
**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 2016

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)
FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2016

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**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 2016, 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 1 to 25 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 126 of the Regulations for Companies and Company's By-laws and submitted to us together with all the information and explanations which we required.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 2016 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

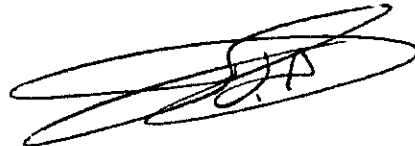


Abdullah M. Al Basri
Certified Public Accountant
Registration No. 171



February 28, 2017 (G)
Jumada II' 1, 1438 (H)

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

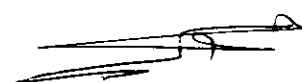


Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December


| | Notes | 2016 SR'000 | 2015 SR'000 |
|---|-----------|------------------|------------------|
| TAKAFUL OPERATIONS' ASSETS | | | |
| Bank balances and cash | 7 | 388,772 | 188,602 |
| Due from shareholders' operations | | 196,822 | 203,259 |
| Contributions and re-takaful balances receivable, net | 6 | 310,802 | 261,743 |
| Advances, prepayments and other assets | 11 | 22,992 | 14,769 |
| Re-takaful share of outstanding claims | 12(a) | 95,709 | 110,414 |
| Re-takaful share of unearned contributions | 13(c) | 69,666 | 71,773 |
| Re-takaful share of mathematical reserve | | 58 | 177 |
| Available for sale investments | 10(i)(b) | 15,096 | 6,578 |
| Investments held to maturity | 10(i)(c) | 705,000 | 330,000 |
| Unit Linked Investments | | 13,101 | 4,978 |
| Deferred policy acquisition costs | 13(a) | 30,366 | 17,080 |
| TOTAL TAKAFUL OPERATIONS' ASSETS | | 1,848,384 | 1,209,373 |
| SHAREHOLDERS' OPERATIONS' ASSETS | | | |
| Bank balances and cash | 7 | 85,248 | 75,707 |
| Management fees receivable | | 169,553 | 46,740 |
| Matured murabaha deposit – receivable | | - | 39,038 |
| Advances, prepayments and other assets | 11 | 13,333 | 9,451 |
| Available for sale investments | 10(ii)(b) | 86,303 | 78,304 |
| Investments at fair value through income statement | 10(ii)(c) | 82,047 | 77,314 |
| Investments held to maturity | 10(ii)(d) | 180,000 | 190,000 |
| Statutory deposit | 9 | 40,000 | 40,000 |
| Accrued income – statutory deposit | | 1,655 | 761 |
| Property and equipment, net | 8 | 20,005 | 24,015 |
| TOTAL SHAREHOLDERS' OPERATIONS' ASSETS | | 678,144 | 581,330 |
| TOTAL ASSETS | | 2,526,528 | 1,790,703 |



Ahmed Sulaiman Al Rajhi
Member-Board



Abdulaziz Mohammed Al Sedeas
Chief Executive Officer



Robert Pereira
Chief Financial Officer

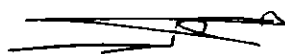
The accompanying notes 1 to 25 form an integral part of these financial statements.

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

STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December

| | Notes | 2016 SR'000 | 2015 SR'000 |
|---|-------|------------------|------------------|
| TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS | | | |
| TAKAFUL OPERATIONS' LIABILITIES | | | |
| Gross outstanding claims | 12(a) | 542,610 | 360,727 |
| Management fees payable | | 169,553 | 46,740 |
| Payables, accruals and other liabilities | 14 | 51,891 | 45,265 |
| Re-takaful balances payable | | 50,679 | 56,953 |
| Unit linked liabilities | | 14,196 | 5,712 |
| Other reserves | | 134 | 801 |
| Gross unearned contributions | 13(c) | 996,386 | 678,322 |
| Unearned re-takaful commission income | 13(b) | 6,728 | 7,435 |
| | | <u>1,832,177</u> | <u>1,201,955</u> |
| TAKAFUL OPERATIONS' SURPLUS | | | |
| Surplus distributable to policyholders | | 16,111 | 7,396 |
| Fair value reserve for available for sale investments | | 96 | 22 |
| TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS | | <u>1,848,384</u> | <u>1,209,373</u> |
| SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY | | | |
| SHAREHOLDERS' OPERATIONS' LIABILITIES | | | |
| Provision for zakat and tax | 15(b) | 18,391 | 9,368 |
| Payables, accruals and other liabilities | 14 | 21,133 | 17,928 |
| Due to takaful operations | | 196,822 | 203,259 |
| Employees' end of service benefits | | 9,871 | 8,611 |
| Payable to SAMA | | 2,564 | 1,669 |
| TOTAL SHAREHOLDERS' OPERATIONS' LIABILITIES | | <u>248,781</u> | <u>240,835</u> |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 16 | 400,000 | 400,000 |
| Retained earnings / (deficit) | | 11,136 | (59,766) |
| Statutory reserve | | 17,725 | - |
| Fair value reserve for available for sale investments | | 502 | 261 |
| TOTAL SHAREHOLDERS' EQUITY | | <u>429,363</u> | <u>340,495</u> |
| TOTAL SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY | | <u>678,144</u> | <u>581,330</u> |
| TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY | | <u>2,526,528</u> | <u>1,790,703</u> |



Ahmed Sulaiman Al Rajhi
Member-Board



Abdulaziz Mohammed Al Sedeas
Chief Executive Officer



Robert Pereira
Chief Financial Officer

The accompanying notes 1 to 25 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 | 2016 SR'000 | 2015 SR'000 |
|---|-------|--------------------|------------------|
| Gross contributions written | 13(c) | 1,948,650 | 1,361,890 |
| Re-takaful contributions ceded | 13(c) | (77,752) | (111,445) |
| Excess of loss | | (14,545) | (22,362) |
| NET CONTRIBUTIONS WRITTEN | | 1,856,353 | 1,228,083 |
| Change in unearned contributions, net | | (320,171) | (208,689) |
| NET CONTRIBUTIONS EARNED | | 1,536,182 | 1,019,394 |
| Policy fees and other income | | 6,589 | 1,131 |
| Re-takaful commission income | 13(b) | 12,573 | 15,409 |
| TOTAL UNDERWRITING REVENUE | | 1,555,344 | 1,035,934 |
| Gross claims paid | 12(a) | (1,128,852) | (746,905) |
| Re-takaful share of claims paid | 12(a) | 40,555 | 31,351 |
| NET CLAIMS PAID | | (1,088,297) | (715,554) |
| Movement in outstanding claims, net | | (196,588) | (75,921) |
| NET CLAIMS INCURRED | | (1,284,885) | (791,475) |
| Inspection and supervision fees | | (11,634) | (8,767) |
| Policy acquisition costs | 13(a) | (45,136) | (31,410) |
| Allowance for doubtful receivables | 6 | (4,837) | (13,208) |
| Change in mathematical reserve | | (8,604) | (4,440) |
| Other expenses | | (3,496) | (2,563) |
| Other income | | 3,913 | 3,270 |
| TOTAL CLAIMS AND OTHER EXPENSES | | (1,354,679) | (848,593) |
| NET UNDERWRITING SURPLUS | | 200,665 | 187,341 |
| Investment income | | 21,786 | 4,737 |
| Management fee for administration of takaful operations | 4 | (135,297) | (137,450) |
| Net surplus for the year | | 87,154 | 54,628 |
| Management fee attributable to shareholders' operations | 4 | (78,439) | (49,165) |
| NET SURPLUS DISTRIBUTABLE TO POLICYHOLDERS | | 8,715 | 5,463 |



Ahmed Sulaiman Al Rajhi
Member-Board



Abdulaziz Mohammed Al Sedeas
Chief Executive Officer



Robert Pereira
Chief Financial Officer

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

| | <i>Note</i> | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|--|-----------------|------------------------------|------------------------------|
| Net surplus distributable to policyholders | | 8,715 | 5,463 |
| <u>Other comprehensive income to be reclassified subsequently to the statement of income:</u> | | | |
| Net change in fair value of available for sale investments | <i>10(i)(b)</i> | 74 | (11) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | <u>8,789</u> | <u>5,452</u> |



Ahmed Sulaiman Al Rajhi
Member-Board



Abdulaziz Mohammed Al Sedeas
Chief Executive Officer



Robert Pereira
Chief Financial Officer

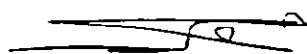
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Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF INCOME – SHAREHOLDERS’ OPERATIONS

For the year ended 31 December

| | Notes | 2016 SR'000 | 2015 SR'000 |
|--|-----------|----------------|----------------|
| REVENUE | | | |
| Management fee for administration of takaful operations | 4 | 135,297 | 137,450 |
| Management fee attributable to shareholders’ operations | 4 | 78,439 | 49,165 |
| Dividend income | | 3,699 | 2,430 |
| Profit / (loss) from investments held as fair value through income statement | 10(ii)(c) | 4,733 | (12,690) |
| Realized gains on available for sale investments | | 758 | 1,305 |
| Special commission income on investments held to maturity | | 9,614 | 2,332 |
| Other income | | 1,784 | - |
| TOTAL REVENUE | | 234,324 | 179,992 |
| General and administrative expenses | 19 | (135,297) | (137,450) |
| INCOME BEFORE ZAKAT | | 99,027 | 42,542 |
| Provision for zakat | 15(a) | (10,400) | (4,301) |
| NET INCOME FOR THE YEAR | | 88,627 | 38,241 |
| BASIC AND DILUTED INCOME PER SHARE (SR) | 20 | 2.22 | 1.04 |



Ahmed Sulaiman Al Rajhi
Member-Board



Abdulaziz Mohammed Al Sedeas
Chief Executive Officer

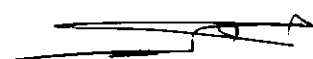


Robert Pereira
Chief Financial Officer

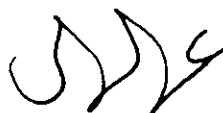
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Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME – SHAREHOLDERS’ OPERATIONS
For the year ended 31 December

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|--|------------------------------|------------------------------|
| Net income for the year | 88,627 | 38,241 |
| <i><u>Other comprehensive income to be reclassified subsequently to the statement of income:</u></i> | | |
| Net change in fair value of available for sale investments {note 10 (ii) (b)} | 241 | 210 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>88,868</u> | <u>38,451</u> |



Ahmed Sulaiman Al Rajhi
Member-Board



Abdulaziz Mohammed Al Sedeas
Chief Executive Officer



Robert Pereira
Chief Financial Officer

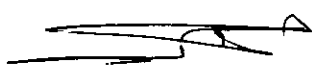
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Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December

| | <i>Share capital SR'000</i> | <i>Retained (deficit) / earnings SR'000</i> | <i>Statutory reserve SR'000</i> | <i>Fair value reserve for AFS investments SR'000</i> | <i>Total SR'000</i> |
|---------------------------------------|-------------------------------------|---|---|--|-------------------------|
| Balance as at 1 January 2015 | 200,000 | (98,007) | - | 51 | 102,044 |
| Issue of additional share capital | 200,000 | - | - | - | 200,000 |
| Net income for the period | - | 38,241 | - | - | 38,241 |
| Other comprehensive income | - | - | - | 210 | 210 |
| Balance as at 31 December 2015 | <u>400,000</u> | <u>(59,766)</u> | <u>-</u> | <u>261</u> | <u>340,495</u> |
| Balance as at 1 January 2016 | <u>400,000</u> | <u>(59,766)</u> | <u>-</u> | <u>261</u> | <u>340,495</u> |
| Net income for the period | - | 88,627 | - | - | 88,627 |
| Other comprehensive income | - | - | - | 241 | 241 |
| Transfer to statutory reserve | - | (17,725) | 17,725 | - | - |
| Balance as at 31 December 2016 | <u>400,000</u> | <u>11,136</u> | <u>17,725</u> | <u>502</u> | <u>429,363</u> |



Ahmed Sulaiman Al Rajhi
Member-Board



Abdulaziz Mohammed Al Sedeas
Chief Executive Officer



Robert Pereira
Chief Financial Officer

The accompanying notes 1 to 25 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

| | <i>Notes</i> | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|---|--------------|------------------------------|------------------------------|
| OPERATING ACTIVITIES | | | |
| Net surplus distributable to policyholders | | 8,715 | 5,463 |
| <i>Adjustments for:</i> | | | |
| Management fee for administration of takaful operations | 4 | 135,297 | 137,450 |
| Management fee attributable to shareholders' operations | 4 | 78,439 | 49,165 |
| Allowance for doubtful receivables | | 4,837 | 12,964 |
| Net surplus before changes in operating assets and liabilities | | <u>227,288</u> | <u>205,042</u> |
| Changes in operating assets and liabilities: | | | |
| Due from shareholders' operations | | 6,437 | 1,302 |
| Contributions and re-takaful balances receivable, net | | (53,896) | (151,298) |
| Advances, prepayments and other assets | | (8,223) | (12,720) |
| Re-takaful share of outstanding claims | | 14,705 | (25,170) |
| Re-takaful share of unearned contributions | | 2,107 | (22,121) |
| Re-takaful share of mathematical reserve | | 119 | (169) |
| Deferred policy acquisition costs | | (13,286) | (6,140) |
| Gross outstanding claims | | 181,883 | 101,091 |
| Payables, accruals and other liabilities | | 6,626 | 5,413 |
| Unit linked liabilities | | 8,484 | 4,610 |
| Other reserves | | (667) | 801 |
| Re-takaful balances payable | | (6,274) | 27,752 |
| Gross unearned contributions | | 318,064 | 230,810 |
| Unearned re-takaful commission income | | (707) | 639 |
| Deposit against letters of guarantee | | 2,700 | (2,742) |
| Management fee paid | | (90,923) | (180,926) |
| Net cash generated by operating activities | | <u>594,437</u> | <u>176,174</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of held to maturity investments | | (1,180,000) | (330,000) |
| Maturity of held to maturity investments | | 805,000 | - |
| Purchase of available for sale investments | | (566,000) | (1,702,000) |
| Sale of available for sale investments | | 557,556 | 1,715,218 |
| Purchase of Unit linked Investments | | (8,123) | (3,867) |
| Net cash used in investing activities | | <u>(391,567)</u> | <u>(320,649)</u> |
| INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | | 202,870 | (144,475) |
| Cash and cash equivalents at the beginning of year | | 174,055 | 318,530 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 7 | <u>376,925</u> | <u>174,055</u> |
| <i>Non - cash supplemental information:</i> | | | |
| Change in fair value of available for sale investments | 10(i)(b) | <u>74</u> | <u>(11)</u> |



Ahmed Sulaiman Al Rajhi
Member-Board



Abdulaziz Mohammed Al Sedeas
Chief Executive Officer



Robert Pereira
Chief Financial Officer

The accompanying notes 1 to 25 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 | 2016 SR'000 | 2015 SR'000 |
|---|------------|-----------------|------------------|
| OPERATING ACTIVITIES | | | |
| Net income for the year before zakat | | 99,027 | 42,542 |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortisation | | 9,179 | 8,714 |
| Management fee for administration of takaful operations | | (135,297) | (137,450) |
| Management fee attributable to shareholders’ operations | | (78,439) | (49,165) |
| Employees’ end of service benefits | | 3,260 | 4,616 |
| Profit / (loss) on investments at fair value through income statement | 10 (ii)(c) | (4,733) | 12,690 |
| Net deficit before changes in operating assets and liabilities | | (107,003) | (118,053) |
| Changes in operating assets and liabilities: | | | |
| Advances, prepayments and other assets | | (3,882) | (1,974) |
| Accrued income – statutory deposit | | (894) | - |
| Payables, accruals and other liabilities | | 3,205 | 8,056 |
| Due to takaful operations | | (6,437) | (1,302) |
| Payable to SAMA | | 895 | - |
| | | (114,116) | (113,273) |
| Management fee received | | 90,923 | 180,926 |
| Zakat paid | | (1,377) | (2) |
| Employees’ end of service benefits paid | | (2,000) | (2,782) |
| Net cash (used in) / generated by operating activities | | (26,570) | 64,869 |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment, net | | (5,169) | (6,060) |
| Purchase of held to maturity investments | | (700,000) | (250,000) |
| Maturity of held to maturity investments | 10(ii)(d) | 710,000 | 168,808 |
| Purchase of available for sale investments | 10(ii)(b) | (130,000) | (713,000) |
| Sale of available for sale investments | 10(ii)(b) | 122,242 | 654,700 |
| Purchase of investments at fair value through income statement | 10(ii)(c) | (99,590) | (83,555) |
| Sale of investments at fair value through income statement | 10(ii)(c) | 99,590 | 45,555 |
| Receipt of matured murabaha deposit – receivable | | 39,038 | (39,038) |
| Investment in statutory deposit | | - | (20,000) |
| Net cash generated from / (used in) investing activities | | 36,111 | (242,590) |
| FINANCING ACTIVITIES | | | |
| Increase in share capital | | - | 200,000 |
| Net cash generated by financing activities | | - | 200,000 |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 9,541 | 22,279 |
| Cash and cash equivalents at beginning of the year | | 75,707 | 53,428 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 7 | 85,248 | 75,707 |

Non-cash supplemental information:

| | | | |
|---|-----------|-----|-----|
| Changes in fair value of available for sale investments | 10(ii)(b) | 241 | 210 |
|---|-----------|-----|-----|


Ahmed Sulaiman Al Rajhi
Member-Board


Abdulaziz Mohammed Al Sedeas
Chief Executive Officer


Robert Pereira
Chief Financial Officer

The accompanying notes 1 to 25 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 2016

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 2016

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, 2015, 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 2016:

Disclosure initiative (Amendments to IAS 1)

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

Annual improvements to IFRSs 2012 – 2014

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

IFRS 1 – "First time adoption of IFRS": the amendment clarifies that a first time adopter is permitted, but not required, to apply a new or revised IFRS that is not yet mandatory but is available for early adoption.

IFRS 2 - "Share-based payments", amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.

IFRS 3 – "Business combinations" amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.

IFRS 5 – "Non-current Assets Held for Sale and Discontinued Operations": the amendment adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

IFRS 7 - "Financial Instruments: Disclosures", the amendment clarifies whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. It also clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

IFRS 8 – "Operating segments" The amendments are applied retrospectively and clarifies that:

An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';

The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 - "Fair value measurement" The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 16 – "Property plant and equipment" The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 19 – "Employee Benefits" is amended to clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 24 – "Related party disclosures"-- The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

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3 STANDARD AND AMENDMENTS ISSUED (continued)

IAS 34 – “Interim Financial Reporting” is amended to clarify the meaning of ‘elsewhere in the interim report’ and requires a cross-reference.

IAS 40 – “Investment property” clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but no impact on the classification and measurement of the Company’s financial liabilities.

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

IFRS 15 – Revenue from contracts with customers (effective on or after January 1, 2018)

IFRS 16 – Leases (effective on or after January 1, 2019)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted 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 earned during the year are recognized in the statement of income – takaful operations immediately at the date of purchase and unearned gains or losses on buying re-takaful are amortised over the related period.

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

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is differed based on the following methods:

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

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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:

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (continued)

- 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 and software | 3 - 5 |

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

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segmental reporting (continued)

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.

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 shortly after at the end of the fiscal year.

- 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 upto 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"). However, the Company has a surplus distribution policy recommended by its sharia council that prescribes a slightly different calculation for surplus distribution. Management will approach SAMA to conclude this matter.

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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:

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, health and protection and saving 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.

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6 CONTRIBUTIONS AND RE-TAKAFUL BALANCES RECEIVABLE, NET

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|--|------------------------------|------------------------------|
| Due from policyholders | | |
| External policyholders | 99,868 | 91,347 |
| Related parties {note 21 (a)} | 235,942 | 194,901 |
| Gross contributions receivables | 335,810 | 286,248 |
| Re-takaful balances receivable | 8,161 | 3,827 |
| | 343,971 | 290,075 |
| Allowance for doubtful receivables | (33,169) | (28,332) |
| | 310,802 | 261,743 |

Allowance for doubtful receivables includes an amount of SR 3.101 thousand (2015: SR 1,708 thousand) against receivable from related parties.

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

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|----------------------|------------------------------|------------------------------|
| As at 1 January | 28,332 | 15,368 |
| Charge for the year | 4,837 | 13,208 |
| Bad debt written off | - | (244) |
| As at 31 December | 33,169 | 28,332 |

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

| | <u>Total</u> | <u>Not yet due</u> | <u>Neither past due nor impaired</u> | <u>Past due but not impaired</u> | | | | <u>Past due and impaired</u> |
|-------------------------------|----------------|--------------------|--------------------------------------|----------------------------------|-----------------------|------------------------|-----------------------|------------------------------|
| | | | | <u>Less than 90 days</u> | <u>91 to 180 days</u> | <u>181 to 365 days</u> | <u>Above 365 days</u> | |
| | <u>SR'000</u> | | | | | | | |
| As at 31 December 2016 | 343,971 | 32,402 | 253,469 | 1,671 | 4,214 | 256 | 2,020 | 49,939 |
| As at 31 December 2015 | 290,075 | 33,175 | 185,375 | 782 | 204 | 1,403 | 1,438 | 67,698 |

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

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7 BANK BALANCES AND CASH

| | 31 December 2016 (Audited) | | 31 December 2015 (Audited) | |
|---|-----------------------------|-----------------------------------|-----------------------------|-----------------------------------|
| | Takaful operations (SR'000) | Shareholders' operations (SR'000) | Takaful operations (SR'000) | Shareholders' operations (SR'000) |
| Cash in hand and at banks | 226,925 | (660) | 74,055 | 24,799 |
| Cash in hand and at banks (statutory deposit income) | - | 908 | - | 908 |
| | <u>226,925</u> | <u>248</u> | <u>74,055</u> | <u>25,707</u> |
| Murabaha deposits | 150,000 | 85,000 | 100,000 | 50,000 |
| | <u>376,925</u> | <u>85,248</u> | <u>174,055</u> | <u>75,707</u> |
| Cash and cash equivalents in the statements of cash flows | | | | |
| Deposits against letters of guarantee (7.1) | 11,847 | - | 14,547 | - |
| | <u>388,772</u> | <u>85,248</u> | <u>188,602</u> | <u>75,707</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 2016 is 3.14% per annum (31 December 2015: 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 18). As these cannot be withdrawn before the end of guarantee period, these are restricted in nature.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8 PROPERTY AND EQUIPMENT, NET

| | <i>Office and electrical equipment SR'000</i> | <i>Furniture and fixtures SR'000</i> | <i>Motor vehicles SR'000</i> | <i>Computer hardware SR'000</i> | <i>Computer software SR'000</i> | <i>Total SR'000</i> |
|----------------------------------|---|--|--------------------------------------|---|---|-------------------------|
| Cost: | | | | | | |
| Balance at 1 January 2015 | 2,396 | 16,795 | 1,389 | 7,786 | 21,722 | 50,088 |
| Additions during the year | 245 | 708 | 70 | 408 | 4,629 | 6,060 |
| Disposals during the year | - | - | (186) | - | - | (186) |
| Balance at 31 December 2015 | 2,641 | 17,503 | 1,273 | 8,194 | 26,351 | 55,962 |
| Additions during the year | 257 | 990 | 446 | 712 | 2,764 | 5,169 |
| Disposals during the year | (27) | - | - | (127) | - | (154) |
| Balance at 31 December 2016 | 2,871 | 18,493 | 1,719 | 8,779 | 29,115 | 60,977 |
| Accumulated depreciation: | | | | | | |
| Balance at 1 January 2015 | 1,595 | 8,973 | 656 | 5,545 | 6,650 | 23,419 |
| Charge for the year (note 19) | 370 | 2,556 | 212 | 964 | 4,612 | 8,714 |
| Disposals during the year | - | - | (186) | - | - | (186) |
| Balance at 31 December 2015 | 1,965 | 11,529 | 682 | 6,509 | 11,262 | 31,947 |
| Charge for the year (note 19) | 303 | 2,522 | 257 | 798 | 5,299 | 9,179 |
| Disposals during the year | (27) | - | - | (127) | - | (154) |
| Balance at 31 December 2016 | 2,241 | 14,051 | 939 | 7,180 | 16,561 | 40,972 |
| Net book value as at | | | | | | |
| 31 December 2016 | 630 | 4,442 | 780 | 1,599 | 12,554 | 20,005 |
| 31 December 2015 | 675 | 5,974 | 591 | 1,686 | 15,089 | 24,015 |

9 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.

10 INVESTMENTS

i) *Takaful operations:*

a) An analysis of investments is set out below:

| | <i>2016 SR'000</i> | <i>2015 SR'000</i> |
|---|------------------------|------------------------|
| <i>Available for sale investment</i> | | |
| Investment in Al Rajhi Capital Commodity Mudarabah Fund | 15,096 | 6,578 |
| <i>Investments held to maturity – unquoted</i> | | |
| Murabaha deposits (maturity more than three months) | 705,000 | 330,000 |
| Total investments – Takaful operations | 720,096 | 336,578 |

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

10 INVESTMENTS (Continued)

i) *Takaful operations (continued)*

b) The movements in AFS investments were as follows:

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|---------------------------|------------------------------|------------------------------|
| As at 1 January | 6,578 | 19,807 |
| Purchased during the year | 566,000 | 1,702,000 |
| Sold during the year | (557,556) | (1,715,218) |
| Net change in fair values | 74 | (11) |
| As at 31 December | <u>15,096</u> | <u>6,578</u> |

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

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|----------------------------|------------------------------|------------------------------|
| As at 1 January | 330,000 | - |
| Purchased during the year | 1,180,000 | 330,000 |
| Maturities during the year | (805,000) | - |
| As at 31 December | <u>705,000</u> | <u>330,000</u> |

ii) *Shareholders' operations:*

a) An analysis of investments is set out below:

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|--|------------------------------|------------------------------|
| <i>Available for sale investment</i> | | |
| Investment in Al Rajhi Capital Commodity Mudarabah Fund | 84,380 | 76,381 |
| <i>Available for sale investment –unquoted</i> | | |
| Najm Insurance Services Co. {note 10 (ii)(e)} | 1,923 | 1,923 |
| | <u>86,303</u> | <u>78,304</u> |
| <i>Investments at Fair value through income statement (Saudi Companies Equities)</i> | 82,047 | 77,314 |
| <i>Investments held to maturity – unquoted</i> | | |
| Murabaha deposits (maturity more than three months) | 180,000 | 190,000 |
| Total investments – Shareholders' operations | <u>348,350</u> | <u>345,618</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

10 INVESTMENTS (Continued)

ii) Shareholders' operations (continued)

b) The movements in AFS investments were as follows:

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|---------------------------|------------------------------|------------------------------|
| As at 1 January | 78,304 | 19,794 |
| Purchased during the year | 130,000 | 713,000 |
| Disposals during the year | (122,242) | (654,700) |
| Net change in fair values | 241 | 210 |
| As at 31 December | <u>86,303</u> | <u>78,304</u> |

c) The movements in FVIS investments were as follows:

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|---------------------------|------------------------------|------------------------------|
| As at 1 January | 77,314 | 52,004 |
| Purchased during the year | 99,590 | 83,555 |
| Disposals during the year | (99,590) | (45,555) |
| Net change in fair values | 4,733 | (12,690) |
| As at 31 December | <u>82,047</u> | <u>77,314</u> |

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

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|----------------------------|------------------------------|------------------------------|
| As at 1 January | 190,000 | 108,808 |
| Purchased during the year | 700,000 | 250,000 |
| Maturities during the year | (710,000) | (168,808) |
| As at 31 December | <u>180,000</u> | <u>190,000</u> |

e) Investment in 'Najm Insurance Services Company' represents a 3.85% (2015: 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 2016

10 INVESTMENTS (Continued)

iii) Determination of fair value and fair value hierarchy

a) Takaful operations

| <i>As at 31 December 2016</i> | <i>Level 1 SR' 000</i> | <i>Level 2 SR' 000</i> | <i>Level 3 SR' 000</i> | <i>Total SR' 000</i> |
|--|----------------------------|----------------------------|----------------------------|--------------------------|
| Financial investments available for sale | - | 15,096 | - | 15,096 |
| Financial investments held to maturity | - | - | 705,000 | 705,000 |
| Total | - | 15,096 | 705,000 | 720,096 |

| <i>As at 31 December 2015</i> | <i>Level 1 SR' 000</i> | <i>Level 2 SR' 000</i> | <i>Level 3 SR' 000</i> | <i>Total SR' 000</i> |
|--|----------------------------|----------------------------|----------------------------|--------------------------|
| Financial investments available for sale | - | 6,578 | - | 6,578 |
| Financial investments held to maturity | - | - | 330,000 | 330,000 |
| Total | - | 6,578 | 330,000 | 336,578 |

b) Shareholders' operations

| <i>As at 31 December 2016</i> | <i>Level 1 SR' 000</i> | <i>Level 2 SR' 000</i> | <i>Level 3 SR' 000</i> | <i>Total SR' 000</i> |
|--|----------------------------|----------------------------|----------------------------|--------------------------|
| Financial investments available for sale | - | 84,380 | 1,923 | 86,303 |
| Financial investments held to maturity | - | - | 180,000 | 180,000 |
| Financial assets held as FVIS | 82,047 | - | - | 82,047 |
| Total | 82,047 | 84,380 | 181,923 | 348,350 |

| <i>As at 31 December 2015</i> | <i>Level 1 SR' 000</i> | <i>Level 2 SR' 000</i> | <i>Level 3 SR' 000</i> | <i>Total SR' 000</i> |
|--|----------------------------|----------------------------|----------------------------|--------------------------|
| Financial investments available for sale | - | 76,381 | 1,923 | 78,304 |
| Financial investments held to maturity | - | - | 190,000 | 190,000 |
| Financial assets held as FVIS | 77,314 | - | - | 77,314 |
| Total | 77,314 | 76,381 | 191,923 | 345,618 |

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

10 INVESTMENTS (Continued)

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

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 2016, there were no transfers between Level 1 and Level 2 fair value measurements. (2015: there were no transfers between Level 1 and Level 2 fair value measurements)

The fair value increase of SR 4,733 thousand {2015: SR (12,690) thousand} in respect of FVIS investments was recorded in statement of income – shareholders' operations.

11 ADVANCES, PREPAYMENTS AND OTHER ASSETS

| | 2016 SR'000 | | 2015 SR'000 | |
|-------------------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | Takaful operations | Shareholders' operations | Takaful Operations | Shareholders' operations |
| Advances to suppliers | 4,723 | 1,121 | 10,502 | 866 |
| Prepayments: | | | | |
| - Rent | - | 1,405 | - | 961 |
| - Others | 9,074 | 8,491 | 1,418 | 5,823 |
| Accrued profit on murabaha deposits | 9,195 | 2,168 | 2,849 | 1,572 |
| Deposits | - | 148 | - | 229 |
| | 22,992 | 13,333 | 14,769 | 9,451 |

12 OUTSTANDING CLAIMS

a) Outstanding claims at year end are as follows:

| | 2016 | | | 2015 | | |
|-----------------------------|------------------|-------------------------------|------------------|-----------------|-------------------------------|----------------|
| | 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 | 272,279 | (76,560) | 195,719 | 222,792 | (103,822) | 118,970 |
| Incurred but not reported | 270,331 | (19,149) | 251,182 | 137,935 | (6,592) | 131,343 |
| | 542,610 | (95,709) | 446,901 | 360,727 | (110,414) | 250,313 |
| Claims paid during the year | (1,128,852) | 40,555 | (1,088,297) | (746,905) | 31,351 | (715,554) |
| Outstanding at 1 January | 222,792 | (103,822) | 118,970 | 153,676 | (67,628) | 86,048 |
| Incurred but not reported | 137,935 | (6,592) | 131,343 | 105,960 | (17,616) | 88,344 |
| | 360,727 | (110,414) | 250,313 | 259,636 | (85,244) | 174,392 |
| Claims incurred | 1,310,735 | (25,850) | 1,284,885 | 847,996 | (56,521) | 791,475 |

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

12 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 2016:

| <i>Accident year</i> | <i>2013 & prior years SR'000</i> | <i>2014 SR'000</i> | <i>2015 SR'000</i> | <i>2016 SR'000</i> | <i>Total SR'000</i> |
|--|--|------------------------|------------------------|------------------------|-------------------------|
| Estimate of ultimate claims cost at end of accident year | 260,106 | 393,597 | 545,625 | 1,197,584 | 2,396,913 |
| One year later | 415,711 | 537,727 | 812,187 | - | 1,765,625 |
| Two years later | 427,347 | 572,525 | - | - | 999,872 |
| Three years later | 461,435 | - | - | - | 461,435 |
| Current estimate of cumulative claims incurred | 461,435 | 572,525 | 812,187 | 1,197,584 | 3,043,731 |
| Cumulative payments to date | 438,067 | 553,625 | 759,849 | 845,289 | 2,596,830 |
| Total gross insurance outstanding claims provision per the statement of financial position | 23,368 | 18,900 | 52,338 | 352,295 | 446,901 |

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 | 355,221 | 527,003 | 737,346 | 1,168,238 | 2,787,808 |
| Cumulative payments to date | 354,540 | 517,210 | 712,232 | 953,513 | 2,537,495 |
| Total gross insurance outstanding claims provision per the statement of financial position | 681 | 9,793 | 25,114 | 214,725 | 250,313 |

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

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

a) Deferred policy acquisition costs

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|---------------------------|------------------------------|------------------------------|
| As at 1 January | 17,080 | 10,940 |
| Incurred during the year | 58,422 | 37,550 |
| Amortised during the year | <u>(45,136)</u> | <u>(31,410)</u> |
| As at 31 December | <u>30,366</u> | <u>17,080</u> |

b) Movement in unearned re-takaful commission income

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|--------------------------|------------------------------|------------------------------|
| As at 1 January | 7,435 | 6,796 |
| Received during the year | 11,866 | 16,048 |
| Earned during the year | <u>(12,573)</u> | <u>(15,409)</u> |
| As at 31 December | <u>6,728</u> | <u>7,435</u> |

c) Movement in unearned contribution income

| | <u>2016</u> | | | <u>2015</u> | | |
|---|-------------------------------|--|-----------------------------|-------------------------------|--|-----------------------------|
| | <i>Gross</i> <i>SR'000</i> | <i>Re-takaful</i> <i>share</i> <i>SR'000</i> | <i>Net</i> <i>SR'000</i> | <i>Gross</i> <i>SR'000</i> | <i>Re-takaful</i> <i>share</i> <i>SR'000</i> | <i>Net</i> <i>SR'000</i> |
| As at 1 January | 678,322 | (71,773) | 606,549 | 447,512 | (49,652) | 397,860 |
| Contributions written during the year (excluding excess of loss) | 1,948,650 | (77,752) | 1,870,898 | 1,361,890 | (111,445) | 1,250,445 |
| Contributions earned during the year (excluding excess of loss) | <u>(1,630,586)</u> | <u>79,859</u> | <u>(1,550,727)</u> | <u>(1,131,080)</u> | <u>89,324</u> | <u>(1,041,756)</u> |
| As at 31 December | <u>996,386</u> | <u>(69,666)</u> | <u>926,720</u> | <u>678,322</u> | <u>(71,773)</u> | <u>606,549</u> |

14 PAYABLES, ACCRUALS AND OTHERS LIABILITIES

| | <u>2016</u> <u>SR'000</u> | |
|--|-------------------------------------|--|
| | <i>Takaful</i> <i>operations</i> | <i>Shareholder'</i> <i>operations</i> |
| Accounts payable and other liabilities | 18,543 | 11,179 |
| Accrued expenses | <u>33,348</u> | <u>9,954</u> |
| | <u>51,891</u> | <u>21,133</u> |

| | <u>2015</u> <u>SR'000</u> | |
|--|-------------------------------------|---|
| | <i>Takaful</i> <i>operations</i> | <i>Shareholders'</i> <i>operations</i> |
| Accounts payable and other liabilities | 16,342 | 12,517 |
| Accrued expenses | <u>28,923</u> | <u>5,411</u> |
| | <u>45,265</u> | <u>17,928</u> |

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15 ZAKAT

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

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|--|------------------------------|------------------------------|
| Equity | 340,495 | 102,044 |
| Opening allowances and other adjustments | 46,311 | 27,213 |
| Book value of long term assets | <u>(92,294)</u> | <u>(45,938)</u> |
| | 294,512 | 83,319 |
| Zakatable income for the year | <u>121,488</u> | <u>88,721</u> |
| Zakat base | <u>416,000</u> | <u>172,040</u> |
| | | |
| Zakat @ 2.5% | <u>10,400</u> | <u>4,301</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.

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

| | <u>2016</u> <u>SR'000</u> | <u>2015</u> <u>SR'000</u> |
|---------------------------|------------------------------|------------------------------|
| As at 1 January | 9,368 | 5,069 |
| Provision during the year | 10,400 | 4,301 |
| Paid during the year | <u>(1,377)</u> | <u>(2)</u> |
| As at 31 December | <u>18,391</u> | <u>9,368</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 2015.

On initial review of the zakat return by the DZIT for the year ended 31 December 2011, a demand of SR 1,852 thousand was 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.

16 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.

17 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.

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18 CONTINGENCIES AND COMMITMENTS

a) Contingencies

Bank guarantees

As at 31 December 2016, the Company's banker has issued letters of guarantee of SR 11.8 million (2015: SR 14.6 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 SR 0.8 million are pending court decisions.

b) Commitments

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

19 GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>2016</i> <i>SR'000</i> | <i>2015</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Employee costs | 88,401 | 84,854 |
| Office expenses | 8,681 | 8,820 |
| Depreciation and amortization (note 8) | 9,179 | 8,714 |
| Legal and professional fees | 17,209 | 20,849 |
| Information technology expenses | 6,564 | 6,793 |
| Advertising and marketing expenses | 2,374 | 5,064 |
| Communication expenses | 1,348 | 861 |
| Travel and lodging expenses | 1,463 | 1,317 |
| Others | 78 | 178 |
| | 135,297 | 137,450 |

20 BASIC AND DILUTED EARNINGS PER SHARE

| | <i>2016</i> | <i>2015</i> |
|---|---------------|-------------|
| Net income for the year - SR'000 | 88,627 | 38,241 |
| Weighted average number of shares in issue throughout the year – (in thousands) | 40,000 | 36,625 |
| Basic and diluted earnings per share – SR | 2.22 | 1.04 |

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.

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NOTES TO THE FINANCIAL STATEMENTS

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21 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:

| <i>Related party</i> | <i>Nature of transaction</i> | <i>Amount of transaction</i> | | <i>Balance</i> | |
|--|---|------------------------------|------------------------|------------------------|------------------------|
| | | <i>2016 SR'000</i> | <i>2015 SR'000</i> | <i>2016 SR'000</i> | <i>2015 SR'000</i> |
| Al Rajhi Insurance Company B.S.C.(c) (shareholder) | Reimbursement from / expenses paid on behalf of related party | | | | |
| | a) takaful operations | <u>748</u> | <u>156</u> | <u>592</u> | <u>(156)</u> |
| | b) shareholders' operations | <u>-</u> | <u>13</u> | <u>(13)</u> | <u>(13)</u> |
| Al Rajhi Bank (shareholder) | Contribution for policies written | <u>1,017,324</u> | <u>801,108</u> | <u>201,912</u> | <u>160,041</u> |
| Affiliate companies | Contribution for policies written | <u>52,949</u> | <u>58,462</u> | <u>34,030</u> | <u>34,860</u> |
| | Contributions receivable (note 6) | | | <u>235,942</u> | <u>194,901</u> |
| Al Rajhi Bank (shareholder) | Claims incurred and notified during the year | <u>876,195</u> | <u>729,892</u> | <u>217,135</u> | <u>242,721</u> |
| Affiliate companies | Claims incurred and notified during the year | <u>38,455</u> | <u>57,913</u> | <u>17,575</u> | <u>18,331</u> |

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2016

21 RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

a) Transactions and balances with related parties:

| Related party | Nature of transaction | Amount of transaction | | Balance | |
|---|--|-----------------------|----------------|----------------|----------------|
| | | 2016 SR'000 | 2015 SR'000 | 2016 SR'000 | 2015 SR'000 |
| Al Rajhi Bank (Shareholder) | Bank balance of takaful operations | - | - | 218,587 | 71,504 |
| | Bank balance of shareholders' operations | - | - | (785) | 24,673 |
| | Bank balances | | | 217,802 | 96,177 |
| Al Rajhi Capital (Affiliate) | Available for sale investments | | | | |
| | a) takaful operations (note 11 (i)) | - | - | 15,096 | 6,578 |
| | b) shareholders' operations (note 11 (ii)a) | - | - | 84,380 | 76,381 |
| | | | | 99,476 | 82,959 |
| Al Rajhi Capital (Affiliate) | Income received from sale of investment in Al Rajhi Capital commodity fund | | | | |
| | a) takaful operations | 2,444 | 3,296 | - | - |
| | b) shareholders' operations | 758 | 1,300 | - | - |
| | | 3,202 | 4,596 | | |
| Al Rajhi Capital (Affiliate) | Investment management fee paid to Al Rajhi Capital | | | | |
| | a) Takaful operations | 1,623 | 289 | - | - |
| | b) Shareholders' operations | 1,484 | 702 | - | - |
| | | 3,107 | 991 | | |
| Al Rajhi Bank (Shareholder) | Investment in shares of Al Rajhi Bank for trading purposes | - | - | 13,011 | 10,039 |
| Al Rajhi Takaful Agency (Subsidiary of shareholders) | Commissions | 4,806 | 4,072 | 1,093 | 14 |

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21 RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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:

| | <i>2016</i> <i>SR'000</i> | <i>2015</i> <i>SR'000</i> |
|---|------------------------------|------------------------------|
| Salaries and benefits of key management personnel | 5,392 | 6,120 |
| Shariah committee's remuneration | 243 | 249 |
| | <u>5,635</u> | <u>6,369</u> |

22 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.

22 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 (2015: 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 (2015: SR 750 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 (2015: SR 500 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 76,809 thousand (2015: SR 50,748 thousand) annually in aggregate.

22 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 2016. As at year end, the Company do not have any floating rate financial instruments. (2015: 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 4,219 thousand (2015: SR 3,819 thousand) and fair value reserve on investments under takaful operations by increase / decrease by SR 755 thousand (2015: SR 329 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 4,102 thousand (2015: SR 3,866 thousand).

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

22 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 | 2016 | |
|---|-------|--------------------|--------------------------|
| | | Takaful operations | Shareholders' operations |
| | | SR'000 | SR'000 |
| Contributions and re-takaful balances receivable, net | 6 | 310,802 | - |
| Re-takaful share of outstanding claims | 12(a) | 95,709 | - |
| Investments held to maturity | | 705,000 | 180,000 |
| Advances and other assets | | 13,918 | 2,168 |
| Available for sale investments | | 15,096 | 86,303 |
| Bank balances and cash | | 388,772 | 85,248 |
| | | <u>1,529,297</u> | <u>353,719</u> |
| | | | |
| | 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 | 12(a) | 110,414 | - |
| Investments held to maturity | | 330,000 | 190,000 |
| Advances and other assets | | 13,351 | 4,239 |
| Available for sale investments | | 6,578 | 78,304 |
| Bank balances and cash | | 188,602 | 75,707 |
| | | <u>910,688</u> | <u>348,250</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

22 RISK MANAGEMENT (Continued)

f) Credit risk (Continued)

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

| | <i>2016</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-) | 25,000 | - |
| S & P equivalent (BBB+) | 680,000 | 180,000 |
| | <u>705,000</u> | <u>180,000</u> |

| | <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> |

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 2016

22 RISK MANAGEMENT (Continued)

g) Liquidity risk (Continued)

Maturity profiles (Continued)

| | 31 December 2016 | | | | | |
|---|--------------------|-----------------------|------------------|--------------------------|-----------------------|-----------------|
| | 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 | 388,772 | - | 388,772 | 85,248 | - | 85,248 |
| Due from shareholders' operations | - | 196,822 | 196,822 | - | - | - |
| Contributions receivable, net | 302,641 | - | 302,641 | - | - | - |
| Investment at fair value through income statement | - | - | - | 82,047 | - | 82,047 |
| Available for sale investments | 15,096 | - | 15,096 | 86,303 | - | 86,303 |
| Re-takaful share of outstanding claims | 95,709 | - | 95,709 | - | - | - |
| Re-takaful balances receivable | 8,161 | - | 8,161 | - | - | - |
| Investments held to maturity | 705,000 | - | 705,000 | 180,000 | - | 180,000 |
| Advances and other assets | 4,723 | - | 4,723 | 3,437 | - | 3,437 |
| Management fee receivable | - | - | - | 169,553 | - | 169,553 |
| TOTAL ASSETS | 1,520,102 | 196,822 | 1,716,924 | 606,588 | - | 606,588 |

| | 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 |

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

22 RISK MANAGEMENT (Continued)

g) Liquidity risk (Continued)

Maturity profiles (Continued)

| | 31 December 2016 | | | | | |
|--|--------------------|-----------------------|-----------------|--------------------------|-----------------------|-----------------|
| | 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 | 542,610 | - | 542,610 | - | - | - |
| Management fee payable | 169,553 | - | 169,553 | - | - | - |
| Payables, accruals and other liabilities | 51,891 | - | 51,891 | 21,133 | - | 21,133 |
| Re-takaful balances payable | 50,679 | - | 50,679 | - | - | - |
| Due to takaful operations | - | - | - | - | 196,822 | 196,822 |
| TOTAL LIABILITIES | 814,733 | - | 814,733 | 21,133 | 196,822 | 217,955 |

| | 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 | 17,928 | - | 17,928 |
| Re-takaful balances payable | 56,953 | - | 56,953 | - | - | - |
| Due to takaful operations | - | - | - | - | 203,259 | 203,259 |
| TOTAL LIABILITIES | 509,685 | - | 509,685 | 17,928 | 203,259 | 221,187 |

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 2016

22 RISK MANAGEMENT (Continued)

g) Liquidity risk (Continued)

Liquidity profiles (Continued)

| | 31 December 2016 | | | | | |
|--|-----------------------------|---------------------------------|-----------------|--------------------------|---------------------------------|-----------------|
| | 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 | 542,610 | - | 542,610 | - | - | - |
| Management fee payable | 169,553 | - | 169,553 | - | - | - |
| Payables, accruals and other liabilities | 51,891 | - | 51,891 | 21,133 | - | 21,133 |
| Re-takaful balances payable | 50,679 | - | 50,679 | - | - | - |
| Due to takaful operations | - | - | - | - | 196,822 | 196,822 |
| TOTAL LIABILITIES | 814,733 | - | 814,733 | 21,133 | 196,822 | 217,955 |

| | 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 | 17,928 | - | 17,928 |
| Re-takaful balances payable | 56,953 | - | 56,953 | - | - | - |
| Due to takaful operations | - | - | - | - | 203,259 | 203,259 |
| TOTAL LIABILITIES | 509,685 | - | 509,685 | 17,928 | 203,259 | 221,187 |

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

23 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

| <u>For the year ended 31 December 2016</u> | <u>General</u> | <u>Motor</u> | <u>Health</u> | <u>Protection and Saving</u> | <u>Total</u> |
|---|----------------|--------------|---------------|----------------------------------|--------------|
| | <u>SR'000</u> | | | | |
| Gross contributions written | 120,140 | 1,583,626 | 216,936 | 27,948 | 1,948,650 |
| Net contributions written | 52,192 | 1,567,402 | 215,073 | 21,686 | 1,856,353 |
| Net contributions earned | 16,515 | 1,290,897 | 206,454 | 22,316 | 1,536,182 |
| Policy fee and other income | 103 | 6,279 | - | 207 | 6,589 |
| Re-takaful commission income | 10,501 | 2,072 | - | - | 12,573 |
| Total underwriting revenue | 27,119 | 1,299,248 | 206,454 | 22,523 | 1,555,344 |
| Gross claims paid | (30,845) | (928,726) | (165,623) | (3,658) | (1,128,852) |
| Net claims incurred | (1,503) | (1,126,796) | (155,853) | (733) | (1,284,885) |
| Inspection and supervision fees | (402) | (7,838) | (3,255) | (139) | (11,634) |
| Policy acquisition costs | (6,637) | (22,775) | (12,205) | (3,519) | (45,136) |
| Allowance for doubtful receivables | (635) | (3,055) | (1,147) | - | (4,837) |
| Change in mathematical reserve | - | - | - | (8,604) | (8,604) |
| Other expenses | 158 | (2,905) | 282 | (1,031) | (3,496) |
| Other income | - | 3,913 | - | - | 3,913 |
| Total claims and other expenses | (9,019) | (1,159,456) | (172,178) | (14,026) | (1,354,679) |
| Net underwriting surplus | 18,100 | 139,792 | 34,276 | 8,497 | 200,665 |
| Investment income | | | | | 21,786 |
| Management fee for administration of takaful operation | | | | | (135,297) |
| Net surplus for the year | | | | | 87,154 |
| Management fee attributable to shareholders' operations | | | | | (78,439) |
| Net surplus distributable to policyholders | | | | | 8,715 |

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

23 OPERATING SEGMENTS (Continued)

| <i>For the year ended 31 December 2015</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) |
| Change in mathematical reserve | - | - | - | (4,440) | (4,440) |
| Other expenses | (1,518) | (606) | (133) | (306) | (2,563) |
| 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 2016

23 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 2016</i> | | | | | |
| Takaful operations' assets | | | | | |
| Re-takaful share of outstanding claims | 82,606 | 7,411 | - | 5,692 | 95,709 |
| Re-takaful share of unearned contributions | 66,287 | 2,000 | - | 1,379 | 69,666 |
| Deferred policy acquisition costs | 9,415 | 15,433 | 5,296 | 222 | 30,366 |
| Deposit against letters of guarantee | 18 | 10,692 | 1,133 | 4 | 11,847 |
| Unallocated assets | | | | | <u>1,640,796</u> |
| Total assets | | | | | <u>1,848,384</u> |
| Takaful operations' liabilities | | | | | |
| Gross outstanding claims | 87,754 | 409,854 | 37,550 | 7,452 | 542,610 |
| Gross unearned contributions | 126,417 | 782,236 | 86,038 | 1,695 | 996,386 |
| Unearned re-takaful commission income | 6,728 | - | - | - | 6,728 |
| Unallocated liabilities and surplus | | | | | <u>302,660</u> |
| Total liabilities and surplus | | | | | <u>1,848,384</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 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 | - | 67 | 71,773 |
| 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>995,559</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> |

24 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform with current year presentation, however the impact of these classification was not significant on the financial statements as a whole.

25 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 18 Jumaada al-awal 1438 H. corresponding to 15 February 2017.