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 2017

INDEX

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Independent Auditors' Report on the Audit of the Financial Statements To the Shareholders of Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

Opinion

We have audited the financial statements of Al Rajhi Company for Cooperative Insurance (the "Company"), which comprise the statement of financial position as at December 31, 2017, the statements of income and comprehensive income - takaful operations, income and comprehensive income - shareholders' operations, statements of changes in shareholders' equity and cash flows for takaful and shareholders' operations for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 28.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter provided in that context:

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Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Valuation of ultimate claim liabilities arising from insurance contracts	
As at 31 December 2017, outstanding claims including claims incurred but not reported (IBNR) amounted to Saudi Riyals 893.23 million as reported in Note 13 to the financial statements. The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of methods e.g. Chain ladder method, Bornhuetter ferguson method, expected loss ratio method etc. are used by the actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We considered this as a key audit matter as the determination of ultimate claim liabilities arise from insurance contracts is subjective and relies on management assumptions and judgements *Refer to the significant accounting policies note 5 to the financial statements, note 6 which explain the valuation methodology used by the Company and critical judgments and estimates.*	We understood and tested key controls around the claims handling and provision setting processes of the Company and accuracy of claims data used in the actuarial reserving process. We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their relationship with the entity. We tested, on sample basis, the accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR. We involved our actuary to understand and evaluate the Company's actuarial practices and the provisions established in order to challenge management's methodologies and assumptions. Our actuary: - evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought explanations from management for any significant differences. - assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge. - reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.

Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company) (continued)

Other Information included in the Company's 2017 Annual Report
The Board of Directors of the Company (the Directors) are responsible for the other information. The other information consists of the information included in the Company's 2017 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors and those Charged with Governance for the Financial Statements
The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Regulations for Companies and the Company's by-laws, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company) (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern; and

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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29 March 2018

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CERTIFIED PUBLIC ACCOUNTANTS

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

STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	31-Dec-17 SR'000	31-Dec-16 SR'000
TAKAFUL OPERATIONS' ASSETS			
Bank balances and cash	*7*	**579,282**	388,772
Contributions and re-takaful balances receivable, net	*8*	**263,285**	310,802
Financial assets at fair value through profit or loss	*11 (i)(b)*	**124,829**	13,101
Available-for-sale financial assets	*11 (i)(c)*	**-**	15,096
Financial assets at amortised cost	*11(i)(a)*	**1,284,094**	-
Held-to-maturity investments	*11(i)(a)*	**-**	705,000
Advances and prepayments	*12*	**15,905**	13,797
Re-takaful share of outstanding claims	*13 (a)*	**142,473**	95,709
Re-takaful share of unearned contributions	*14 (c)*	**91,709**	69,666
Re-takaful share of financial liabilities at fair value through profit or loss		**114**	58
Deferred policy acquisition costs	*14 (a)*	**35,789**	30,366
Due from shareholders' operations		**204,322**	196,822
Other assets		**18,171**	9,195
TOTAL TAKAFUL OPERATIONS' ASSETS		**2,759,973**	1,848,384
SHAREHOLDERS' OPERATIONS' ASSETS			
Bank balances and cash	*7*	**251,159**	85,248
Financial assets at fair value through profit or loss	*11(ii)(b)*	**32,481**	82,047
Financial assets at fair value through other comprehensive income	*11(ii)(c)*	**84,766**	-
Available-for-sale financial assets	*11(ii)(c)*	**-**	86,303
Financial assets at amortised cost	*11(ii)(a)*	**85,016**	-
Held-to-maturity investments	*11(ii)(a)*	**-**	180,000
Management fees receivable – from takaful operations		**343,709**	169,553
Advances and prepayments	*12*	**15,805**	13,333
Property and equipment, net	*9*	**18,936**	20,005
Statutory deposits	*10*	**39,968**	40,000
Accrued income – statutory deposits		**2,565**	1,655
TOTAL SHAREHOLDERS' OPERATIONS' ASSETS		**874,405**	678,144
TOTAL ASSETS		**3,634,378**	2,526,528

Ahmed Sulaiman Al Rajhi	Abdulaziz Mohammed Al Sedeas	Robert Pereira
Member-Board	Chief Executive Officer	Chief Financial Officer

The accompanying notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December

	Notes	31-Dec-17 SR'000	31-Dec-16 SR'000
TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS			
TAKAFUL OPERATIONS' LIABILITIES			
Gross outstanding claims	*13(a)*	**893,230**	542,610
Gross unearned contributions	*14(c)*	**1,304,110**	996,386
Unearned re-takaful commission income	*14(b)*	**7,072**	6,728
Payables, accruals and other liabilities	*15*	**80,497**	51,891
Management fees payable – to shareholders' operations		**343,709**	169,553
Re-takaful balances payable		**66,318**	50,679
Financial liabilities at fair value through profit or loss	*22*	**30,595**	14,196
Other reserves		**-**	134
		2,725,531	1,832,177
TAKAFUL OPERATIONS' SURPLUS			
Surplus distributable to policyholders		**34,442**	16,111
Fair value reserve		**-**	96
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS		**2,759,973**	1,848,384
SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY			
Payables to SAMA		**3,473**	2,564
Provision for Zakat & tax	*17 (b)*	**26,490**	18,391
Payables, accruals and other liabilities	*15*	**31,777**	21,133
Due to takaful operations		**204,322**	196,822
Employees' end of service benefits	*16.2*	**10,283**	9,871
TOTAL SHAREHOLDERS' OPERATIONS' LIABILITIES		**276,345**	248,781
SHAREHOLDERS' EQUITY			
Share capital	*18*	**400,000**	400,000
Statutory reserve	*19*	**54,297**	17,725
Fair value reserve	*11 (ii)(c)*	**1,552**	502
Retained earnings		**142,211**	11,136
TOTAL SHAREHOLDERS' EQUITY		**598,060**	429,363
TOTAL SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY		**874,405**	678,144
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY		**3,634,378**	2,526,528

Ahmed Sulaiman Al Rajhi Member-Board	Abdulaziz Mohammed Al Sedeas Chief Executive Officer	Robert Pereira Chief Financial Officer

The accompanying notes 1 to 28 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	**31-Dec-17 SR'000**	31-Dec-16 SR'000
Gross contributions written	*14 (c)*	**3,193,474**	1,948,650
Re-takaful contributions ceded		**(105,981)**	(77,752)
Excess of loss		**(14,475)**	(14,545)
NET CONTRIBUTIONS WRITTEN	*14 (c)*	**3,073,018**	1,856,353
Change in unearned contributions, net		**(285,681)**	(320,171)
NET CONTRIBUTIONS EARNED	*14 (c)*	**2,787,337**	1,536,182
Policy fees and other income		**10,194**	6,589
Re-takaful commission income	*14 (b)*	**12,243**	12,573
TOTAL UNDERWRITING REVENUE		**2,809,774**	1,555,344
Gross claims paid	*13 (a)*	**(2,073,776)**	(1,128,852)
Re-takaful share of claims paid	*13 (a)*	**31,920**	40,555
NET CLAIMS PAID		**(2,041,856)**	(1,088,297)
Movement in outstanding claims, net		**(303,856)**	(196,588)
NET CLAIMS INCURRED		**(2,345,712)**	(1,284,885)
Inspection and supervision fees		**(20,181)**	(11,634)
Policy acquisition costs	*14 (a)*	**(94,456)**	(45,136)
Other expenses		**(10,250)**	(8,333)
Change in financial liabilities at fair value through profit or loss		**(15,382)**	(8,604)
Other income		**5,809**	3,913
TOTAL CLAIMS AND OTHER EXPENSES		**(2,480,172)**	(1,354,679)
NET UNDERWRITING SURPLUS		**329,602**	200,665
Special commission income		**28,053**	21,786
Net gains on investments mandatorily measured at fair value through profit or loss		**5,370**	-
Impairment loss	*6.1.1 (b) i*	**(416)**	-
Management fee for administration of takaful operations	*21*	**(173,601)**	(135,297)
Net surplus for the year		**189,008**	87,154
Management fee attributable to shareholders' operations		**(170,108)**	(78,439)
NET SURPLUS DISTRIBUTABLE TO POLICYHOLDERS		**18,900**	8,715

Ahmed Sulaiman Al Rajhi	Abdulaziz Mohammed Al Sedeas	Robert Pereira
Member-Board	Chief Executive Officer	Chief Financial Officer

The accompanying notes 1 to 28 form an integral part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME - TAKAFUL OPERATIONS
For the year ended 31 December

	31-Dec-17 SR'000	31-Dec-16 SR'000
Net surplus distributable to policyholders	**18,900**	8,715
Other comprehensive income to be reclassified subsequently to the statement of income:		
Net change in fair value of available-for-sale investments	-	74
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**18,900**	8,789

Ahmed Sulaiman Al Rajhi	Abdulaziz Mohammed Al Sedeas	Robert Pereira
Member-Board	Chief Executive Officer	Chief Financial Officer

The accompanying notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF INCOME – SHAREHOLDERS' OPERATIONS
For the year ended 31 December

	Notes	31-Dec-2017 SR'000	31-Dec-2016 SR'000 (Restated)
REVENUE			
Management fee for administration of takaful operations	21	173,601	135,297
Management fee attributable to shareholders' operations	5.3.15	170,108	78,439
Dividend income	11 (ii) (d)	3,407	3,699
Net gains on investments mandatorily measured at fair value through profit or loss		2,585	-
Net change in fair value of investments held as fair value through income statement		-	4,733
Special commission income on held to maturity investments		4,576	9,614
Reversal of impairment loss	6.1.1 (b) ii	67	-
Realised gain on sale of available for sale investments		-	758
Other income		2,127	1,784
TOTAL REVENUE		356,471	234,324
General and administrative expenses	21	(173,601)	(135,297)
INCOME FROM OPERATIONS		182,870	99,027
BASIC AND DILUTED EARNINGS PER SHARE (SAUDI RIYALS)	25	4.57	2.48

Ahmed Sulaiman Al Rajhi	Abdulaziz Mohammed Al Sedeas	Robert Pereira
Member-Board	Chief Executive Officer	Chief Financial Officer

The accompanying notes 1 to 28 form an integral part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME – SHAREHOLDERS' OPERATIONS
For the year ended 31 December

	Notes	**31-Dec-17 SR'000**	31-Dec-16 SR'000 (Restated)
Income from operations		**182,870**	99,027
Items that will not be recycled to statement of income in subsequent periods:			
Net gains on equity investments designated at fair value through other comprehensive income	*11(ii)(c)*	**1,552**	-
Items that may be recycled to statement of income in subsequent periods:			
Net change in fair value of available-for-sale investments		-	241
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**184,422**	99,268

Ahmed Sulaiman Al Rajhi
Member-Board

Abdulaziz Mohammed Al Sedeas
Chief Executive Officer

Robert Pereira
Chief Financial Officer

The accompanying notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December

	Share Capital SR'000	Statutory Reserve SR'000	Fair Value Reserve SR'000	Retained Earnings SR'000	Total SR'000
Balance as at 1 January 2016	400,000	-	261	(59,766)	340,495
Total comprehensive income: (restated)					
Income from operations (restated)	-	-	-	99,027	99,027
Changes in fair value of available-for-sale investments	-	-	241	-	241
Zakat – {note 5.4 and 17 (b)} (restated)	-	-	-	(10,400)	(10,400)
Transfer to statutory reserve	-	17,725	-	(17,725)	-
Balance as at 31 December 2016	400,000	17,725	502	11,136	429,363
Balance as at 1 January 2017	**400,000**	**17,725**	**502**	**11,136**	**429,363**
Changes on initial adoption of IFRS 9 {note 5.1 (c)}	-	-	**(502)**	**277**	**(225)**
Restated balance as at 1 January 2017	**400,000**	**17,725**	-	**11,413**	**429,138**
Total comprehensive income:					
Income from operations	-	-	-	**182,870**	**182,870**
Net gains on equity investments designated at fair value through other comprehensive income – {note 11(ii)(c)}	-	-	**1,552**	-	**1,552**
Zakat – {note 17 (b)}	-	-	-	**(15,500)**	**(15,500)**
Transfer to statutory reserve	-	**36,572**	-	**(36,572)**	-
Balance as at 31 December 2017	**400,000**	**54,297**	**1,552**	**142,211**	**598,060**

Ahmed Sulaiman Al Rajhi	Abdulaziz Mohammed Al Sedeas	Robert Pereira
Member-Board	Chief Executive Officer	Chief Financial Officer

The accompanying notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS – TAKAFUL OPERATIONS
For the year ended 31 December

	Notes	31-Dec-2017 SR'000	31-Dec-2016 SR'000
OPERATING ACTIVITIES			
Net surplus distributable to policyholders		**18,900**	8,715
Adjustment for:			
Management fee for administration of takaful operations	*21*	**173,601**	135,297
Management fee attributable to shareholders' operations	*5.3.15*	**170,108**	78,439
Unrealised gain on financial assets measured at FVPL	*11 (i)(b)*	**(961)**	-
Impairment loss		**416**	-
Allowance for doubtful receivables	*8*	**5,317**	4,837
Net surplus before changes in operating assets and liabilities		**367,381**	227,288
Changes in operating assets and liabilities:			
Contributions and re-takaful balances receivable, net		**42,200**	(53,896)
Advances and prepayments		**(2,108)**	(8,223)
Re-takaful share of outstanding claims		**(46,764)**	14,705
Re-takaful share of unearned contributions		**(22,043)**	2,107
Re-takaful share of mathematical reserve		**(56)**	119
Deferred policy acquisition costs		**(5,423)**	(13,286)
Due from shareholders' operations		**(7,500)**	6,437
Other assets		**(8,976)**	-
Gross outstanding claims		**350,620**	181,883
Gross unearned contributions		**307,724**	318,064
Unearned re-takaful commission income		**344**	(707)
Payables, accruals and other liabilities		**28,606**	6,626
Re-takaful balances payable		**15,639**	(6,274)
Financial liabilities at fair value through profit or loss		**16,399**	8,484
Other reserves		**(134)**	(667)
Deposit against letters of guarantee		**(1,150)**	2,700
		1,034,759	685,360
Management fee paid		**(169,553)**	(90,923)
Net cash from operating activities		**865,206**	594,437
INVESTING ACTIVITIES			
Purchase of financial assets at amortised cost (held-to-maturity investments)	*11(i)(a)*	**(1,535,000)**	(1,180,000)
Redemption of financial assets at amortised cost (held-to-maturity investments)	*11(i)(a)*	**955,000**	805,000
Purchase of available-for-sale investments		**-**	(566,000)
Sale of available-for-sale investments		**-**	557,556
Purchase of financial assets measured at FVPL		**(2,377,044)**	-
Sale of financial assets measured at FVPL	*11(i)(b)*	**2,297,000**	-
Purchase of unit linked investments		**(15,627)**	(8,123)
Net cash used in investing activities		**(675,671)**	(391,567)
CHANGE IN CASH AND CASH EQUIVALENTS		**189,535**	202,870
Cash and cash equivalents at the beginning of the year		**376,925**	174,055
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	*7*	**566,460**	376,925
Non-cash supplemental information:			
Changes in fair value of available-for-sale investments	*11(i)(c)*	**-**	74

The accompanying notes 1 to 28 form an integral part of these financial statements.

Ahmed Sulaiman Al Rajhi
Member-Board

Abdulaziz Mohammed Al Sedeas
Chief Executive Officer

Robert Pereira
Chief Financial Officer

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

STATEMENT OF CASH FLOWS – SHAREHOLDERS' OPERATIONS
For the year ended 31 December

	Notes	31-Dec-2017 SR'000	31-Dec-2016 SR'000
OPERATING ACTIVITIES			
Income from operations		**182,870**	99,027
Adjustments for:			
Depreciation and amortisation	*9*	**8,037**	9,179
Management fee for administration of takaful operations		**(173,601)**	(135,297)
Management fee attributable to shareholders' operations		**(170,108)**	(78,439)
Employees' end of service benefits	*16.2*	**2,002**	3,260
Reversal of impairment loss	*6.1.1 (b)(ii)*	**(67)**	-
Unrealized loss on investments at FVPL	*11 (ii)(b)*	**(89)**	(4,733)
Net deficit before changes in operating assets and liabilities		**(150,956)**	(107,003)
Changes in operating assets and liabilities:			
Advances and prepayments		**(2,472)**	(3,882)
Accrued income – statutory deposits		**(910)**	895
Payable to SAMA		**909**	(894)
Payables, accruals and others liabilities		**10,644**	3,205
Due to takaful operations		**7,500**	(6,437)
		(135,285)	(114,116)
Management fee received		**169,553**	90,923
Zakat paid	*17 (b)*	**(7,401)**	(1,377)
Employees' end of service benefits paid	*16.2*	**(1,590)**	(2,000)
Net cash from / (used in) operating activities		**25,277**	(26,570)
INVESTING ACTIVITIES			
Purchase of property and equipment	*9*	**(6,968)**	(5,169)
Purchase of financial assets at amortised cost (held-to-maturity investments)	*11(ii)(a)*	**(330,109)**	(700,000)
Redemption of financial assets at amortised cost (held-to-maturity investments)	*11(ii)(a)*	**425,035**	710,000
Purchase of financial assets measured at FVPL	*11(ii)(b)*	**(552,486)**	(130,000)
Sale of financial assets measured at FVPL	*11(ii)(b)*	**604,474**	122,242
Purchase of equity investments designated at FVOCI	*11(ii)(c)*	**(62,139)**	(99,590)
Sale of equity investments designated at FVOCI	*11(ii)(c)*	**60,472**	99,590
Movement in cash balance in equity share portfolio	*11(ii)(c)*	**2,423**	-
Matured Murabaha deposit receivable		**-**	39,038
Net cash from investing activities		**140,702**	36,111
INCREASE IN CASH AND CASH EQUIVALENTS		**165,979**	9,541
Cash and cash equivalents at beginning of the year		**84,340**	74,799
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*7*	**250,319**	84,340

Non-cash supplemental information:

Changes in fair value of available-for-sale investments	*11 (ii) (c)*	-	241
Changes in fair value of financial assets at FVOCI	*11 (ii) (c)*	1,552	-

The accompanying notes 1 to 28 form an integral part of these financial statements.

Ahmed Sulaiman Al Rajhi	Abdulaziz Mohammed Al Sedeas	Robert Pereira
Member-Board	Chief Executive Officer	Chief Financial Officer

1 ORGANISATION 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 Arabian Stock Exchange ("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 on the historical cost basis except for the following material items

i. Financial assets measured at fair value through profit or loss (FVPL)
ii. Financial assets measured at fair value thorugh other comprehensive income (FVOCI)
iii. Financial liabilities measured at fair value through profit or loss (FVPL)

b) Statement of compliance

The Company has prepared these financial statements in accordance with International Financial Reporting Standards (IFRSs) as modified by SAMA for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

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.

2 BASIS OF PREPARATION (continued)

d) Critical accounting judgments estimates and assumptions

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial reporting period. 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.

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

i. Estimation of incurred but not reported claims

The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that needs 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 date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by 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.

ii. Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 6.1.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

a. Determining criteria for significant increase in credit risk;
b. Choosing appropriate models and assumptions for the measurement of ECL;
c. Establishing groups of similar financial assets for the purposes of measuring ECL.

iii. Fair value of unlisted equity investments

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 of such securities not quoted in an active market may be determined by the Company using latest available audited net assets value of the investee. The Company would exercise judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Company may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the market practice. As of 31 December 2017, the Company has unlisted equity investments of SR 6.05 million.

iv. Defined benefit scheme

The Company operates an end of service benefit scheme for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit credit method in accordance with the periodic actuarial valuation. For details of assumptions and estimate please refer note 16.

3 BASIS OF PRESENTATION

The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as current: bank balances and cash, contributions and re-takaful balances receivables, net, financial assets at fair value through profit or loss, financial assets at amortised cost, advances and prepayments and other assets, gross outstanding claims, gross unearned contributions, unearned re-takaful commission income, payables, accruals and other liabilities, management fees payable, re-takaful balances payable, financial liabilities at fair value through profit or loss and other reserves. The following balances would generally be classified as non-current : financial assets at fair value through other comprehensive income and employees' end of service benefits.

4 STANDARDS 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, 2016, 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 2017:

Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. These adoptions have no material impact on these financial statements hence no disclosures were made

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

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

IFRS 9 - "Financial instruments", In July 2014, the IASB published IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements.

Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement.

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the forthcoming accounting standard for insurance contracts. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until the earlier of the effective date of a new insurance contract standard or 2021.The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

The Company is eligible to apply the deferral approach under the amendments to IFRS 4. The impact of the adoption of IFRS 9 on the Company's financial statements will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. IASB through its amendments to IFRS 4 issued in September 2016 had allowed temporary exemption if a Company meets the following criteria:

4. STANDARD AND AMENDMENTS ISSUED (continued)

a) The Company has not previously applied any version of IFRS 9; and
b) Its activities are predominantly connected with insurance that is defined as total percentage of carrying amount of insurance liabilities is greater than 90% of its total liabilities.

The Company have early adopted the requirements of IFRS 9 as permitted by the standards.

Standards issued but not yet effective

The following are the standards which are issued but are not yet effective:

IFRS 15 "Revenue from Contracts with Customers" - IFRS 15 will replace IAS 18 'Revenue' and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 also includes enhanced disclosure requirements. The impact of the adoption of the new standard is being assessed by the Company and is not considered significant.

IFRS 16 - "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The Company has decided not to early adopt this new standard.

IFRS 17 - "Insurance Contracts", applicable for the period beginning on or after 1 January 2021, and will supersede IFRS 4 "Insurance Contracts". Earlier adoption permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the income statement and the balance sheet. The Company has decided not to early adopt this new standard.

5 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these annual financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2016 except for the new and amended standards and interpretations which are effective for annual periods beginning on or after 1 January 2017, early adoption of IFRS 9 "Financial Instruments" effective from 1 January 2017 (refer note 5.1) and change in the accounting policy in relation to accounting for zakat and income tax as a result of SAMA circular (refer note 5.4).

i) Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

The new and revised relevant IFRSs effective for the first time for periods beginning on (or after) 1 January 2017 had no significant impact on the amounts reported and disclosures in these financial statements except for the early adoption of IFRS 9, which is narrated below.

5.1 Change in accounting policy

The Company has early adopted IFRS 9 as issued by the IASB in July 2014 with a date of initial application of 1 January 2017, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of initial application were recognised in the opening retained earnings and fair value reserve of the current year.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.1 Change in accounting policy (continued)

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current year. The comparative year notes disclosures repeat those disclosures made in the prior year. The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "*Financial Instruments: Disclosures*".

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company. Further details of the specific IFRS 9 accounting policies applied in the current year are described in more detail in note 5.2 below.

a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with previous (under IAS 39) and new (under IFRS 9) accounting policies as at 1 January 2017 are compared as follows:

	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
		SR'000		SR'000
Financial assets - Takaful Operations				
Bank balances and cash	Amortised cost (Loans and receivables)	388,772	Amortised cost	388,691
Contributions and re-takaful balances receivable, net	Amortised cost (Loans and receivables)	310,802	Amortised cost	310,802
Unit linked investments	FVPL (Held for trading)	13,101	FVPL (Mandatory)	13,101
Available-for-sale-financial assets	FVOCI (Available-for-sale)	15,096	FVPL (Mandatory)	15,096
Held-to-maturity investments	Amortised cost (Held to maturity)	705,000	Amortised cost	704,415
Due from shareholders' operations	Amortised cost (Loans and receivables)	196,822	Amortised cost	196,822
Other assets	Amortised cost (Loans and receivables)	9,195	Amortised cost	9,195
Total financial assets		**1,638,788**		**1,638,122**

	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
		SR'000		SR'000
Financial assets - Shareholders' Operations				
Bank balances and cash	Amortised cost (Loans and receivables)	85,248	Amortised cost	85,179
Financial assets at fair value through profit or loss	FVPL (Held for trading)	82,047	FVOCI (Designated)	83,970
Available-for-sale financial assets	FVOCI (Available-for-sale)	86,303	FVPL (Mandatory)	84,380
Held-to-maturity investments	Amortised cost (Held-to-maturity)	180,000	Amortised cost	179,854
Management fee receivable	Amortised cost (Loans and receivables)	169,533	Amortised cost	169,533
Statutory deposits	Amortised cost (Held-to-maturity)	40,000	Amortised cost	39,990
Accrued income – statutory deposits	Amortised cost (Loans and receivables)	1,655	Amortised cost	1,655
Total financial assets		**644,786**		**644,561**

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.1 Change in accounting policy (continued)

*a) **Classification and measurement of financial instruments** (continued)*

There were no changes to the classification and measurement of financial liabilities, other than changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in the instrument's credit risk, which are presented in other comprehensive income, if any.

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Company performed a detailed analysis of its business models for managing financial assets particularly considering the cash flow characteristics of its debt instruments. Please refer to note 5.2 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets which have been impacted from classification and measurement requirements of IFRS 9 on 1 January 2017.

	Notes	IAS 39 carrying amount 31 December 2016	Reclassifi-cations	Remeasure-ments	IFRS 9 carrying amount 1 January 2017
Takaful Operations		SR'000	SR'000	SR'000	SR'000
Available-for-sale financial assets	A				
Opening balance		15,096	-	-	
To: Investments measured at FVPL		-	(15,096)	-	
Closing balance		15,096	(15,096)	-	-
Investments measured at FVPL	A				
Opening balance		13,101	-	-	
From: Available-for-sale financial assets		-	15,096	-	
Closing balance		13,101	15,096	-	28,197
Financial assets at amortised cost					
Cash and cash equivalents					
Opening balance		388,772	-	-	
Remeasurement: ECL allowance		-	-	(81)	
Closing balance		388,772	-	(81)	388,691

	IAS 39 carrying amount 31 December 2016	Reclassifi-cations	Remeasure-ments	IFRS 9 carrying amount 1 January 2017
Takaful operations	SR'000	SR'000	SR'000	SR'000
Amortised cost				
Opening balance	-	-	-	
From: Held-to-maturity investments	-	705,000	-	
Remeasurement: ECL allowance	-	-	(585)	
Closing balance	-	705,000	(585)	704,415

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.1 Change in accounting policy (continued)

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 *(continued)*

Shareholders' operations	*Notes*	**IAS 39 carrying amount 31 December 2016** SR'000	**Reclassifi-cations** SR'000	**Remeasure-ments** SR'000	**IFRS 9 carrying amount 1 January 2017** SR'000
Available-for-sale investments	*B*				
Opening balance		86,303	-	-	
To: Investments measured at FVPL		-	(84,380)	-	
To: Investments measured at FVOCI		-	(1,923)	-	
Closing balance		86,303	(86,303)	-	-
Investments measured at FVPL	*C*				
Opening balance		82,047	-	-	
To: Investments measured at FVOCI		-	(82,047)	-	
From: Available-for-sale investments		-	84,380	-	
Closing balance		82,047	2,333	-	84,380
Investments measured at FVOCI	*C*				
Opening balance		-	-	-	
From: Available-for-sale investments		-	1,923	-	
From: Investments measured at FVPL		-	82,047	-	
Closing balance		-	83,790	-	83,970
Financial assets at amortised cost					
Cash and cash equivalents					
Opening balance		85,248	-	-	
Remeasurement: ECL allowance		-	-	(69)	
Closing balance		85,248	-	(69)	85,179
Financial assets at amortised cost					
Financial assets at amortised cost					
Opening balance		-	-	-	
From: Held-to-maturity investments		-	180,000	-	
Remeasurement: ECL allowance		-	-	(146)	
Closing balance		-	180,000	(146)	179,854

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.1 Change in accounting policy (continued)

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount 31 December 2016	Reclassifi-cations	Remeasure-ments	IFRS 9 carrying amount 1 January 2017
Statutory deposits - Financial assets at amortised cost	SR'000	SR'000	SR'000	SR'000
Financial assets at amortised cost				
Opening balance	-	-	-	
From: Held to maturity	-	40,000	-	
Remeasurement: ECL allowance	-	-	(10)	
Closing balance	-	40,000	(10)	39,990

The following notes explain how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Company as shown in the tables above.

A ***Reclassification from available-for-sale to FVPL***

Investments in redeemable units were reclassified from available-for-sale investments to financial assets mandatorily measured at fair value through profit or loss. In accordance with the requirements of IFRS 9, investments in redeemable units are required to be measured at FVPL. Available-for-sale investments related fair value reserve of SR 95,821 was transferred from fair value reserve to "Surplus distributable to policyholders" on 1 January 2017.

B Reclassification from available-for-sale to FVPL

Investments in redeemable units were reclassified from available-for-sale to financial assets at fair value through profit or loss. In accordance with the requirements of IFRS 9, investments in redeemable units are required to be measured at FVPL. Available-for-sale investments related fair value reserve of SR 502,488 was transferred from fair value reserve to "Retained earnings" on 1 January 2017.

C ***Reclassification from available-for-sale to FVOCI***

In accordance with IFRS 9, an investment in equity instrument that does not have a quoted price in an active market for an identical instrument shall be measured at fair value. Accordingly, unlisted equity investments of the Company for the amount of SR 1.9 million previously classified as available-for-sale investments were reclassified to financial assets measured at FVOCI. These investments in unlisted equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes.

D Equity investments in listed shares previously classified as available-for-sale

The Company irrevocably elected to present changes in the fair value of all its listed equity investments previously classified as investment at FVPL in other comprehensive income. These investments in listed equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes.

E ***Financial assests measured at amortised cost***

At 1 January 2017, there were no instruments reclassified from amortised cost measurement to fair value measurement or vice versa. Previously classified held-to-maturity investments have been reclassified to "Financial assets at amortised cost" category.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.1 Change in accounting policy (continued)

c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior year's closing impairment allowance measured in accordance with previous IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected credit loss model as at 1 January 2017.

Takaful operations	**IAS 39 Impairment allowance** SR'000	**Reclassifi-cations** SR'000	**Remeasure-ments** SR'000	**IFRS 9 Impairment allowance** SR'000
Bank balances and cash	-	-	(81)	(81)
Held-to-maturity investments/financial assets at amortised cost	-	-	(585)	(585)
	-	-	(666)	(666)

Shareholders' operations	**IAS 39 Impairment allowance** SR'000	**Reclassifi-cations** SR'000	**Remeasure-ments** SR'000	**IFRS 9 Impairment allowance** SR'000
Bank balances and cash	-	-	(69)	(69)
Held-to-maturity investments/financial assets at amortised cost	-	-	(146)	(146)
Statutory deposits	-	-	(10)	(10)
	-	-	(225)	(225)

As a result of adopting the requirements of IFRS 9 by the Company effective from 1 January 2017, the opening balance of "surplus distributable to policyholders" has been adjusted by SR 0.66 million. The adjustment represents the expected credit losses recognised on the financial assets of the Company which were subject to expected credit losses on 31 December 2016. The fair value reserve of previously classified available-for-sale investments has been reclassified to "surplus distributable to policyholders" due to reclassification of available-for-sale investments to investments measured at FVPL category from the date of initial application of the requirements of IFRS 9.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Accounting policies on financial assets and liabilities adopted in the preparation of these financial statements effective from 1 January 2017

5.2.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective profit rate
The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, contributions or discounts and fees and points paid or received that are integral to the effective profit rate, such as origination fees.

Profit income
Profit income is recognised using the effective profit rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, profit income is recognised by applying the effective profit rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, profit income is recognised by applying the effective profit rate to the gross carrying amount of the financial asset.

Initial recognition and measurement
The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective profit method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

The company exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and profit income on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Company considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

5.2.2 Classification and subsequent measurement of financial assets

From 1 January 2017, the Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:
a. Fair value through profit or loss (FVPL);
b. Fair value through other comprehensive income (FVOCI); or
c. Amortised cost.

The classification requirements for debt and equity instruments are described below:

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Accounting policies on financial assets and liabilities adopted in the preparation of these financial statements effective from 1 January 2017 (continued)

5.2.2 Classification and subsequent measurement of financial assets (continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate Sukuks and contributions payable.

Classification and subsequent measurement of debt instruments depend on:
(i) the Company's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 6.1.1 profit income from these financial assets is included in 'Special commission income' using the effective profit method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, special commission income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in the statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of income. Profit income from these financial assets is included in 'Special commission income' using the effective profit rate method.

- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss presented in the statement of income in the period in which it arises. Profit income from these financial assets is included in 'Special commission income'' using the effective profit rate method.

Business model:
The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets, which is held by the Company as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Accounting policies on financial assets and liabilities adopted in the preparation of these financial statements effective from 1 January 2017 (continued)

5.2.2 Classification and subsequent measurement of financial assets (continued)

Solely payments of principal and profit:
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and profit. In making this assessment, the Company considers whether the contractual cash flows are consistent with the lending agreement i.e. profit includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to the statement of income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the statement of income as 'Dividend income' when the Company's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net gains on investments mandatorily measured at fair value through profit or loss' line in the statement of income.

5.2.3 Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The Company applies the expected credit losses ('ECL') on its debt instruments measured at amortised cost and FVOCI, which are in the scope of IFRS 9 for impairment. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 6.1.1 provides more detail of how the expected credit loss allowance is measured.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Accounting policies on financial assets and liabilities adopted in the preparation of these financial statements effective from 1 January 2017 (continued)

5.2.4 Derecognition of financial assets

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

5.2.5 Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss: this classification is applied to financial liabilities designated as fair value through profit or loss at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in the statement of income;

5.2.6 Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

5.3 Other significant accounting policies adopted in the preparation of these financial statements are as follows:

5.3.1 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 takaful 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.

5.3.2 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.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Other significant accounting policies adopted in the preparation of these financial statements are as follows: (continued)

5.3.2 Re-takaful (continued)
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 by applying the expected credit losses ('ECL') model to its re-takaful balances.

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. On derecognition of a re-takaful asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in 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.

5.3.3 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 statement of financial position date, together with related claim handling cost whether reported by the insured 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.

5.3.4 Salvage and subrogation reimbursement
Some takaful contracts permit the Company to sell (usually damaged) assets acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Other significant accounting policies adopted in the preparation of these financial statements are as follows: (continued)

5.3.5 Deferred policy acquisition costs (DPAC)
Commissions and other costs directly related to the acquisition and renewal of takaful contracts are deferred and amortised over the terms of the contract to which they relate, similar to contributions earned.

All the acquisition costs are recognised as an expense when incurred. Amortisation is recorded in the "policy acquisition cost" in the statement of income – takaful operations.

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.

5.3.6 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 contribution deficiency reserves.

5.3.7 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:

	Years
Office and electrical equipment	5
Furniture and fixtures	6 - 7
Motor vehicles	5
Computer hardware and software	3 - 5

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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Other significant accounting policies adopted in the preparation of these financial statements are as follows: (continued)

5.3.8 Income recognition
Contributions and commissions are taken into income over the terms of the policies to which they relate on a pro-rata basis. The portion of contributions and commissions that will be earned in the future is reported as unearned contributions 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 contributionss 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.

5.3.9 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.

5.3.10 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.

5.3.11 Contribution receivables
Contribution receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. At each reporting date, the Company assesses whether there is any indication that a contribution receivable asset may be impaired by applying the expected credit losses ('ECL') model. Any resulting impairment loss is recorded in the statement of income - takaful operations. On derecognition of a contribution receivable asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income – takaful operations.

5.3.12 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.

5.3.13 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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Other significant accounting policies adopted in the preparation of these financial statements are as follows: (continued)

5.3.14 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.

5.3.15 Management fee for administration of takaful operations and attributable to shareholders operations

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 of managing the co-operative insurance operations calculates the management fees in the below manner and pays it in full shortly after the end of the fiscal year.

- The first component of the management fee is calculated based on the net contributions written for the year after adjusting commission income and cost of production for motor and general at 40% and for health at 30% and is limited to the extent of general and administrative expenses charged in the statement of income – shareholders' operations; and

- The other component of the management fee is determined up to 90% of the net surplus if any for the year from takaful operations remaining after computing the first component of management fee. The Company is required to distribute the remaining 10% of the net surplus from Takaful operations to policyholders in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Agency ("SAMA").

5.4 Zakat and income tax

As a result of the Circular issued by SAMA, the Company amended its accounting policy relating to zakat and income tax and have started to charge zakat and income tax directly to the statement of changes in shareholders' equity. Previously, zakat and income tax was charged in the statement of income – shareholders' operations. The Company has accounted for this change in accounting policy relating to zakat and income tax retrospectively.

The change in the accounting policy has the following impacts on the statements of income and comprehensive income – shareholders' operations and changes in shareholders' equity. The above change in accounting policy did not have an impact on statements of financial position and cash flows for any of the year presented.

Statement of income – Shareholders' operations for the year ended 31 December 2016:

	As previously stated SR'000	Effect of restatement SR'000	As restated SR'000
Income from operations before zakat charge	99,027	-	99,027
Zakat charge	(10,400)	10,400	-
Income from operations	88,627	10,400	99,027

Statement of comprehensive income – Shareholders' operations for the year ended 31 December 2016:

	As previously stated SR'000	Effect of restatement SR'000	As s restated SR'000
Income from operations	88,627	10,400	99,027
Other comprehensive income	241	-	241
Total Comprehensive income for the year	88,868	10,400	99,268

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 Zakat and income tax (continued)

Statement of changes in Shareholders' equity for the year ended 31 December 2016:

	As previously stated SR'000	Effect of restatement SR'000	As s restated SR'000
Income from operations	88,627	10,400	99,027
Zakat charge	-	(10,400)	(10,400)

The basic and diluted earnings per share have been restated as at 31 December 2016 for the effects of the above change in accounting policy as follows:

	EPS as previously reported at 31 Dec 2016	Effect of restatement relating to zakat	EPS as restated at 31 Dec 2016
Basic and diluted earnings per share	2.22	0.26	2.48

Further we have added the word restated in the comparative information for statement of income and comprehensive income.

5.5 Segmental reporting

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

- General
- Motor
- Health
- Protection and savings

Operating segments do not include shareholders operations of the Company. Income earned from investments is the only revenue generating activity in shareholders operations. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The surplus or loss from Takaful operations is allocated to this segment in accordance with note 5.3.15.

Operating segments are reported in a manner consistent with the internal reporting to the chief executive officer. The chief executive officer is the key decision maker and is responsible for allocating resources, assessing performance and making strategic decisions of the operating segments. No inter-segment transactions occurred during the period.

5.6 Seasonality of operations

There are no seasonal changes that may affect insurance operations of the Company.

6. FINANCIAL RISK MANAGEMENT

The following section discusses the Company's updated credit risk measurement under ECL model in order to comply with the requirements of IFRS 9. The other risk management policies are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2016.

6.1 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.

6.1.1 Credit risk measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

a. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
b. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
c. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
d. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
e. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.

The key judgements and assumptions adopted by the Company in addressing the requirements of IFRS 9 are discussed below:

Significant increase in credit risk
The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met.

Quantitative criteria:
- Downward movement in the external credit rating by two notches;
- Downward movement in the external credit rating by one notch if the revised external credit rating becomes below "investment grade";
- Contractual payments are more than 7 days past due;

Qualitative criteria:
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the counterparty that results in a significant decrease in the counterparty's ability to meet its obligations to the Company;
- A group company of the counterparty has defaulted and in the Company's opinion repayment capacity of the counterparty would also be significantly impacted.

Definition of default and credit-impaired assets
The Company defines a financial instruments as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:
- Contractual payments are more than 90 days past due;
- Counterparty's refusal to pay the amounts due.

Qualitative criteria:
- Information about the bankruptcy of the counterparty;
- Legal case on recovery proceedings;

6. FINANCIAL RISK MANAGEMENT (continued)

6.1 Credit risk (continued)

6.1.1 Credit risk measurement (continued)

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal risk management purposes. An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six month. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Based on the detailed analysis of the Companies exposures to the credit risk, the management of the Company have opted to benefit from the practical expedient in calculating the expected credit losses provided by IFRS 9 for financial assets with low credit risk. The management of the Company measures impairment using 12-month expected credit losses for its financial assets subject to impairment. The low credit risk financial assets of the Company meet the following requirements of IFRS 9 to measure impairment using 12-month expected credit losses:

- Low credit risk of default;
- The counterparties have a strong capacity to meet their obligations in the near term;
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the counterparties to fulfil their contractual cash flow obligations.

The Company uses external credit risk ratings of well-known and reputable rating agencies to assess the probability of default of individual counterparties

The Company does not recognise lifetime expected credit losses on a financial instrument simply because it was considered to have low credit risk in the previous reporting period and is not considered to have low credit risk at the reporting date. In such a case, the Company will determine whether there has been a significant increase in credit risk since initial recognition and thus whether lifetime expected credit losses are required to be recognised.

Measuring expected credit losses

The Expected Credit Loss (ECL) is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12-month PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the Company's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the exposure.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective profit rate.

The Lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the exposures. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

6 FINANCIAL RISK MANAGEMENT (continued)

6.1 Credit risk (continued)

6.1.1 Credit risk measurement (continued)

a) Maximum exposure to credit risk – financial instruments subject to ECL

The following tables contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets measured at amortised cost below also represents the Company's maximum exposure to credit risk on these assets.

i) TAKAFUL OPERATIONS

	31 December 2017				31 December 2016
Financial statement line item	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	Total
	SR'000	**SR'000**	**SR'000**	**SR'000**	SR'000
Bank balances and cash	579,457	-	-	579,457	388,772
Held-to-maturity investments/financial assets at amortised cost	1,285,000	-	-	1,285,000	705,000
Due from shareholders' operations	204,322	-	-	204,322	196,822
Gross carrying amount	2,068,779	-	-	2,068,779	1,290,594
Loss allowance	(1,082)	-	-	(1,082)	-
Carrying amount	2,067,697	-	-	2,067,697	1,290,594

	31 December 2017				31 December 2016
Credit grade	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	Total
	SR'000	**SR'000**	**SR'000**	**SR'000**	SR'000
Investment grade	1,864,457	-	-	1,864,457	1,093,772
Standard monitoring	204,322	-	-	204,322	196,822
Special monitoring	-	-	-	-	-
Default	-	-	-	-	-
Gross carrying amount	2,068,779	-	-	2,068,779	1,290,594
Loss allowance	(1,082)	-	-	(1,082)	-
Carrying amount	2,067,697	-	-	2,067,697	1,290,594

6 FINANCIAL RISK MANAGEMENT (continued)

6.1 Credit risk (continued)

6.1.1 Credit risk measurement (continued)

a) Maximum exposure to credit risk – financial instruments subject to ECL (continued)

ii) SHAREHOLDERS' OPERATIONS

Financial statement line item	31 December 2017 Stage 1 12-month ECL SR'000	Stage 2 Lifetime ECL SR'000	Stage 3 Lifetime ECL SR'000	Total SR'000	31 December 2016 Total SR'000
Bank balances and cash	251,227	-	-	251,227	85,248
Held-to-maturity investments/financial assets at amortised cost	85,074	-	-	85,074	180,000
Statutory deposits	40,000	-	-	40,000	40,000
Gross carrying amount	376,301	-	-	376,301	305,248
Loss allowance	(158)	-	-	(158)	-
Carrying amount	376,143	-	-	376,143	305,248

Credit grade	31 December 2017 Stage 1 12-month ECL SR'000	Stage 2 Lifetime ECL SR'000	Stage 3 Lifetime ECL SR'000	Total SR'000	31 December 2016 Total SR'000
Investment grade	376,301	-	-	376,301	305,248
Standard monitoring	-	-	-	-	-
Special monitoring	-	-	-	-	-
Default	-	-	-	-	-
Gross carrying amount	376,301	-	-	376,301	305,248
Loss allowance	(158)	-	-	(158)	-
Carrying amount	376,143	-	-	376,143	305,248

The Company's exposures to credit risk are not collateralised.

b) Loss allowance

The loss allowance recognised in the period may be impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period. The following tables explain the change in the loss allowance between the beginning and the end of the annual period due to these factors.

6 FINANCIAL RISK MANAGEMENT (continued)

6.1 Credit risk (continued)

6.1.1 Credit risk measurement (continued)

b) Loss allowance (continued)

i) TAKAFUL OPERATIONS

	Stage 1 12-month ECL SR'000	**Stage 2** Lifetime ECL SR'000	**Stage 3** Lifetime ECL SR'000	**Total** SR'000
Loss allowance as at 1 January 2017	666	-	-	666
Movements with the statement of income impact				
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
New financial assets originated or purchased	2,992	-	-	2,992
Net remeasurement of loss allowance	-	-	-	-
Financial assets derecognised during the period	(2,576)	-	-	(2,576)
Write-offs	-	-	-	-
Total loss allowance for the year	416	-	-	416
Loss allowance as at 31 December 2017	1,082	-	-	1,082

ii) SHAREHOLDERS' OPERATIONS

	Stage 1 12-month ECL SR'000	**Stage 2** Lifetime ECL SR'000	**Stage 3** Lifetime ECL SR'000	**Total** SR'000
Loss allowance as at 1 January 2017	225	-	-	225
Movements with the statement of income impact				
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
New financial assets originated or purchased	946	-	-	946
Net remeasurement of loss allowance	22	-	-	22
Financial assets derecognised during the year	(1,035)	-	-	(1,035)
Write-offs	-	-	-	-
Total reversal of loss allowance for the period	(67)	-	-	(67)
Loss allowance as at 31 December 2017	158	-	-	158

6 FINANCIAL RISK MANAGEMENT (continued)

6.2 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.

6.3 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.

The takaful claim liabilities are sensitive to the various assumptions mentioned in note 6.3 (a). 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.

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Risk management structure (continued)

a) Takaful risk (continued)

Property 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 (2016: 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 polices 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 (2016: 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 (2016: 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 117 million (2016: SR 77 million) annually in aggregate.

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.

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Risk management structure (continued)

b) Re-takaful risk (continued)
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 2017, an increase or decrease of 50 basis points in commission rates would result in a change in the loss or gain for the year of SR 850 thousand (2016: SR 250 thousand)

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 1,624 thousand (2016: SR 4,219 thousand) and fair value reserve on investments under takaful operations by increase / decrease by SR 6,241 thousand (2016: SR 755 thousand).

The Company has investment in the Saudi companies equities listed on Tadawul. A 5% change in the market value of these investments, with all other variables held constant, would impact the shareholders' equity by increase / decrease of SR 3,937 thousand (2016: SR 4,102 thousand).

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Risk management structure (continued)

f) Credit risk

The analysis of the credit ratings of the investment portfolio (IFRS 9) is as follows:

	31-Dec-2017	
	Takaful operations	***Shareholders' operations***
	SR'000	***SR'000***
S & P equivalent (A)	**199,946**	**-**
S & P equivalent (A-)	**24,993**	**-**
S & P equivalent (BBB+)	**959,236**	**85,016**
S & P equivalent (BB)	**99,919**	**-**
	1,284,094	**85,016**

	31-Dec-2016	
	Takaful operations	*Shareholders' operations*
	SR'000	*SR'000*
S & P equivalent (A)	25,000	-
S & P equivalent (BBB+)	680,000	180,000
	705,000	180,000

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.

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Risk management structure (continued)

g.) Liquidity risk (continued)

Maturity profiles (continued)

	31 December 2017					
	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	**579,282**	-	**579,282**	**251,159**	-	**251,159**
Contributions receivable, net	**225,711**	**32,552**	**258,263**	-	-	-
Re-takaful balances receivable, net	**5,022**	-	**5,022**	-	-	-
Financial assets at fair value through profit or loss	**124,829**	-	**124,829**	**32,481**	-	**32,481**
Financial assets at amortised cost	**199,946**	**1,084,148**	**1,284,094**	-	**85,016**	**85,016**
Re-takaful share of outstanding claims	**142,473**	-	**142,473**	-	-	-
Due from shareholders' operations	**7,500**	**196,822**	**204,322**	-	-	-
Advances and other assets	**6,094**	-	**6,094**	**5,269**	-	**5,269**
Management fee receivable	-		-	**343,709**	-	**343,709**
TOTAL ASSETS	**1,290,857**	**1,313,522**	**2,604,379**	**632,618**	**85,016**	**717,634**

	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
Contributions receivable, net	302,641	-	302,641	-	-	-
Re-takaful balances receivable	8,161	-	8,161	-	-	-
Financial assets at fair value through profit or loss	13,101	-	13,101	82,047	-	82,047
Available for sale financials assets	15,096	-	15,096	86,303	-	86,303
Due from shareholders' operations	-	196,822	196,822	-	-	-
Financial assets at amortised cost	705,000	-	705,000	180,000	-	180,000
Re-takaful share of outstanding claims	95,709	-	95,709	-	-	-
Advances and other assets	4,723		4,723	3,437	-	3,437
Management fee receivable	-	-	-	169,553	-	169,553
TOTAL ASSETS	1,533,203	196,822	1,730,025	606,588	-	606,588

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Risk management structure (continued)

g.) Liquidity risk (continued)

Maturity profiles (continued)

	31 December 2017					
	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	**893,230**	**-**	**893,230**	**-**	**-**	**-**
Payables, accruals and other liabilities	**80,497**	**-**	**80,497**	**31,777**	**-**	**31,777**
Management fee payable	**343,709**	**-**	**343,709**	**-**	**-**	**-**
Re-takaful balances payable	**66,318**	**-**	**66,318**	**-**	**-**	**-**
Due to takaful operations	**-**	**-**	**-**	**7,500**	**196,822**	**204,322**
Financial liabilities at fair value through profit or loss	**-**	**30,595**	**30,595**	**-**	**-**	**-**
TOTAL LIABILITIES	**1,383,754**	**30,595**	**1,414,349**	**39,277**	**196,822**	**236,099**

	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	-	-	-
Payables, accruals and other liabilities	51,891	-	51,891	21,133	-	21,133
Management fee payable	169,553	-	169,553	-	-	-
Re-takaful balances payable	50,679	-	50,679	-	-	-
Due to takaful operations	-	-	-	-	196,822	196,822
Financial liabilities at fair value through profit or loss	-	14,196	14,196	-	-	-
TOTAL LIABILITIES	814,733	14,196	828,929	21,133	196,822	217,955

Liquidity profile

The table below summarizes the maturity profile of the financial assets and financial liabilities of the Company based on remaining contractual obligations, including contribution receivable. For takaful contract liabilities and assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized takaful liabilities. Unearned contributions, re-takaful share of unearned contributions, deferred policy acquisition costs and unearned re-takaful commission income 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.

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Risk management structure (continued)

g.) Liquidity risk (continued)

Liquidity profiles (continued

31 December 2017 *Amount in SR'000*	*On Demand*	*Up to 1 year*	*2-5 years*	*More than 5 years*	*Total*
Takaful operations' assets					
Bank balances and cash	579,282	-	-	-	579,282
Contributions receivable, net	-	258,263	-	-	258,263
Re-takaful balances receivable	-	4,985	37		5,022
Financial assets at fair value through profit or loss	56,376	-	-	68,453	124,829
Financial assets at amortised cost	1,234,108	-	-	49,986	1,284,094
Advances and prepayments	-	6,094	-	-	6,094
Re-takaful share of outstanding claims	-	142,473	-	-	142,473
Re-takaful share of mathematical reserve	-	-	-	114	114
Due from shareholders' operations	204,322	-	-	-	204,322
	2,074,088	411,815	37	118,553	2,604,493
Shareholders' operations' assets					
Bank balances and cash	251,159	-	-	-	251,159
Financial assets at fair value through profit or loss	32,481	-	-	-	32,481
Financial assets at fair value through other comprehensive income	-	-	-	84,766	84,766
Financial assets at amortised cost	64,942	-	-	20,074	85,016
Management fees receivable – from takaful operations	343,709	-	-	-	343,709
Advances and prepayments	-	5,269	-	-	5,269
Statutory deposits	39,968	-	-	-	39,968
Accrued income – statutory deposits	2,565	-	-	-	2,565
	734,824	5,269	-	104,840	844,933

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Risk management structure (continued)

g.) Liquidity risk (continued)

Liquidity profiles (continued

31 December 2016 *Amount in SR'000*	*On Demand*	*Up to 1 year*	*2-5 years*	*More than 5 years*	*Total*
Takaful operations' assets					
Bank balances and cash	388,772	-	-	-	388,772
Contributions receivable, net	-	302,641	-	-	302,641
Re-takaful balances receivable	-	7,580	581		8,161
Financial assets at fair value through profit or loss	13,101	-	-	-	13,101
Available-for-sale financial assets	15,096	-	-	-	15,096
Held-to-maturity investments	655,000	-	-	50,000	705,000
Advances and prepayments	-	4,723	-	-	4,723
Re-takaful share of outstanding claims	-	95,709	-	-	95,709
Re-takaful share of mathematical reserve	-	-	-	58	58
Due from shareholders' operations	196,822	-	-	-	196,822
	1,268,791	410,653	581	50,058	1,730,083
Shareholders' operations' assets					
Bank balances and cash	85,248	-	-	-	85,248
Financial assets at fair value through profit or loss	82,047	-	-	-	82,047
Available-for-sale financial assets	86,303		-	-	86,303
Held-to-maturity investments	180,000	-	-	-	180,000
Management fees receivable – from takaful operations	169,553	-	-	-	169,553
Advances and prepayments	-	3,437	-	-	3,437
Statutory deposits	40,000	-	-	-	40,000
Accrued income – statutory deposits	1,655	-	-	-	1,655
	644,806	3,437	-	-	648,243

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Risk management structure (continued)

g.) Liquidity risk (continued)

Liquidity profiles (continued)

31 December 2017 ***Amount in SR'000***	***On Demand***	***Up to 1 year***	***2-5 years***	***More than 5 years***	***Total***
Takaful operations' liabilities					
Gross outstanding claims	-	**893,230**	-	-	**893,230**
Payables, accruals and other liabilities	-	**80,497**	-	-	**80,497**
Management fee payable	-	**343,709**	-	-	**343,709**
Re-takaful balances payable	-	**66,318**	-	-	**66,318**
Financial liabilities at fair value through profit or loss	**30,595**	-	-	-	**30,595**
	30,595	**1,383,754**	-	-	**1,414,349**
Shareholders' operations liabilities					
Payables to SAMA	**3,473**		-	-	**3,473**
Payables, accruals and other liabilities	-	**31,777**	-	-	**31,777**
Due to takaful operations	-	**204,322**	-	-	**204,322**
	3,473	**236,099**	-	-	**239,572**

31 December 2016 *Amount in SR'000*	*On Demand*	*Up to 1 year*	*2-5 years*	*More than 5 years*	*Total*
Takaful operations' liabilities					
Gross outstanding claims	-	542,610	-	-	542,610
Payables, accruals and other liabilities	-	51,891	-	-	51,891
Management fee payable	-	169,553	-	-	169,553
Re-takaful balances payable	-	50,679	-	-	50,679
Financial liabilities at fair value through profit or loss	14,196		-	-	14,196
	14,196	814,733	-	-	828,929
Shareholders' operations liabilities					
Payables to SAMA	2,564		-	-	2,564
Payables, accruals and other liabilities	-	21,133	-	-	21,133
Due to takaful operations	-	196,822	-	-	196,822
	2,564	217,955	-	-	220,519

6 FINANCIAL RISK MANAGEMENT (continued)

6.3 Risk management structure (continued)

h) Capital management

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

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

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

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 200 million
Premium Solvency Margin
Claims Solvency Margin

The Company has fully complied with the externally imposed capital requirements during the reported financial year.

7 BANK BALANCES AND CASH

	31-Dec-2017		*31-Dec-2016*	
	Takaful operations (SR'000)	***Shareholders' operations (SR'000)***	*Takaful operations (SR'000)*	*Shareholders' operations (SR'000)*
Cash in hand and at banks	**316,460**	**319**	226,925	(660)
Murabaha deposits (7.1)	**250,000**	**250,000**	150,000	85,000
Cash and cash equivalents in the statements of cash flows	**566,460**	**250,319**	376,925	84,340
Less: Impairment loss	**(175)**	**(68)**	-	-
Cash and cash equivalents, net	**566,285**	**250,251**	376,925	84,340
Deposits against letters of guarantee (7.2)	**12,997**	**-**	11,847	-
Cash at banks (statutory deposit income) (7.3)	**-**	**908**	-	908
	579,282	**251,159**	388,772	85,248

7 BANK BALANCES AND CASH (continued)

7.1 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 2017 is 3.30% per annum (2016: 3.14% 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.

7.2 Deposits against letters of guarantee comprises amounts placed with a local bank against issuance of payment guarantees in favour of the Company's service providers {note 20 (a)}. As these cannot be withdrawn before the end of the guarantee period, these are restricted in nature.

7.3 Cash at banks (statutory deposit income) is the realised amount from the statutory deposits relating to the previous years. The amount cannot be withdrawn without the prior approval of SAMA.

8 CONTRIBUTIONS AND RE-TAKAFUL BALANCES RECEIVABLE, NET

Summary of contributions and re-takaful balances receivable is shown below.

	31- Dec-2017 SR'000	*31-Dec-2016 SR'000*
Due from policyholders		
- External policyholders	**152,207**	99,868
- Related parties *{note 23 (a)}*	**143,801**	235,942
Gross contributions receivable	**296,008**	335,810
Re-takaful balances receivable	**5,763**	8,161
	301,771	343,971
Allowance for doubtful receivables and re-takaful receivables *(note 8.1)*	**(38,486)**	(33,169)
	263,285	310,802

Allowance for doubtful receivables includes provision of SR 2,391 thousands (2016: SR 3,101 thousands) against receivables from related parties.

8.1 The loss allowance provision for receivables and re-takaful receivables as at 31 December 2017 reconciles to the opening loss allowance and the movement for that provision is as follows:

	31- Dec-2017 SR'000	*31-Dec-2016 SR'000*
Closing loss allowance as at 31 December	**33,169**	28,332
Increase in loss allowance recognised in profit or loss during the year	**5,317**	4,837
Bad debts written off during the year	-	-
Recoveries / reversals of amounts previously provided	-	-
Balance loss allowance as at 31 December	**38,486**	33,169

During the year, the Company made no write-offs of contributions receivables and re-takaful receivables, it does not expect to receive future cash flows from and no recoveries from collection of cash flows previously written off.

8 CONTRIBUTIONS AND RE-TAKAFUL BALANCES RECEIVABLE, NET (continued)

8.1 The loss allowance provision for receivables and re-takaful receivables as at 31 December 2017 reconciles to the opening loss allowance and the movement for that provision is as follows: (continued)

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

			Past due but not impaired			*Past due and impaired*		
	Total	*Not yet due*	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*91 to 180 days*	*181 to 365 days*	*Above 365 days*
				SR'000				
As at 31 December 2017	**301,771**	**39,584**	**104,583**	**35,945**	**60,324**	**10,744**	**18,039**	**32,552**
As at 31 December 2016	343,971	32,401	97,602	120,127	37,411	16,037	6,142	34,251

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.

Contributions and re-takaful balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies mainly in Middle east. contributions and re-takaful balances receivable include SR 1,250 thousand (2016: SR 1,450 thousand) due in foreign currencies, mainly in US Dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. The five largest customers accounts for 56% (2016: 69%) of the contributions receivable as at 31 December 2017. Further, total receivable from government entities amount to SR 21 million (2016: nil) constituting 7% (2016: nil) of total contribution receivable.

9 PROPERTY AND EQUIPMENT, NET

	Office and electrical equipment SR'000	*Furniture and fixtures SR'000*	*Motor vehicles SR'000*	*Computer hardware SR'000*	*Computer software SR'000*	*Total SR'000*
Cost:						
Balance at 1 January 2016	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**
Additions during the year	**631**	**2,368**	-	**2,291**	**1,678**	**6,968**
Disposals during the year	-	-	-	-	-	-
Balance at 31 December 2017	**3,502**	**20,861**	**1,719**	**11,070**	**30,793**	**67,945**
Accumulated depreciation:						
Balance at 1 January 2016	1,965	11,529	682	6,509	11,262	31,947
Charge for the year (note 21)	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**
Charge for the year (note 21)	**307**	**1,896**	**265**	**867**	**4,702**	**8,037**
Disposals during the year	-	-	-	-	-	-
Balance at 31 December 2017	**2,548**	**15,947**	**1,204**	**8,047**	**21,263**	**49,009**
Net book value as at						
31 December 2017	**954**	**4,914**	**515**	**3,023**	**9,530**	**18,936**
31 December 2016	630	4,442	780	1,599	12,554	20,005

10 STATUTORY DEPOSIT

Statutory deposit amounting to SR 40 million (2016: SR 40 million) 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. Under ECL method the Company charged an impairment loss amounting to SR 32 thousand. (2016: nil)

11 INVESTMENTS

i) TAKAFUL OPERATIONS

a) Financial assets measured at amortised cost

Investments in Murabaha deposits and Sukuks are classified as financial assets measured at amortised cost. The Company's business model for these investments is to hold to collect the contractual cash flows. The cash flows of Murabaha deposits and Sukuks represent solely payments of principal and profit on the principal outstanding.

The investments amounting to SR 1,284 million (2016: SR 705 million) comprise Murabaha deposits and investment in Sukuks with original maturities of more than three months. The fair value of these investments are not materially different from their carrying values.

The movement during the year is set out below:

	31-Dec-17 SR'000	31-Dec-16 SR'000
At the beginning of the year:		
Murabaha deposits	**655,000**	280,000
Sukuk	**50,000**	50,000
Purchased during the year	**1,535,000**	1,180,000
Maturities during the year	**(955,000)**	(805,000)
At the end of the year, gross	**1,285,000**	705,000
Less: Impairment loss	**(906)**	-
At the end of the year, net	**1,284,094**	705,000

b) Financial assets mandatorily measured at FVPL

The movement during the year is set out below:

	31-Dec-17 SR'000	31-Dec-16 SR'000
At the beginning of the year	**13,101**	4,978
Reclassification of investment from AFS to FVPL	**15,096**	-
Purchased during the year	**2,392,671**	7,695
Sold during the year	**(2,297,000)**	-
Net change in fair values during the year	**961**	428
At the end of the year	**124,829**	13,101

The closing balance as at 31 December 2017 contains SR 29 million (2016: SR 13 million) representing unit linked investments.

c) Available for sale financial assets

The movements in AFS investments were as follows:

	2016 SR'000
As at 1 January	6,578
Purchased during the year	566,000
Sold during the year	(557,556)
Net change in fair values	74
As at 31 December	15,096

11 INVESTMENTS (continued)

ii) SHAREHOLDERS' OPERATIONS

a) Financial assets measured at amortised cost

Financial assets of Shareholders' operations measured at amortised cost comprise of investments in Murabaha deposits amounting to SR 85 million (2016: SR 180 million) with original maturities of more than three months. The fair value of these investments are not materially different from their carrying values.

The movement during the year is set out below:

	31-Dec-17 SR'000	31-Dec-16 SR'000
At the beginning of the year	**180,000**	190,000
Purchased during the year	**330,109**	700,000
Maturities during the year	**(425,035)**	(710,000)
At the end of the year, gross	**85,074**	180,000
Less: Impairment loss	**(58)**	-
At the end of the year, net	**85,016**	180,000

b) Financial assets mandatorily measured at FVPL

The movement during the year is set out below:

	31-Dec-17 SR'000	31-Dec-16 SR'000
At the beginning of the year	**82,047**	77,314
Reclassification of equity investments from FVPL to FVOCI	**(82,047)**	-
Reclassification of investment from AFS to FVPL	**84,380**	-
Purchased during the year	**552,486**	99,590
Sold during the year	**(604,474)**	(99,590)
Net change in fair values during the year	**89**	4,733
At the end of the year	**32,481**	82,047

11 INVESTMENTS (continued)

ii) SHAREHOLDERS' OPERATIONS

c) Financial assets designated at FVOCI

The movement during the year is set out below:

	31-Dec-17
	SR'000
At the beginning of the year	-
Re-classified from FVPL	**82,047**
Balance of equity shares portfolio with Al Rajhi Capital	79,648
Cash balance with Al Rajhi Capital *(Affiliate)*	2,399
Re-classified from Available-for-sale investments	1,923
Total at the beginning of the year	**83,970**
Movement during the year	
Purchased during the year	**62,139**
Sold during the year	**(60,472)**
Net change in fair values during the year	**1,552**
Net change in cash balance with Al Rajhi Capital	**(2,423)**
Closing balance of equity shares portfolio	**84,766**
Portfolio balance with Al Rajhi Capital at the end of the year	**78,738**
Cash balance with Al Rajhi Capital	**(22)**
Equity - unlisted shares	**6,050**
At the end of the year	**84,766**

Analysis of available-for-sale investments at 31 December 2016:

	31-Dec-16
	SR'000
Equity - listed shares	-
Fund with Al Rajhi Capital	84,380
Sub total	84,380
Equity - unlisted shares	1,923
At the end of the year	86,303

The movements in AFS investments were as follows:

	2016
	SR'000
As at 1 January	78,304
Purchased during the year	130,000
Disposals during the year	(122,242)
Net change in fair values	241
As at 31 December	86,303

11 INVESTMENTS (continued)

ii) SHAREHOLDERS' OPERATIONS (continued)

c) Financial assets designated at FVOCI (continued)

Equity investments under listed shares comprise a portfolio of equities listed on the Saudi Arabian Stock Exchange ("Tadawul"). Unlisted equity investments includes an investment amounting to SR 6,050 thousand (2016: SR 1,923 thousand) in an unlisted company, registered in the Kingdom of Saudi Arabia.

Movement of net gains on financial assets at fair value through other comprehensive income

	31-Dec-17 SR'000
Total gains / (losses) on fair value of investments classified under Other comprehensive income	
- quoted securities	(180)
- unquoted securities	4,127
	3,947
Amount recognised during the year on sale of quoted investments	(2,395)
Net gains on equity investments designated at fair value through other comprehensive income	1,552

d) Dividend income

The Company recognized SR 3,407 thousand of dividend income in the year 2017 from quoted securities. Out of this, SR 698 thousand were received against those securities which were derecognized during the year.

12 ADVANCES AND PREPAYMENTS

	31-Dec-2017 SR'000		*31-Dec-2016 SR'000*	
	Takaful operations	***Shareholders' operations***	*Takaful operations*	*Shareholders' operations*
Advances to suppliers	6,094	5,403	4,723	1,121
Prepayments:				
- Rent	-	1,540	-	1,405
- Others	9,811	8,140	9,074	8,491
Accrued profit on murabaha deposits	-	574	-	2,168
Deposits	-	148	-	148
	15,905	15,805	13,797	13,333

13 OUTSTANDING CLAIMS

a) Outstanding claims at year end are as follows:

	31-Dec-2017			31-Dec-2016		
	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	279,126	(97,339)	181,787	272,279	(76,560)	195,719
Incurred but not reported	614,104	(45,134)	568,970	270,331	(19,149)	251,182
	893,230	(142,473)	750,757	542,610	(95,709)	446,901
Claims paid during the year	(2,073,776)	31,920	(2,041,856)	(1,128,852)	40,555	(1,088,297)
Outstanding at 1 January	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 incurred	2,424,396	(78,684)	2,345,712	1,310,735	(25,850)	1,284,885

Gross IBNR includes other reserves amounting to SR 25,090 thousand (2016: SR 12,921 thousand)

b) claim 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 2017:

Accident year	2013 & prior years SR'000	2014 SR'000	2015 SR'000	2016 SR'000	2017 SR'000	Total SR'000
Estimate of ultimate claims cost at end of accident year	866,457	703,184	1,168,238	1,197,584	2,211,659	
One year later	852,460	737,346	1,434,800	1,609,322		
Two years later	879,425	772,144	1,499,560			
Three years later	886,387	781,282				
Four years later	890,068					
Current estimate of cumulative claims incurred	890,068	781,282	1,499,560	1,609,322	2,211,659	6,991,891
Cumulative payments to date	886,866	778,507	1,461,548	1,565,306	1,406,434	6,098,661
Total gross insurance outstanding claims provision per the statement of financial position	3,202	2,775	38,012	44,016	805,225	893,230

13. OUTSTANDING CLAIMS (continued)

b) claim development (continued)

Gross insurance contract outstanding claims provision for 2016:

Accident year	*2012 & prior years SR'000*	*2013 SR'000*	*2014 SR'000*	*2015 SR'000*	*2016 SR'000*	*Total SR'000*
Estimate of ultimate claims cost at end of accident year	347,379	519,078	703,184	1,168,238	1,197,584	
One year later	341,482	510,978	737,346	1,434,800		
Two years later	352,422	527,003	772,144			
Three years later	355,221	531,166				
Four years later	356,694					
Current estimate of cumulative claims incurred	356,694	531,166	772,144	1,434,800	1,197,584	4,292,388
Cumulative payments to date	347,891	523,764	758,778	1,377,386	741,959	3,749,778
Total gross insurance outstanding claims provision per the statement of financial position	8,803	7,402	13,366	57,414	455,625	542,610

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

a) Deferred policy acquisition costs

	31-Dec-2017 SR'000	*31-Dec-2016 SR'000*
As at 1 January	**30,366**	17,080
Incurred during the year	**99,879**	58,422
Amortised during the year	**(94,456)**	(45,136)
As at 31 December	**35,789**	30,366

b) Movement in unearned re-takaful commission income

	31-Dec-2017 SR'000	*31-Dec-2016 SR'000*
As at 1 January	**6,728**	7,435
Received during the year	**12,587**	11,866
Earned during the year	**(12,243)**	(12,573)
As at 31 December	**7,072**	6,728

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

c) Movement in unearned contribution income

	31-Dec-2017			31-Dec-2016		
	Gross SR'000	Re-takaful share SR'000	Net SR'000	Gross SR'000	Re-takaful share SR'000	Net SR'000
As at 1 January	**996,386**	**(69,666)**	**926,720**	678,322	(71,773)	606,549
Contributions written during the year	**3,193,474**	**(120,456)**	**3,073,018**	1,948,650	(92,297)	1,856,353
Contributions earned during the year	**(2,885,750)**	**98,413**	**(2,787,337)**	(1,630,586)	94,404	(1,536,182)
As at 31 December	**1,304,110**	**(91,709)**	**1,212,401**	996,386	(69,666)	926,720

15 PAYABLES, ACCRUALS AND OTHERS LIABILITIES

	31-Dec-2017 SR'000 Takaful operations	31-Dec-2017 SR'000 Shareholders' operations
Accounts payable and other liabilities	**32,312**	**19,979**
Accrued expenses	**48,185**	**11,798**
	80,497	**31,777**

	31-Dec-2016 SR'000 Takaful operations	31-Dec-2016 SR'000 Shareholders' operations
Accounts payable and other liabilities	18,543	11,179
Accrued expenses	33,348	9,954
	51,891	21,133

16. EMPLOYEES' END OF SERVICE BENEFITS

16.1 General description

The Company operates an end of service benefit scheme for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the scheme is estimated by a qualified external actuary in accordance with International Accounting Standard 19 - Employee Benefits, and using "Projected Unit Credit Method".

16.2 The movement in the obligation during the year based on its present value are as follows:

Movement in Present value of end of service benefits	***31-Dec-2017 SR'000***
End of service benefits at the beginning of year	**9,871**
Current service cost	**1,737**
Interest cost	**265**
Re-measurement loss on end of service benefits	**-**
Paid benefits	**(1,590)**
Present value of end of service benefits at the end of year	**10,283**

16. EMPLOYEES' END OF SERVICE BENEFITS (continued)

16.2 The movement in the obligation during the year based on its present value are as follows: (continued)

The liability recognised in the statement of financial position in respect of the scheme is the present value of the defined benefit obligation at the end of the reporting period. The actuarial gains/losses for the year ended 31 December 2017, are nil.

End of service benefits expense (recognized in statement of income – takaful operations)	***31-Dec-2017*** ***SR'000***
Current service cost	1,737
Interest cost	265
	2,002

16.3 The valuation of the defined benefit obligation and assumptions

Liability under the scheme is based on various assumptions ("actuarial assumptions") including the estimation of the discount rate, inflation rate, expected rate of salary increase and normal retirement ages. Based on the assumptions, cash outflows are estimated for the Company's employees as a whole giving the total payments expected over the future years, which are discounted to arrive at the obligation at the reporting date. Any changes in actuarial assumptions from one period to another may affect the determination of the estimated obligation at the reporting date, which is accounted for as an actuarial gain or loss for the period.

The principal actuarial assumptions (in respect of the employee benefit scheme) used for the valuation as at 31 December 2017 are as follows:

Basic actuarial assumptions as at:	***31-Dec-2017***
Discount rate per annum	**3.4%**
Expected rate of salary increase per annum	**0.5%**
Normal retirement age	**60 years**

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

17. ZAKAT AND INCOME TAX

Restatement of changes in Shareholders' Equity

Effective 1 January 2017, based on the Circular issued by SAMA in relation to the 'Accounting of zakat and income tax", the Company amended its accounting policy to charge zakat into retained earnings instead of statement of income and comprehensive income - shareholders operations.

The impact of change in the accounting policy has been disclosed in note 5.4

The Zakat and income tax payable by the Company has been calculated based on the best estimate of the management.

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

	31-Dec-2017 ***SR'000***	*31-Dec-2016* *SR'000*
Equity	**429,363**	340,495
Opening allowances and other adjustments	**61,431**	46,311
Book value of long term assets	**(100,775)**	(92,294)
	390,019	294,512
Zakatable income for the year	**229,981**	121,488
Zakat base	**620,000**	416,000
Zakat @ 2.5%	**15,500**	10,400

17. ZAKAT AND INCOME TAX (continued)

Restatement of changes in Shareholders' Equity (continued)

a) **The zakat charge for the year has been computed as follows:** (continued)
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) Movements in the Zakat and income tax accrued for the year ended 31 December 2017 and 2016 are as follows:

	Zakat payable	
	31-Dec-17 SR '000	31-Dec-16 SR '000
Balance at beginning of the year	**18,391**	9,368
Provided during the year	**15,500**	10,400
Payments during the year	**(7,401)**	(1,377)
Balance at end of the year	**26,490**	18,391

Shareholdings
Following are the shareholding structure of the Company as on:

	31-Dec-17	31-Dec-16
Shareholding subject to Zakat	**100.00%**	100.00%

Status of assessments
The Company has filed Zakat and income tax returns for the financial years up to and including the year 2016 with the General Authority of Zakat and Tax (the "GAZT"). Assessments for the years 2010 to 2016 are under review by GAZT.

For the year 2011, the company has filed an appeal against the additional paid zakat assessment of SR 1,852 thousand raised by the GAZT. The appeal is still pending.

18. 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.

19. 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.

20. CONTINGENCIES AND COMMITMENTS

a) Contingencies

Bank guarantees
As at 31 December 2017, the Company's banker has issued letters of guarantee of SR 12,997 thousand (2016: SR 11,847 thousand) to various motor agencies, workshops and health service providers as per the terms of the agreements with them (*note 7*).

20. CONTINGENCIES AND COMMITMENTS (continued)

a) Contingencies (continued)

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 7,621 thousand (2016: SR 810 thousand) are pending court decisions.

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

21. GENERAL AND ADMINISTRATIVE EXPENSES

	31-Dec-2017 SR'000	*31-Dec-2016 SR'000*
Employee costs	**117,486**	88,401
Office expenses	**10,164**	8,681
Depreciation and amortization (*note 9*)	**8,037**	9,179
Legal and professional fees	**23,975**	17,209
Information technology expenses	**7,177**	6,564
Advertising and marketing expenses	**2,219**	2,374
Communication expenses	**1,548**	1,348
Travel and lodging expenses	**2,727**	1,463
Others	**268**	78
	173,601	135,297

22. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The movement during the year in financial liabilities at fair value through profit or loss is set out below:

	31-Dec-17 *SR'000*	31-Dec-16 *SR'000*
At the beginning of the year	**14,196**	5,712
Net changes in reserve during the year	**15,438**	8,056
Net change in fair values during the year	**961**	428
At the end of the year	**30,595**	14,196

22.1 This represents unit linked investments liabilities.

23. 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 which are principally owned by the shareholders 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 ended 31 December 2017 and 2016 and for the year end balances as at 31 December 2017 and 2016:

Related party	**Nature of transaction**	**Amount of transactions for the year ended**		**Balance as at**	
		31-Dec-17 SR'000	31-Dec-16 SR'000	**31-Dec-17 SR'000**	31-Dec-16 SR'000
Al Rajhi Insurance Company B.S.C.(c) *(shareholder)*	Reimbursement from / (expenses paid) on behalf of related party				
	a) takaful operations	**(239)**	748	**353**	592
	b) shareholders' operations	**-**	-	**(13)**	(13)
Al Rajhi Bank *(shareholder)*	Contribution - policies written	**1,339,545**	1,017,324	**121,017**	201,912
Affiliates	Contribution - policies written	**24,201**	55,949	**22,784**	34,030
	Contributions receivable (*note 8*)			**143,801**	235,942
Al Rajhi Bank *(shareholder)*	Claims Paid	**1,023,048**	731,670	**3,743**	3,738
Affiliates	Claims Paid	**16,441**	82,311	**1,148**	2,517
Al Rajhi Bank *(shareholder)*	Claims incurred and notified during the period	**1,047,137**	876,195	**146,500**	122,416
Affiliates	Claims incurred and notified during the period	**15,072**	38,455	**14,784**	17,575
Al Rajhi Bank *(shareholder)*	Bank balance *(Takaful operations)*			**289,043**	218,587
	Bank balance *(Shareholders' operations)*			**193**	(785)
	Bank balances			**289,236**	217,802

23. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

a) Transactions and balances with related parties: *(continued)*

Related party	Nature of transaction	Amount of transactions for the year ended 31-Dec-17 SR'000	Amount of transactions for the year ended 31-Dec-16 SR'000	Balance as at 31-Dec-17 SR'000	Balance as at 31-Dec-16 SR'000
Al Rajhi Capital *(Affiliate)*	Investments managed by the affiliate				
	a) Takaful operations – purchase/ (sold)	**95,671**	7,695	**56,376**	28,197
	b) Shareholders' operations – purchased/ (sold)	**(94,926)**	(10)	**32,481**	84,380
		745	7,685	**88,857**	112,577
Al Rajhi Capital *(Affiliate)*	Income received from sale of investment in Al Rajhi Capital commodity fund				
	a) Takaful operations	**5,370**	2,444	-	-
	b) Shareholders' operations	**2,585**	758	-	-
		7,955	3,202	-	-
Al Rajhi Capital *(Affiliate)*	Investment management fee paid to Al Rajhi Capital				
	a) Takaful operations	**1,331**	1,623	-	-
	b) Shareholders' operations	**926**	1,484	-	-
		2,257	3,107	-	-
Al Rajhi Bank *(shareholder)*	Investment in shares of Al Rajhi Bank	**444**	551	**13,679**	13,011
Al Rajhi Takaful Agency *(Subsidiary of shareholders)*	Commissions	**2,778**	4,806	**2,855**	1,093

The investment portfolio designated as fair value through other comprehensive income is managed by Al Rajhi Capital (Affiliate). The total value of the portfolio as at 31 December 2017 is SR 79 million (2016: SR 82 million) {refer note 11(ii) (c)}.

b) Compensation of Board, Committees and Key Management Personnel:

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

	For the year ended 31-Dec-17 SR'000	*For the year ended* 31-Dec-16 SR'000
Remuneration of Board of Directors and other committees	**1,340**	1,147
Salaries and benefits of key management personnel	**5,960**	5,392
End of service benefit of key management personnel	**324**	294
Shariah committee remuneration	**200**	243
	7,824	7,076

24. SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed below is based on current reporting to the Chief Executive Officer ('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 investments, etc. Accordingly, they are included in unallocated assets.

Segment liabilities do not include takaful operations' payables, accruals and other liabilities, amounts due to related parties, management fee payable, re-takaful balances payable and financial liabilities at fair value through profit and loss. Accordingly, they are included in unallocated liabilities.

			For the year ended 31 December 2017		
Operating segments	*General*	*Motor*	*Health*	*Protection & Saving*	*Total*
			SR'000		
Gross contributions written	**127,305**	**2,562,800**	**449,560**	**53,809**	**3,193,474**
Net contributions written	**31,774**	**2,547,388**	**449,309**	**44,547**	**3,073,018**
Net contributions earned	15,783	2,396,902	330,529	44,123	2,787,337
Policy fee and other income	131	9,317	(10)	756	10,194
Re-takaful commission income	10,807	654	-	782	12,243
Total underwriting revenue	**26,721**	**2,406,873**	**330,519**	**45,661**	**2,809,774**
Net claims incurred	(5,693)	(2,079,045)	(259,320)	(1,654)	(2,345,712)
Inspection and supervision fees	(433)	(12,736)	(6,743)	(269)	(20,181)
Policy acquisition costs	(7,094)	(61,381)	(20,426)	(5,555)	(94,456)
Other expenses	(342)	(6,877)	(1,204)	(1,827)	(10,250)
Change in financial liabilities at fair value through profit or loss	-	-	-	(15,382)	(15,382)
Other income	-	5,809	-	-	5,809
Total claims and other expenses	**(13,562)**	**(2,154,230)**	**(287,693)**	**(24,687)**	**(2,480,172)**
Net underwriting surplus	**13,159**	**252,643**	**42,826**	**20,974**	**329,602**
Special commission income					28,053
Net gains on investments mandatorily measured at fair value through profit or loss					5,370
Impairment loss					(416)
Management fee for administration of takaful operations					(173,601)
Net surplus for the year					**189,008**

24 SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2016

Operating segments	*General*	*Motor*	*Health*	*Protection & Saving*	*Total*
			SR'000		
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
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)
Other expenses	(477)	(5,960)	(865)	(1,031)	(8,333)
Change in financial liabilities at fair value through profit or loss	-	-	-	(8,604)	(8,604)
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 operations					(135,297)
Net surplus for the year					87,154

24 SEGMENTAL INFORMATION (continued)

	As at 31 December 2017				
Takaful operations' assets	*General*	*Motor*	*Health*	*Protection & Saving*	*Total*
			SR'000		
Re-takaful share of outstanding claims	110,829	22,612	-	9,032	142,473
Re-takaful share of unearned contributions	87,883	1,178	-	2,648	91,709
Deferred policy acquisition costs	10,777	11,992	12,662	358	35,789
Deposit against letters of guarantee (note 7)	51	10,793	2,147	6	12,997
	209,540	46,575	14,809	12,044	282,968
Unallocated assets					2,477,005
Total takaful operations' assets					2,759,973
Total shareholders' operations' assets					874,405
Total assets					3,634,378
Takaful operations' liabilities					
Gross outstanding claims	118,962	661,300	101,415	11,553	893,230
Gross unearned contributions	164,005	931,898	204,819	3,388	1,304,110
Unearned re-takaful commission income	7,072	-	-	-	7,072
	290,039	1,593,198	306,234	14,941	2,204,412
Unallocated liabilities and surplus					555,561
Total takaful operations' liabilities and surplus					2,759,973
Total shareholders' operations' liabilities and equity					874,405
Total takaful operations' liabilities and surplus and shareholders' operations' liabilities and equity					3,634,378

24 SEGMENTAL INFORMATION (continued)

	As at 31 December 2016				
Takaful operations' assets	*General*	*Motor*	*Health* *SR'000*	*Protection & Saving*	*Total*
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 (note 7)	18	10,692	1,133	4	11,847
	158,326	35,536	6,429	7,297	207,588
Unallocated assets					1,640,796
Total takaful operations' assets					1,848,384
Total shareholders' operations' assets					678,144
Total assets					2,526,528
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
	220,899	1,192,090	123,588	9,147	1,545,724
Unallocated liabilities and surplus					302,660
Total takaful operations' liabilities and surplus					1,848,384
Total shareholders' operations' liabilities and equity					678,144
Total takaful operations' liabilities and surplus and shareholders' operations' liabilities and equity					2,526,528

24.1 Geographical segments
The Company, during the years 2017 and 2016 operated only in the Kingdom of Saudi Arabia.

25. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended 31 December 2017 and 2016 has been calculated by dividing the net income for the year by the weighted average number of issued shares (40 million shares) for the year ended 31 December 2017 and 2016 respectively.

26. 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 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 best economic interest.

Determination of fair value and fair value hierarchy

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

Level 1: Quoted (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.

TAKAFUL OPERATIONS – Financial assets

As at 31 December 2017	***Level 1 SR' 000***	***Level 2 SR' 000***	***Level 3 SR' 000***	***Total SR' 000***
Financial assets measured at fair value through profit or loss – Funds	**56,376**	-	**68,453**	**124,829**
Total	**56,376**	-	**68,453**	**124,829**

Investments classified under level 3 represents investment under sharia compliant fund and is valued based on net asset value. An increase or decrease of 100 basis points in pricing of investment would result in a loss or gain for the year of SR 685 thousand.

TAKAFUL OPERATIONS – Financials liabilities

As at 31 December 2017	***Level 1 SR' 000***	***Level 2 SR' 000***	***Level 3 SR' 000***	***Total SR' 000***
Financial liabilities at fair value through profit or loss	**30,595**	-	-	**30,595**
Total	**30,595**	-	-	**30,595**

TAKAFUL OPERATIONS – Financial assets

As at 31 December 2016	*Level 1 SR' 000*	*Level 2 SR' 000*	*Level 3 SR' 000*	*Total SR' 000*
Available for sale financial assets - Funds	15,096	-	-	15,096
Financial assets measured at fair value through profit or loss – Funds	13,101	-	-	13,101
Total	28,197	-	-	28,197

26. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

SHAREHOLDERS' OPERATIONS

As at 31 December 2017	*Level 1 SR' 000*	*Level 2 SR' 000*	*Level 3 SR' 000*	*Total SR' 000*
Financial assets measured at fair value through profit or loss - Funds	32,481	-	-	32,481
Financial assets at fair value through other comprehensive income – Quoted securities	78,716	-	-	78,716
Financial assets at fair value through other comprehensive income – Unquoted securities	-	-	6,050	6,050
Total	111,197	-	6,050	117,247

As at 31 December 2016	*Level 1 SR' 000*	*Level 2 SR' 000*	*Level 3 SR' 000*	*Total SR' 000*
Available for sale financial assets - Funds	84,380	-	-	84,380
Available for sale financial assets – Unquoted securities	-	-	1,923	1,923
Financial assets measured at fair value through profit or loss – Quoted securities	82,047	-	-	82,047
Total	166,427	-	1,923	168,350

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 2017, there were no transfers between the levels of fair value hierarchies during the year.

The fair value increase of SR 1,552 thousand (2016: increase of SR 4,733 thousand) in respect of FVOCI equity investments was recorded in statement of other comprehensive income – shareholders' operations

Unquoted investment are valued based on the net asset value of latest available financial statement. An increase or decrease of 100 basis points in pricing of investment would result in a loss or gain for the year of SR 61 thousand.

27. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current period presentation.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 20 Jumaada al-thani 1439 H, corresponding to 8 March 2018.