		101,091	56,060
Payables, accruals and other liabilities		5,413	7,931
Mathematical reserves		4,610	-
Other reserves		801	-
Re-takaful balances payable		27,752	(9,243)
Gross unearned contributions		230,810	104,391
Unearned re-takaful commission income		639	2,532
Deposit against letters of guarantee		(2,742)	1,296
Management fee paid		(180,926)	(97,975)
Net cash from operating activities		176,174	155,890
INVESTING ACTIVITIES			
Purchase of available for sale investments	11(i)(b)	(1,702,000)	(1,144,000)
Sale of available for sale investments	11(i)(b)	1,715,218	1,140,120
Purchase of held to maturity investments	11(i)(c)	(330,000)	-
Purchase of Unit Linked Investments		(3,867)	-
Net cash used in investing activities		(320,649)	(3,880)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(144,475)	152,010
Cash and cash equivalents at the beginning of year		318,530	166,520
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	174,055	318,530
<i>Non - cash supplemental information:</i>			
Change in fair value of available for sale investments	11(i)(b)	(11)	(18)

The accompanying notes 1 to 26 form an integral part of these financial statements.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS – SHAREHOLDERS’ OPERATIONS

For the year ended 31 December

	Notes	2015 SR'000	2014 SR'000
OPERATING ACTIVITIES			
Net income for the year before zakat		42,542	18,278
<i>Adjustments for:</i>			
Depreciation and amortisation		8,714	7,114
Management fee for administration of takaful operations		(137,450)	(109,956)
Management fee attributable to shareholders’ operations		(49,165)	(17,397)
Employees’ end of service benefits		4,616	2,623
Net loss on investments at fair value through income statement	11 (ii)(c)	12,690	5,103
Net deficit before changes in operating assets and liabilities		(118,053)	(94,235)
Changes in operating assets and liabilities:			
Advances, prepayments and other assets		(1,987)	4,429
Payables, accruals and other liabilities		8,069	2,785
Due to takaful operations		(1,302)	1,760
		(113,273)	(85,261)
Management fee received		180,926	97,975
Zakat paid		(2)	-
Employees’ end of service benefits paid		(2,782)	(714)
Net cash provided by operating activities		64,869	12,000
INVESTING ACTIVITIES			
Purchase of property and equipment, net		(4,119)	(4,914)
Purchase of intangible assets, net		(1,941)	(11,352)
Purchase of available for sale investments	11(ii)(b)	(713,000)	(329,000)
Sale of available for sale investments	11(ii)(b)	654,700	326,572
Purchase of investments at fair value through income statement	11(ii)(c)	(83,555)	(35,964)
Sale of investments at fair value through income statement	11(ii)(c)	45,555	20,964
Purchase of investments held to maturity	11(ii)(d)	(250,000)	(108,808)
Maturities of investments held to maturity	11(ii)(d)	168,808	76,800
Matured Murabaha Deposit-Receivable		(39,038)	-
Investment in statutory deposit		(20,000)	-
Net cash used in investing activities		(242,590)	(65,702)
FINANCING ACTIVITIES			
Increase in share capital		200,000	-
Net cash provided by financing activities		200,000	(65,702)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the year		53,428	107,130
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	75,707	53,428
<i>Non-cash supplemental information:</i>			
Changes in fair value of available for sale investments	11(ii)(b)	210	2

The accompanying notes 1 to 26 form an integral part of these financial statements

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Al Rajhi Company for Cooperative Insurance (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010270371 dated 5 Rajab 1430 corresponding to 28 June 2009. The address of the registered office of the Company is as follows:

Al Rajhi Company for Cooperative Insurance
P.O. Box 67791
Riyadh 11517
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance business and carry out related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 29 Dhul-Qi'dah 1430H (corresponding to 17 November 2009), the Company received its license from the Saudi Arabian Monetary Agency (SAMA) to transact cooperative insurance business in the Kingdom of Saudi Arabia. The Company was listed on the Saudi stock market ("Tadawul") on 13 July 2009. The Company received product approvals from SAMA on 17 January 2010.

2 BASIS OF PREPARATION

a) *Basis of measurement*

These financial statements have been prepared under the historical cost convention except for the measurement at fair value of investments held as Available for Sale ("AFS") and at Fair Value through Income Statement ("FVIS").

b) *Statement of compliance*

The company has prepared these financial statements in accordance with International Financial Reporting Standards (IFRS) issued by International Accounting and Standards Board (IASB)

The Company presents its statement of financial position in order of liquidity. As required by Saudi Arabian insurance regulations, the Company maintains separate books of accounts for Takaful Operations and Shareholders' Operations. The physical custody of all assets related to the Takaful Operations and Shareholders' Operations are held by the Company. Assets, liabilities, revenues and expenses clearly attributable to each operation are recorded in their respective books. As per the Company's policy, all general and administrative expenses of Takaful operations are charged to Shareholders' operations. The basis of allocation of other revenue and expenses from joint operations is as determined by the management and Board of Directors.

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

c) *Functional and presentation currency*

The functional and presentational currency of the Company is Saudi Riyals. The financial statements values are presented in Saudi Arabian Riyals rounded off to the nearest thousand (SR'000), unless otherwise indicated.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

3 STANDARD AND AMENDMENTS ISSUED

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2014, except for the new and amended standards and interpretation made in the following which are effective for annual periods beginning on or after 1 January 2015:

Standard	Description
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to IFRSs 2012 – 2014 Cycle)
IFRS 7	Financial Instruments: Disclosures (Annual Improvements to IFRSs 2012 – 2014 Cycle)
IFRS 9	Financial Instruments (2009)
IFRS 9	Financial Instruments (2010)
IFRS 9	Financial Instruments (2013)
IFRS 9	Financial Instruments (2014)
IFRS 9	Financial Instruments (own credit risk provision)
IFRS 10	Consolidated Financial Statements (Amendments – Sale or Contribution of Assets)
IFRS 10, 12 and IAS 28	Investment Entities (Amendments - Applying the Consolidation Exception)
IFRS 11	Joint Arrangements (Amendments – Acquisitions of Interests in Joint Operations)
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers
IAS 1	Presentation of Financial Statements (Amendments – Disclosure Initiative)
IAS 16	Property, Plant and Equipment (Amendments - Acceptable Methods of Depreciation)
IAS 19	Employee Benefits (Annual Improvements to IFRSs 2012 – 2014 Cycle)
IAS 27	Separate Financial Statements (Amendments – Equity Method in Separate Financial Statements)
IAS 34	Interim Financial Reporting (Annual Improvements to IFRSs 2012 – 2014 Cycle)
IAS 38	Intangible Assets (Amendments – Acceptable Methods of Amortisation)
IAS 41	Agriculture (Amendments – Bearer Plants).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The relevant standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Standard	Description	Effective Date
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to IFRSs 2012 – 2014 Cycle)	1-Jan-16
IFRS 7	Financial Instruments: Disclosures (Annual Improvements to IFRSs 2012 – 2014 Cycle)	1-Jan-16
IFRS 9	Financial Instruments	1-Jan-16
IFRS 10	Consolidated Financial Statements (Amendments – Sale or Contribution of Assets)	1-Jan-16
IFRS 10, 12 and IAS 28	Investment Entities (Amendments - Applying the Consolidation Exception)	1-Jan-16
IFRS 11	Joint Arrangements (Amendments – Acquisitions of Interests in Joint Operations)	1-Jan-16
IFRS 14	Regulatory Deferral Accounts	1-Jan-16
IFRS 15	Revenue from Contracts with Customers	1-Jan-18
IAS 1	Presentation of Financial Statements (Amendments – Disclosure Initiative)	1-Jan-16
IAS 16	Property, Plant and Equipment (Amendments - Acceptable Methods of Depreciation)	1-Jan-16
IAS 19	Employee Benefits (Annual Improvements to IFRSs 2012 – 2014 Cycle)	1-Jan-16
IAS 27	Separate Financial Statements (Amendments – Equity Method in Separate Financial Statements)	1-Jan-16
IAS 34	Interim Financial Reporting (Annual Improvements to IFRSs 2012 – 2014 Cycle)	1-Jan-16
IAS 38	Intangible Assets (Amendments – Acceptable Methods of Amortisation)	1-Jan-16
IAS 41	Agriculture (Amendments – Bearer Plants).	1-Jan-16

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Takaful contracts

Takaful contracts are those contracts where the Company (the insurer) has accepted significant takaful risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

Once a contract has been classified as a takaful contract, it remains a takaful contract till its maturity, even if the takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

Re-takaful

Re-takaful contracts are contracts entered into by the Company under which the Company is compensated for losses on takaful contracts issued.

The benefits to which the Company is entitled under its re-takaful contracts held are recognized as re-takaful assets. These assets consist of the re-takaful share of settlement of claims and other receivables such as profit commissions and the re-takaful share of outstanding claims that are dependent on the expected claims and benefits arising under the related re-takaful contracts.

Amounts recoverable from or due to re-takaful companies are recognized consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each re-takaful contract.

At each reporting date, the Company assesses whether there is any indication that a re-takaful asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount.

Where the carrying amount of a re-takaful 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 income - takaful operations.

Gain or losses on buying re-takaful are recognized in the statement of income - takaful operations immediately at the date of purchase and are not amortised.

Ceded re-takaful arrangements do not relieve the Company from its obligations to policyholders.

Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of income - takaful operations in the period in which they are incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at the reporting date, are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims Incurred But Not Reported ("IBNR") at the reporting date. The ultimate liability may be in excess of or less than the amount provided.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is charged to statement of income - takaful operations.

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

Re-takaful claims are recognized when the related gross insurance claim is recognised according to the term of the relevant contract.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred policy acquisition costs (DPAC)

Commissions and other costs of acquiring takaful contracts that are primarily related to securing new contracts and renewing existing contracts are capitalised and are subsequently amortised over the life of the contract on a basis consistent with the term of the related policy coverage

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

Liability adequacy test

At each reporting date, a liability adequacy test is performed to ensure the adequacy of the takaful contract liabilities net of related deferred policy acquisition costs, using current estimates of future cash flows under takaful 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 income - takaful operations initially by writing off related deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests under premium deficiency reserves.

Income recognition

The underwriting surplus represents contributions earned less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts reinsured, less provision for any anticipated future losses on continuing policies.

Fees and commission income

Fees and commission income represents management fees charged to clients for policy documentation and claim management charges that are recovered from policyholders.

Management fee

Management fee from Takaful Operations are recognized by shareholders' operations when earned in accordance with the takaful agreements approved by the Shariah Supervisory Board and the Board of Directors.

Re-takaful commission income

Re-takaful commissions are deferred and amortised on a straight-line basis over the term of the takaful contracts. Re-takaful profit commission is recognised as the basis of terms agreed with reinsurers which include claim or loss ratios on policies ceded.

Other income

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

Special commission income on investments is recognised on the effective interest rate method.

Contribution receivables

Contribution receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of contributions 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 - takaful operations. Contribution receivable are derecognised when the de-recognition criteria for financial assets have been met.

Any difference between the provisions at the end of reporting period and settlements and provisions in the following period is included in the underwriting result for that period.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and murabaha deposits with an original maturity of three months or less from the acquisition date.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, receivables, held-to-maturity investments, available for sale financial assets as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Investments

The accounting policies for each of the classification of investments are as follows:

Investments at fair value through income statement (FVIS)

A financial asset is classified as at fair value through income statement if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through income statement if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognised in statement of income as incurred.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the statement of income for the period in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from investment held as FVIS in the statement of income - shareholders' operations

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 rates for items with similar terms and risk characteristics.

Investment held to maturity:

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity.

Held-to-maturity investments are recorded at cost, adjusted by the amount of amortisation of premium or accretion of discount using the effective commission rate method.

Any permanent decline in value of investments is adjusted for and reported in the related statements of income as impairment charges.

Available for sale investments (AFS)

Available for sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in commission rates.

Available for sale investment securities are initially recognized at fair value, including acquisition charges associated with the investment. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in statement of comprehensive income and presented in the fair value reserve in equity for AFS investments of shareholders and under takaful operations surplus/liabilities for takaful operations. When an investment is derecognised, the gain or loss is reclassified to the statement of income. For securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values. For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

De-recognition of financial instruments

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired.
- 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.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

Trade date accounting

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

Fair value of financial instruments

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments (Continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Company's management determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for non-recurring measurement, such as assets held for distribution in any discontinued operation.

Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or a group of financial assets (including contribution 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 recognised for changes in its carrying amounts as follows:

- for financial assets at amortised cost, the impairment loss is based on the difference between the present value of future anticipated cash flows and the carrying amount; and
- for financial assets at fair value, the impairment loss is the significant or prolonged decline in fair value from the cost.

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:

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

Impairment of non-financial assets

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

Property and equipment

Property and equipment is measured at cost net of accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the assets. Expenditure for repair and maintenance is charged to the statement of income - shareholders' operations. Improvements that increase the value or materially extend the life of the related assets are capitalised. Depreciation is charged to the statement of income – shareholders' operations on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets are:

	<u>Years</u>
Office and electrical equipment	5
Furniture and fixtures	6 - 7
Motor vehicles	5
Computer hardware	3

Property and equipment (Continued)

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in statement of income of shareholders' operations.

An item of property and equipment and any significant part initially recognised is derecognised 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 – shareholders' operations when the asset is derecognised.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

The residual values, useful lives and methods of depreciation of property, equipment are reviewed at each financial year end and adjusted prospectively, if appropriate

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

The useful lives estimated by the management for the amortisation of Intangible assets are as follows:

Computer software	5 Years
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Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Re-takaful balances payable

Re-takaful balances payable comprise of the amounts payable to various re-takaful companies in respect of re-takaful share of contributions, net of paid claims and commission income.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees' end of service benefits

Employees' end of service benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Arabian Labor Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at reporting date. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by Saudi Arabian Labour Law.

Zakat

The Company is subject to zakat in accordance with the regulation. Zakat is accrued and charged to the statement of income - shareholders' operations.

Earned and unearned contributions

Retained contributions 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 contributions 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

Segmental reporting

An operating segment is a component of the Company that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other segments, whose operating results are reviewed regularly by the management committee to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. For management purposes, the Company is organised into business units based on their products and services and has four operating and reportable segments as follows:

- General
- Motor
- Health
- Protection and Savings

Operating segments do not include shareholders' operations.

Segment performance is evaluated based on segment profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements. Company financing is managed for the Company as a whole and are not allocated to individual operating segments.

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 who makes strategic decisions.

Segment assets do not include takaful operations' cash and cash equivalents, due from shareholders' operations, net contributions receivable, advances, prepayments and other assets, available for sale investments, investments held to maturity and amounts due from related parties. Accordingly they are included in unallocated assets.

Segment liabilities do not include payables, accruals and others, amount due to related party, management fee payable and re-takaful balances payable. Accordingly, they are included in unallocated liabilities

These unallocated assets and liabilities are not reported to Chief Operating Decision Maker under the related segments and are monitored on a centralised basis.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of income - takaful operations, except when they relate to items where gains or losses are recognized directly in comprehensive income and the gain or loss is recognised net of the exchange component in equity.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Management (Wakala) fee

The Company's by-laws require separate books to be maintained for Takaful and Shareholders' operations. As per the Company's policy, all general and administrative expenses of Takaful operations are charged to Shareholders' operations. The Company in accordance with the Islamic sharia provisions managing the co-operative insurance operations calculates the management fee in the below manner and pays it in full at the end of the fiscal year.

The management fee model for motor and general (40% of gross written premium), health (30% of gross written premium) lines of business was based on a fixed charge on gross written contribution up to 31 December 2011. From 1 January 2012, the Company has amended the takaful model under which management fee comprise of two components and is charged as follows:

- The first component of the management fee is calculated based on the net contributions written for the period after adjusting commission income and cost of production for motor and general at 40% and for health at 30% and is limited to the extent of general and administrative expenses charged in the statement of income – shareholders' operations; and
- The other component of the management fee is determined up to 90% of the net surplus if any for the period from takaful operations remaining after computing the first component of management fee.

The Company is required to distribute the remaining 10% of the net surplus from Takaful operations to policyholders in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Agency ("SAMA").

5 SIGNIFICANT ACCOUNTING 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 contingent liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Details of the specific estimate and judgments made by management are given below:

5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

The ultimate liability arising from claims made under takaful contracts

The estimation of the ultimate liability arising from claims made under takaful contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

The provision for claims Incurred But Not Reported (IBNR) is an estimation of claims, which are expected to be reported subsequent to the reporting date, for which the insured loss event has occurred prior to the reporting 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. The company also used the services of an actuary to ensure adequacy of its claim reserves.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims on a quarterly basis.

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

Liabilities arising under general, motor and health takaful contracts are independently reviewed and certified by an external actuary.

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 prices, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

Impairment losses on receivables

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

Deferred policy acquisition costs ("DPAC")

Certain acquisition costs related to writing or renewal of policies are recorded as DPAC and are amortised in the statement of income - takaful operations over the related period of policy coverage in the same manner that policy contributions are recognised. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may require additional impairment write-offs in the statement of income - takaful operations.

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

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

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

6 CONTRIBUTIONS AND RE-TAKAFUL BALANCES RECEIVABLE, NET

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Due from policyholders		
- External policyholders	91,347	65,474
- Related parties (note 22)	<u>194,901</u>	<u>52,529</u>
Gross contributions receivables	286,248	118,003
Re-takaful balances receivable	<u>3,827</u>	<u>20,774</u>
	290,075	138,777
Allowance for doubtful receivables	<u>(28,332)</u>	<u>(15,368)</u>
	<u>261,743</u>	<u>123,409</u>

Allowance for doubtful receivables includes an amount of SR 6,308 thousand (2014: SR 1,708 thousand) against receivable from related parties.

The movement in allowances for doubtful receivables for the year was as follows:

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
As at 1 January	15,368	14,948
Charge for the year	13,208	420
Bad debt written off	<u>(244)</u>	<u>-</u>
As at 31 December	<u>28,332</u>	<u>15,368</u>

As at 31 December, the ageing of contributions receivable balances and re-takaful balances receivables are as follows:

	<i>Total</i>	<i>Not yet due</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>				<i>Past due and impaired</i>
				<i>Less than 90 days</i>	<i>91 to 180 days</i>	<i>181 to 365 days</i>	<i>Above 365 days</i>	
	<i>SR'000</i>							
As at 31 December 2015	<u>290,075</u>	<u>33,175</u>	<u>185,375</u>	<u>782</u>	<u>204</u>	<u>1,403</u>	<u>1,438</u>	<u>67,698</u>
As at 31 December 2014	<u>138,777</u>	<u>24,883</u>	<u>55,877</u>	<u>16,213</u>	<u>277</u>	<u>3,685</u>	<u>599</u>	<u>37,243</u>

The Company classifies balances as 'past due and impaired' on a case by case basis. An impairment adjustment is recorded in the statement of income - takaful operations. It is not the practice of the Company to obtain collateral over receivables and these are therefore, unsecured. The Company does not have an internal credit ratings assessment process. Amounts which are neither past due nor impaired, in respect of policyholders' balances, are from individuals and unrated corporates.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

7 BANK BALANCES AND CASH

	2015		2014	
	SR'000		SR'000	
	<u>Takaful operations</u>	<u>Shareholders' operations</u>	<u>Takaful operations</u>	<u>Shareholders' operations</u>
Cash in hand and at banks	74,055	25,707	318,530	53,428
Murabaha deposits	100,000	50,000	-	-
Cash and cash equivalents in the statements of cash flows	174,055	75,707	318,530	53,428
Deposit against letters of Guarantee (7.1)	14,547	-	11,805	-
	<u>188,602</u>	<u>75,707</u>	<u>330,335</u>	<u>53,428</u>

Murabaha deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. The average variable commission rate on murabaha deposits at 31 December 2015 is 2.42% per annum.

Bank balances and murabaha deposits are placed with counterparties with investment grade credit ratings, as rated by international rating agencies.

The carrying values of murabaha deposits and bank balances approximate their fair value at the reporting date.

7.1 Deposits against letters of guarantee comprise amounts placed with a local bank against issuance of payment guarantees in favor of the Company's service providers {note 19(a)}. As these cannot be withdrawn before the end of guarantee period, these are restricted in nature.

8 PROPERTY AND EQUIPMENT, NET

	<u>Office and electrical equipment</u>	<u>Furniture and fixtures</u>	<u>Motor vehicles</u>	<u>Computer hardware</u>	<u>Total</u>
	SR'000	SR'000	SR'000	SR'000	SR'000
Cost:					
Balance at 1 January 2014	2,170	14,380	1,127	5,775	23,452
Additions during the year	226	2,415	262	2,011	4,914
Balance at 31 December 2014	2,396	16,795	1,389	7,786	28,366
Additions during the year	245	708	70	408	1,431
Disposals during the year	-	-	(186)	-	(186)
Balance at 31 December 2015	2,641	17,503	1,273	8,194	29,611
Accumulated depreciation:					
Balance at 1 January 2014	1,139	6,696	403	4,255	12,493
Charge for the year (note 20)	456	2,277	253	1,290	4,276
Balance at 31 December 2014	1,595	8,973	656	5,545	16,769
Charge for the year (note 20)	370	2,556	212	964	4,102
Disposals during the year	-	-	(186)	-	(186)
Balance at 31 December 2015	1,965	11,529	682	6,509	20,685
Net book value as at					
31 December 2015	<u>675</u>	<u>5,974</u>	<u>591</u>	<u>1,686</u>	<u>8,926</u>
31 December 2014	801	7,822	733	2,241	11,597

31 December 2015

9 INTANGIBLE ASSETS

	<i>Computer software SR'000</i>
<i>Cost:</i>	
Balance at 1 January 2014	10,370
Additions during the year	11,352
Balance at 31 December 2014	<u>21,722</u>
Additions during the year	<u>4,629</u>
Balance at 31 December 2015	<u>26,351</u>
<i>Accumulated amortisation:</i>	
Balance at 1 January 2014	3,812
Charge for the year (note 20)	2,838
Balance at 31 December 2014	<u>6,650</u>
Charge for the year (note 20)	<u>4,612</u>
Balance at 31 December 2015	<u>11,262</u>
Net book value as at	
31 December 2015	<u><u>15,089</u></u>
31 December 2014	<u>15,072</u>

10 STATUTORY DEPOSIT

The statutory deposit represents 10% of the paid up share capital of the Company which is maintained in accordance with the Cooperative Insurance Companies Control Law issued by the Saudi Arabian Monetary Agency ("SAMA"). This statutory deposit cannot be withdrawn without the consent of SAMA.

11 INVESTMENTS

i) *Takaful operations:*

a) An analysis of investments is set out below:

	<i>2015 SR'000</i>	<i>2014 SR'000</i>
<i>Available for sale investment</i>		
Investment in Al Rajhi Capital Commodity Mudarabah Fund	6,578	19,807
<i>Investments held to maturity – unquoted</i>		
Murabaha deposits (maturity more than three months)	<u>330,000</u>	-
Total investments – Takaful operations	<u><u>336,578</u></u>	<u>19,807</u>

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

11 INVESTMENTS (Continued)

i) *Takaful operations (continued)*

b) The movements in AFS investments were as follows:

	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
As at 1 January	19,807	15,945
Purchased during the year	1,702,000	1,144,000
Sold during the year	(1,715,218)	(1,140,120)
Net change in fair values	(11)	(18)
As at 31 December	<u>6,578</u>	<u>19,807</u>

c) The movements in held to maturity investments were as follows:

	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
As at 1 January	-	-
Purchased during the year	330,000	-
Maturities during the year	-	-
As at 31 December	<u>330,000</u>	<u>-</u>

ii) *Shareholders' operations:*

a) An analysis of investments is set out below:

	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
<i>Available for sale investment</i>		
Investment in Al Rajhi Capital Commodity Mudarabah Fund	76,381	17,871
<i>Available for sale investment – unquoted</i>		
Najm Insurance Services Co. {note 11 (ii)(e)}	1,923	1,923
	<u>78,304</u>	<u>19,794</u>
<i>Investments at Fair value through income statement (Saudi Companies Equities)</i>	77,314	52,004
<i>Investments held to maturity – unquoted</i>		
Murabaha deposits (maturity more than three months)	190,000	108,808
Total investments – Shareholders' operations	<u>345,618</u>	<u>180,606</u>

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

11 INVESTMENTS (Continued)

ii) Shareholders' operations (continued)

b) The movements in AFS investments were as follows:

	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
As at 1 January	19,794	17,364
Purchased during the year	713,000	329,000
Disposals during the year	(654,700)	(326,572)
Net change in fair values	210	2
As at 31 December	<u>78,304</u>	<u>19,794</u>

c) The movements in FVIS investments were as follows:

	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
As at 1 January	52,004	42,107
Purchased during the year	83,555	35,964
Disposals during the year	(45,555)	(20,964)
Net change in fair values	(12,690)	(5,103)
As at 31 December	<u>77,314</u>	<u>52,004</u>

d) The movements in held to maturity investments were as follows:

	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
As at 1 January	108,808	76,800
Purchased during the year	250,000	108,808
Maturities during the year	(168,808)	(76,800)
As at 31 December	<u>190,000</u>	<u>108,808</u>

e) Investment in 'Najm Insurance Services Company' represents a 3.85% (2014: 3.85%) equity holding in that Company. As the fair value is not readily available, this investment has been carried at cost. Management is of the opinion that the fair market value of this investment is not materially different from its carrying value.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

11 INVESTMENTS (Continued)

iii) Determination of fair value and fair value hierarchy

31 December 2015	Level 1 SR' 000	Level 2 SR' 000	Level 3 SR' 000	Total SR' 000
Financial investments available for sale (Takaful operations)	-	6,578	-	6,578
Financial investments available for sale (Shareholders' operations)	-	78,304	-	78,304
Financial assets held as FVIS (Shareholders' operations)	77,314	-	-	77,314
Total	77,314	84,882	-	162,196

31 December 2014	Level 1 SR' 000	Level 2 SR' 000	Level 3 SR' 000	Total SR' 000
Financial investments available for sale (Takaful operations)	-	19,807	-	19,807
Financial investments available for sale (Shareholders' operations)	-	19,794	-	19,794
Financial assets held as FVIS (Shareholders' operations)	52,004	-	-	52,004
Total	52,004	39,601	-	91,605

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

During the year ended 31 December 2015, there were no transfers between Level 1 and Level 2 fair value measurements. (2014: there were no transfers between Level 1 and Level 2 fair value measurements)

The fair value decrease of SR 12,690 thousand (2014: SR 5,103 thousand) in respect of FVIS investments was recorded in statement of income – shareholders' operations.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

12 ADVANCES, PREPAYMENTS AND OTHER ASSETS

	2015 SR'000		2014 SR'000	
	Takaful operations	Shareholders' operations	Takaful Operations	Shareholders' operations
Advances to suppliers	10,502	866	50	1,749
Prepayments:				
- Rent	-	961	-	1,021
- Others	1,418	6,584	1,999	4,169
Accrued profit on murabaha deposits	2,849	1,572	-	1,091
Deposits	-	229	-	195
	<u>14,769</u>	<u>10,212</u>	<u>2,049</u>	<u>8,225</u>

13 OUTSTANDING CLAIMS

a) Outstanding claims at year end are as follows:

	2015			2014		
	Gross SR'000	Re-takaful share SR'000	Net SR'000	Gross SR'000	Re-takaful share SR'000	Net SR'000
Outstanding at 31 December	222,792	(103,822)	118,970	153,676	(67,628)	86,048
Incurring but not reported	137,935	(6,592)	131,343	105,960	(17,616)	88,344
	<u>360,727</u>	<u>(110,414)</u>	<u>250,313</u>	<u>259,636</u>	<u>(85,244)</u>	<u>174,392</u>
Claims paid during the year	(746,905)	31,351	(715,554)	(586,080)	58,342	(527,738)
Outstanding at 1 January	153,676	(67,628)	86,048	135,110	(38,003)	97,107
Incurring but not reported	105,960	(17,616)	88,344	68,466	(26,166)	42,300
	<u>259,636</u>	<u>(85,244)</u>	<u>174,392</u>	<u>203,576</u>	<u>(64,169)</u>	<u>139,407</u>
Claims incurred	<u>847,996</u>	<u>(56,521)</u>	<u>791,475</u>	<u>642,140</u>	<u>(79,417)</u>	<u>562,723</u>

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

13 OUTSTANDING CLAIMS (Continued)

b) Claims development

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

Gross insurance contract outstanding claims provision for 2015:

<i>Accident year</i>	<i>2012 & prior years SR'000</i>	<i>2013 SR'000</i>	<i>2014 SR'000</i>	<i>2015 SR'000</i>	<i>Total SR'000</i>
Estimate of ultimate claims cost at end of accident year	347,379	519,078	703,184	1,168,238	2,737,879
One year later	341,482	510,978	737,346	-	1,589,806
Two years later	352,422	527,003	-	-	879,425
Three years later	355,221	-	-	-	355,221
Current estimate of cumulative claims incurred	<u>355,221</u>	<u>527,003</u>	<u>737,346</u>	<u>1,168,238</u>	<u>2,787,808</u>
Cumulative payments to date	<u>354,540</u>	<u>517,210</u>	<u>712,232</u>	<u>953,513</u>	<u>2,537,495</u>
Total gross insurance outstanding claims provision per the statement of financial position	681	9,793	25,114	214,725	250,313

14 MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED RE-TAKAFUL COMMISSION INCOME AND UNEARNED CONTRIBUTION INCOME

a) Deferred policy acquisition costs

	<i>2015 SR'000</i>	<i>2014 SR'000</i>
As at 1 January	10,940	8,831
Incurred during the year	37,550	28,729
Amortised during the year	(31,410)	(26,620)
As at 31 December	<u>17,080</u>	<u>10,940</u>

b) Movement in unearned re-takaful commission income

	<i>2015 SR'000</i>	<i>2014 SR'000</i>
As at 1 January	6,796	4,264
Received during the year	16,048	15,289
Earned during the year	(15,409)	(12,757)
As at 31 December	<u>7,435</u>	<u>6,796</u>

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

14 MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED RE-TAKAFUL COMMISSION INCOME AND UNEARNED CONTRIBUTION INCOME (Continued)

c) Movement in unearned contribution income

	2015			2014		
	Gross SR'000	Re-takaful share SR'000	Net SR'000	Gross SR'000	Re-takaful share SR'000	Net SR'000
As at 1 January	447,512	(49,652)	397,860	343,121	(89,429)	253,692
Contributions written during the year (excluding excess of loss)	1,361,890	(111,445)	1,250,445	944,859	(80,279)	864,580
Contributions earned during the year (excluding excess of loss)	(1,131,080)	89,324	(1,041,756)	(840,468)	120,056	(720,411)
As at 31 December	<u>678,322</u>	<u>(71,773)</u>	<u>606,549</u>	<u>447,512</u>	<u>(49,652)</u>	<u>397,860</u>

15 PAYABLES, ACCRUALS AND OTHERS LIABILITIES

	2015 SR'000	
	Takaful operations	Shareholder' operations
Accounts payable and other liabilities	16,342	12,517
Accrued expenses	28,923	7,080
	<u>45,265</u>	<u>19,597</u>

	2014 SR'000	
	Takaful operations	Shareholders' operations
Accounts payable and other liabilities	25,429	8,707
Accrued expenses	14,423	2,821
	<u>39,852</u>	<u>11,528</u>

16 ZAKAT

a) The zakat charge for the year has been computed as follows:

	2015 SR'000	2014 SR'000
Equity	102,044	86,464
Opening allowances and other adjustments	27,213	22,186
Book value of long term assets	(45,938)	(48,592)
	<u>83,319</u>	<u>60,058</u>
Zakatable income for the year	88,721	47,942
Zakat base	<u>172,040</u>	<u>108,000</u>
Zakat @ 2.5%	<u>4,301</u>	<u>2,700</u>

The differences between the income as per the financial statements and zakatable income (income subject to zakat which is computed based on zakat rules) for the year used for zakat base is mainly due to provisions, which are not allowed in the calculation of zakatable income.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

16 ZAKAT (Continued)

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

	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
As at 1 January	5,069	2,369
Provision during the year	4,301	2,700
Paid during the year	(2)	-
As at 31 December	<u>9,368</u>	<u>5,069</u>

c) *Status of assessments*

The Company has filed zakat returns with the Department of Zakat and Income tax ("DZIT") for all years up to 31 December 2014.

On initial review of the zakat return by the DZIT for the year ended 31 December 2011, a demand of SR 1,852 thousand raised by the DZIT. This was paid under 'protest' by the Company and an appeal was filed with the DZIT which is in progress at the reporting date.

17 SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company consists of 40 million issued and fully paid ordinary shares of SR 10 each.

The Board of Directors in a meeting held on 27 Jumad Thani 1435H (corresponding to 27 April 2014) has approved the capital increase from SR 200 million to SR 400 million through a rights issue. On 2 Rabi Awal 1436H (corresponding to 24 December 2014), the Company has obtained approval from the Capital Market Authority to raise additional share capital by SR 200 million through a right issue. The Company has received the proceeds of rights issue on 8 Rajab 1436H (corresponding to 27 April 2015) after completion of all regulatory procedures.

18 STATUTORY RESERVE

In accordance with its bylaws, the Company shall allocate 20% of its net income each year to the statutory reserve until it has built up a reserve equal to the capital. The Company has not transferred any amount to statutory reserve due to the fact that the Company has accumulated losses as at 31 December 2015.

19 CONTINGENCIES AND COMMITMENTS

a) **Contingencies**

Bank guarantees

As at 31 December 2015, the Company's banker has issued letters of guarantee of SR 14.5 million (2014: SR 11.8 million) to various motor agencies, workshops and health service providers as per the terms of the agreements with them (note 7).

Legal proceedings

The Company enters into takaful contracts and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that any such proceedings (including litigation) that are in progress at reporting date will have a material effect on its results and financial position. At the reporting date, cases with a total exposure of approximately SR4.6 million are pending court decisions, with a net exposure, if retakaful is accepted on each claim, of approximately SR0.6 million.

b) **Commitments**

The Company has no future capital commitment at the reporting date.

20 GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
Employee costs	84,854	79,596
Office expenses	8,820	9,316
Depreciation and amortization (note 8 & 9)	8,714	7,114
Legal and professional fees	20,849	6,927
Information technology expenses	6,793	3,224
Advertising and marketing expenses	5,064	1,517
Communication expenses	861	1,194
Travel and lodging expenses	1,317	898
Others	178	170
	<u>137,450</u>	<u>109,956</u>

21 BASIC AND DILUTED EARNINGS PER SHARE

	<u>2015</u>	<u>2014</u>
Net income for the year - SR'000	38,241	15,578
Weighted average number of shares in issue throughout the year – (in thousands)	36,625	28,800
Basic and diluted earnings per share – SR	<u>1.04</u>	<u>0.54</u>

Basic and diluted earnings per share has been calculated by dividing the net income for the year by the weighted average number of shares outstanding as of the reporting date.

The weighted average number of shares have been retrospectively adjusted for all prior periods to reflect the bonus element of the rights issue as required by IAS 33, "Earnings per share"

The weighted average number of ordinary shares for prior year is computed using an adjustment factor of 1.44, which is a ratio of the theoretical ex-right price of SR17.97 and the closing price per share of SR 26 per share on 11th April, 2015, the last day on which the shares were traded before the rights issue.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

22 RELATED PARTY TRANSACTIONS AND BALANCES

a) Transactions and balances with related parties:

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 or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management.

Following are the details of significant related party transactions during the year:

Related party	Nature of transaction	Amount of transaction		Balance	
		2015 SR'000	2014 SR'000	2015 SR'000	2014 SR'000
Al Rajhi Insurance Company B.S.C.(c) (shareholder)	Reimbursement from / expenses paid on behalf of related party				
	a) takaful operations	156	400	(156)	-
	b) shareholders' operations	13	-	(13)	-
Al Rajhi Bank (shareholder)	Contribution for policies written	801,108	618,820	160,041	30,120
Affiliate companies	Contribution for policies written	58,462	53,529	34,860	22,409
	Contributions receivable (note 6)			194,901	52,529
Al Rajhi Bank (shareholder)	Claims incurred and notified during the year	729,892	466,456	242,721	138,777
Affiliate companies	Claims incurred and notified during the year	57,913	31,669	18,331	30,817

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2015

22 RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

a) Transactions and balances with related parties:

Related party	Nature of transaction	Amount of transaction		Balance	
		2015 SR'000	2014 SR'000	2015 SR'000	2014 SR'000
Al Rajhi Bank (Shareholder)	Bank balance of takaful operations	-	-	71,504	318,124
	Bank balance of shareholders' operations	-	-	24,673	52,156
	Bank balances			96,177	370,280
Al Rajhi Capital (Affiliate)	Available for sale investments				
	a) takaful operations (note 11 (i))	-	-	6,578	19,807
	b) shareholders' operations (note 11 (ii)a)	-	-	76,381	17,871
				82,959	37,678
Al Rajhi Capital (Affiliate)	Income received from sale of investment in Al Rajhi Capital commodity fund				
	a) takaful operations	3,296	2,366	-	-
	b) shareholders' operations	1,300	928	-	-
		4,596	3,294		
Al Rajhi Bank (Shareholder)	Investment in shares of Al Rajhi Bank for trading purposes			10,039	4,240
Al Rajhi Takaful Agency (Subsidiary of shareholders)	Commissions	4,072	(1,911)	14	(107)
Ahmad Samer Hamdi Al Zaim (Non-executive director)	Contribution for policies written	14	57	7	1
Ceramic & Bldg. Material Int'l Trading Co. Ltd (Affiliate)	Contribution for policies written	89	97	-	-

b) Compensation of key management personnel:

Key management personnel of the Company include all directors, executive and non-executive, and senior management. The summary of compensation of key management personnel for the year ended is as follows:

	2015 SR'000	2014 SR'000
Salaries and benefits of key management personnel	6,120	6,732
Shariah committee's remuneration	249	190
	6,369	6,922

23 RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational 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 takaful, re-takaful, commission rate, credit, 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 centralised 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 summarised below:

a) Takaful risk

The risk under a takaful 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 takaful 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 takaful 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 re-takaful arrangements.

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

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

23 RISK MANAGEMENT (Continued)

a) Takaful risk (Continued)

The takaful claim liabilities are sensitive to the various assumptions mentioned in note 4. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

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.

Frequency and amounts of claims

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

Property and fire and accident

For property takaful contracts the main risks are fire and business interruption. In recent years the Company has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim to SR 500 thousand (2014: SR 500 thousand).

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the Company has only underwritten comprehensive policies for owner/drivers over 21 years of age. Substantially all of the motor contracts relate to private individuals.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are key factors that influence the level of claims. The Company also has risk management procedures to control cost of claims. The Company has re-takaful cover for such damage to limit the losses for any individual claim to SR 750 thousand (2014: SR 300 thousand).

Medical

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

Marine

For marine cargo takaful, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine cargo class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has re-takaful cover to limit losses for any individual claim to SR 500 thousand (2014: SR 600 thousand).

Sensitivity analysis

The takaful claims provision is sensitive to the above key assumptions. A hypothetical 5% change in the claim ratio would impact income by approximately SR 50,748 thousand (2014: SR 35,641 thousand) annually in aggregate.

23 RISK MANAGEMENT (Continued)

b) Re-takaful risk

In order to minimize its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for re-takaful purposes. Such re-takaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Motor policies are protected by an excess of loss treaty. Health policies have been reinsured on a quota share basis. Marine, engineering and other lines of business have been insured on a quota share, surplus and facultative basis.

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

Re-takaful ceded contracts do not relieve the Company from its obligations to the policyholders and as a result, the Company remains liable for outstanding claims re-takaful to the extent that the re-takaful fails to meet the obligations under the reinsurance agreements. The credit exposure in respect of re-takaful share of outstanding claims is mainly concentrated in the Gulf Co-operative Council countries (the 'GCC') and Europe.

c) Currency risk

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, Company's foreign currency transactions are primarily in US dollars which is pegged with Saudi Riyal and therefore the financial instruments are not sensitive to currency fluctuations.

d) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company has no significant concentration of commission rate risk.

The sensitivity of the income is the effect of the assumed changes in the commission rates, with all other variable held constant, on the Company's income for one year, based on the floating rate financial assets held at 31 December 2015. As at year end, the Company do not have any floating rate financial instruments. (2014: same)

e) Equity 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 has investment in the units of commodity fund managed by a related party. A 5% change in the net asset value of funds, with all other variables held constant, would impact the shareholders' equity by increase / decrease of SR 3,819 thousand (2014: SR 894 thousand) and fair value reserve on investments under takaful operations by increase / decrease by SR 329 thousand (2014: SR 990 thousand).

The Company has investment in the Saudi companies equities listed on Tadawul. A 5% change in the market value of these investments, with all other variables held constant, would impact the shareholders' equity by increase / decrease of SR 3,866 thousand (2014: SR 2,600 thousand).

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

23 RISK MANAGEMENT (Continued)

f) Credit risk

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

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

- To minimize its exposure to significant losses from re-takaful insolvencies, the Company evaluates the financial condition of its re-takaful counterparties. Accordingly, as a pre-requisite, the parties with whom re-takaful is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company only enters into takaful and re-takaful contracts with recognized credit ratings of reinsurers of BBB by Standards and Poor's (S&P) or equivalent. 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 takaful and re-takaful contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit the credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The risk is managed within the Company's investment guidelines by the Investment Committee who regularly update the Board. The investment risk appetite is low as the return is required to meet future liabilities arising from the Company's takaful business. The investments are held in a high quality, fixed income portfolio and are intended to be held until maturity.

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

	Notes	2015	
		Takaful operations	Shareholders' operations
		SR'000	SR'000
Contributions and re-takaful balances receivable, net	6	261,743	-
Re-takaful share of outstanding claims	13(a)	110,414	-
Investments held to maturity	11(i)(c)	330,000	190,000
Advances and other assets		10,502	2,667
		<u>712,659</u>	<u>192,667</u>
2014			
	Notes	Takaful operations	Shareholders' operations
		SR'000	SR'000
Contributions and re-takaful balances receivable, net	6	123,409	-
Re-takaful share of outstanding claims	13(a)	85,244	-
Investments held to maturity	11(i)(c)	-	108,808
Advances and other assets		50	3,035
		<u>208,703</u>	<u>111,843</u>

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

23 RISK MANAGEMENT (Continued)

f) Credit risk (Continued)

The analysis of the credit ratings of the investment portfolio (held to maturity) is as follows:

	<i>2015</i>	
	<i>Takaful operations</i>	<i>Shareholders' operations</i>
	<u><i>SR'000</i></u>	<u><i>SR'000</i></u>
S & P equivalent (A)	250,000	150,000
S & P equivalent (BBB+)	80,000	40,000
	<u>330,000</u>	<u>190,000</u>

	<i>2014</i>	
	<i>Takaful operations</i>	<i>Shareholders' operations</i>
	<u><i>SR'000</i></u>	<u><i>SR'000</i></u>
S & P (A-)	-	57,079
S & P (A+)	-	51,729
	<u>-</u>	<u>108,808</u>

g) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial instruments. There is also a liquidity risk associated with the timing difference between gross cash out-flows and expected re-takaful recoveries.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

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

- A Company liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Risk Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet takaful obligations.
- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The Company's catastrophic excess-of-loss re-takaful contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

Maturity profiles

The table below summarises the maturity profile of the non-derivative financial assets and liabilities of the Company based on remaining expected obligations. For takaful contract liabilities and re-takaful assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised takaful liabilities. Repayments that are subject to notice are treated as if notice were to be given immediately.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

23 RISK MANAGEMENT (Continued)

g) Liquidity risk (Continued)

Maturity profiles (Continued)

	31 December 2015					
	Takaful operations			Shareholders' operations		
	Current SR'000	Non-current SR'000	Total SR'000	Current SR'000	Non-current SR'000	Total SR'000
ASSETS						
Bank balance and cash	188,602	-	188,602	75,707	-	75,707
Due from shareholders' operations	-	203,259	203,259	-	-	-
Contributions receivable, net	257,916	-	257,916	-	-	-
Investment at fair value through income statement	-	-	-	77,314	-	77,314
Available for sale investments	6,578	-	6,578	78,304	-	78,304
Re-takaful share of outstanding claims	110,414	-	110,414	-	-	-
Re-takaful balances receivable	3,827	-	3,827	-	-	-
Investments held to maturity	330,000	-	330,000	190,000	-	190,000
Advances and other assets	10,502	-	10,502	2,667	-	2,667
Management fee receivable	-	-	-	46,740	-	46,740
TOTAL ASSETS	907,839	203,259	1,111,098	470,732	-	470,732

	31 December 2014					
	Takaful operations			Shareholders' operations		
	Current SR'000	Non-current SR'000	Total SR'000	Current SR'000	Non-current SR'000	Total SR'000
ASSETS						
Bank balance and cash	330,335	-	330,335	53,428	-	53,428
Due from shareholders' operations	-	204,561	204,561	-	-	-
Contributions receivable, net	102,635	-	102,635	-	-	-
Investment at fair value through income statement	-	-	-	52,004	-	52,004
Available for sale investments	19,807	-	19,807	19,794	-	19,794
Re-takaful share of outstanding claims	85,244	-	85,244	-	-	-
Re-takaful balances receivable	20,774	-	20,774	-	-	-
Investments held to maturity	-	-	-	108,808	-	108,808
Advances and other assets	50	-	50	3,035	-	3,035
Management fee receivable	-	-	-	41,051	-	41,051
TOTAL ASSETS	558,845	204,561	763,406	278,120	-	278,120

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

23 RISK MANAGEMENT (Continued)

g) Liquidity risk (Continued)

Maturity profiles (Continued)

	----- 31 December 2015 -----					
	Takaful operations			Shareholders' operations		
	Current SR'000	Non-Current SR'000	Total SR'000	Current SR'000	Non-current SR'000	Total SR'000
LIABILITIES						
Gross outstanding claims	360,727	-	360,727	-	-	-
Management fee payable	46,740	-	46,740	-	-	-
Payables, accruals and other liabilities	45,265	-	45,265	19,597	-	19,597
Re-takaful balances payable	56,953	-	56,953	-	-	-
Due to takaful operations	-	-	-	-	203,259	203,259
TOTAL LIABILITIES	509,685	-	509,685	19,597	203,259	222,856

	----- 31 December 2014 -----					
	Takaful operations			Shareholders' operations		
	Current SR'000	Non-current SR'000	Total SR'000	Current SR'000	Non-current SR'000	Total SR'000
LIABILITIES						
Gross outstanding claims	259,636	-	259,636	-	-	-
Management fee payable	41,051	-	41,051	-	-	-
Payables, accruals and other liabilities	39,852	-	39,852	11,528	-	11,528
Re-takaful balances payable	29,201	-	29,201	-	-	-
Due to takaful operations	-	-	-	-	204,561	204,561
TOTAL LIABILITIES	369,740	-	369,740	11,528	204,561	216,089

Liquidity profile

The table below summarizes the maturity profile of the takaful liabilities of the Company based on remaining contractual obligations. For takaful contract liabilities, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized takaful liabilities. Unearned contributions have been excluded from the analysis as they are not contractual obligations. Repayments that are subject to notice are treated as if notice were to be given immediately and such amounts are classified as due within one year.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

23 RISK MANAGEMENT (Continued)

g) Liquidity risk (Continued)

Liquidity profiles (Continued)

	----- 31 December 2015 -----					
	Takaful operations			Shareholders' operations		
	Up to one year SR'000	More than one year SR'000	Total SR'000	Up to one year SR'000	More than one year SR'000	Total SR'000
LIABILITIES						
Gross outstanding claims	360,727	-	360,727	-	-	-
Management fee payable	46,740	-	46,740	-	-	-
Payables, accruals and other liabilities	45,265	-	45,265	19,597	-	19,597
Re-takaful balances payable	56,953	-	56,953	-	-	-
Due to takaful operations	-	-	-	-	203,259	203,259
TOTAL LIABILITIES	509,685	-	509,685	19,597	203,259	222,856

	----- 31 December 2014 -----					
	Takaful operations			Shareholders' operations		
	Up to one year SR'000	More than one year SR'000	Total SR'000	Up to one year SR'000	More than one year SR'000	Total SR'000
LIABILITIES						
Gross outstanding claims	259,636	-	259,636	-	-	-
Management fee payable	41,051	-	41,051	-	-	-
Payables, accruals and other liabilities	39,852	-	39,852	11,528	-	11,528
Re-takaful balances payable	29,201	-	29,201	-	-	-
Due to takaful operations	-	-	-	-	204,561	204,561
TOTAL LIABILITIES	370,842	-	370,842	11,528	204,561	216,089

23 RISK MANAGEMENT (Continued)

h) Capital management

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

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

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

Minimum Capital Requirement of SR 100 million
Premium Solvency Margin
Claims Solvency Margin

24 OPERATING SEGMENTS

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed below is based on current reporting to the

Chief Operating Decision Maker, the CEO. Operating segments do not include shareholders' operations of the Company.

Segment assets do not include takaful operations' bank balances and cash, due from shareholders' operations, net contributions receivable and available for sale investments. Accordingly they are included in unallocated assets.

Segment liabilities do not include takaful operations' payables accruals and other liabilities, amount due to related parties, management fee payable and re-takaful balances payable. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities are not reported to CEO under the related segments and are monitored on a centralised basis.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

24 OPERATING SEGMENTS (Continued)

<i><u>For the year ended 31 December 2015</u></i>	<i>General</i>	<i>Motor</i>	<i>Health</i>	<i>Protection and Saving</i>	<i>Total</i>
	<i>SR'000</i>				
Gross contributions written	146,209	986,920	216,156	12,605	1,361,890
Net contributions written	37,538	968,949	210,010	11,586	1,228,083
Net contributions earned	20,743	791,003	196,901	10,747	1,019,394
Policy fee and other income	134	938	-	59	1,131
Re-takaful commission income	13,839	1,390	-	180	15,409
Total underwriting revenue	34,716	793,331	196,901	10,986	1,035,934
Gross claims paid	(19,342)	(594,314)	(131,780)	(1,469)	(746,905)
Net claims incurred	(3,948)	(643,412)	(142,292)	(1,823)	(791,475)
Inspection and supervision fees	(550)	(4,912)	(3,242)	(63)	(8,767)
Policy acquisition costs	(9,053)	(10,599)	(10,814)	(944)	(31,410)
Allowance for doubtful receivables	(3,462)	(2,584)	(7,162)	-	(13,208)
Other expenses	(1,518)	(606)	(133)	(4,746)	(7,003)
Other income	-	2,893	377	-	3,270
Total claims and other expenses	(18,531)	(659,220)	(163,266)	(7,576)	(848,593)
Net underwriting surplus	16,185	134,111	33,635	3,410	187,341
Investment income					4,737
Management fee for administration of takaful operation					(137,450)
Net surplus for the year					54,628
Management fee attributable to shareholders' operations					49,165
Net surplus distributable to policyholders					5,463

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

24 OPERATING SEGMENTS (Continued)

<i>For the year ended 31 December 2014</i>	<i>General</i>	<i>Motor</i>	<i>Health</i>	<i>Protection and Saving</i>	<i>Total</i>
	<i>SR'000</i>				
Gross contributions written	94,816	658,381	188,023	3,639	944,859
Net contributions written	16,948	652,772	183,321	2,697	855,738
Net contributions earned	14,583	530,733	163,607	2,647	711,570
Policy fee and other income	173	600	-	54	827
Re-takaful commission income	12,312	445	-	-	12,757
Total underwriting revenue	27,068	531,778	163,607	2,701	725,154
Gross claims paid	(17,500)	(430,584)	(137,939)	(57)	(586,080)
Net claims incurred	(5,748)	(445,801)	(110,957)	(217)	(562,723)
Inspection and supervision fees	(331)	(3,276)	(2,820)	(18)	(6,445)
Policy acquisition costs	(8,795)	(5,927)	(11,442)	(456)	(26,620)
Allowance for doubtful receivables	-	(21)	(399)	-	(420)
Other expenses	(525)	(32)	(992)	(1,082)	(2,631)
Other income	-	-	605	-	605
Total claims and other expenses	(15,399)	(455,057)	(126,005)	(1,773)	(598,234)
Net underwriting surplus	11,669	76,721	37,602	928	126,920
Investment income					2,366
Management fee for administration of takaful operation					(109,956)
Net surplus for the year					19,330
Management fee attributable to shareholders' operations					(17,397)
Net surplus distributable to policyholders					1,933

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

24 OPERATING SEGMENTS (Continued)

	<i>General</i>	<i>Motor</i>	<i>Health</i>	<i>Protection and Saving</i>	<i>Total</i>
	<i>SR'000</i>				
<i>As at 31 December 2015</i>					
Takaful operations' assets					
Re-takaful share of outstanding claims	99,417	10,497	500	-	110,414
Re-takaful share of unearned contributions	70,273	1,433	-	244	71,950
Deferred policy acquisition costs	5,892	6,964	4,147	77	17,080
Deposit against letters of guarantee	-	14,168	379	-	14,547
Unallocated assets					<u>995,382</u>
Total assets					<u>1,209,373</u>
Takaful operations' liabilities					
Gross outstanding claims	103,825	209,891	45,243	1,768	360,727
Gross unearned contributions	94,726	505,165	77,419	1,012	678,322
Unearned re-takaful commission income	7,435	-	-	-	7,435
Unallocated liabilities and surplus					<u>162,889</u>
Total liabilities and surplus					<u>1,209,373</u>

	<i>General</i>	<i>Motor</i>	<i>Health</i>	<i>Protection & Saving</i>	<i>Total</i>
	<i>SR'000</i>				
<i>As at 31 December 2014</i>					
Takaful operations' assets					
Re-takaful share of outstanding claims	76,494	4,533	4,074	143	85,244
Re-takaful share of unearned contributions	48,593	927	-	140	49,660
Deferred policy acquisition costs	3,307	4,047	3,556	30	10,940
Deposit against letters of guarantee	325	11,480	-	-	11,805
Unallocated assets					<u>669,467</u>
Total assets					<u>827,116</u>
Takaful operations' liabilities					
Gross outstanding claims	83,037	144,970	31,286	343	259,636
Gross unearned contributions	56,251	326,713	64,310	238	447,512
Unearned re-takaful commission income	6,796	-	-	-	6,796
Unallocated liabilities and surplus					<u>113,172</u>
Total liabilities and surplus					<u>827,116</u>

25 EVENTS AFTER THE REPORTING PERIOD

On 1st February 2016, Council of Cooperative Health Insurance issued a notice to the company placing the company's license to write new medical policies "on hold." The company has entered into correspondence with the regulator with the objective of having the "on hold" notice removed. At the date of approving these financial statements, the "on hold" notice remains in place.

Management estimate the financial effect of this notice to be in the order of SR 3 million per week loss of Gross Written Premiums.

26 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 1 Jumaada al-awal 1437 H, corresponding to 10 February 2016.