**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY**
**(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS**
**AND INDEPENDENT AUDITORS' REPORT**
**FOR THE YEAR ENDED**
**31 DECEMBER 2016**

BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS

For the year ended 31 December 2016

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KPMG Al Fozan & Partners
Certified Public Accountants
License No. 46/11/323
Issued 11/3/1992
P.O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Building a better working world

Ernst & Young & Co. (Public Accountants)
13 Floor King's Road Tower
PO Box 1994
King Abdulaziz Road (Malek Road)
Jeddah 21441
Saudi Arabia
Registration Number: 45

# INDEPENDENT AUDITORS' REPORT

**THE SHAREHOLDERS**
**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY**
**(A SAUDI JOINT STOCK COMPANY)**

**Scope of audit**

We have audited the accompanying statement of financial position of Bupa Arabia For Cooperative Insurance Company - a Saudi Joint Stock Company (the "Company") as at 31 December 2016, and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and related notes from 1 to 33 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards ("IFRS"), the requirements of the Regulations for Companies and the Company's by-laws and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

**Unqualified opinion**

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

i) present fairly, in all material respects, the financial position of the Company as of 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with IFRS; and

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

**Emphasis of matter**

We draw attention to the fact that these financial statements are prepared in accordance with IFRS and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

**for KPMG Al Fozan & Partners**
**Certified Public Accountants**

Ebrahim Oboud Baeshen
Certified Public Accountant
Licence No. 382

**for Ernst & Young**

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Jeddah, Kingdom of Saudi Arabia
25 Jumada Al Awal 1438 H
Corresponding to 22 February 2017

ERNST & YOUNG

BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

| | Notes | 2016 SR'000 | 2015 SR'000 |
|---|---|---|---|
| **INSURANCE OPERATIONS' ASSETS** | | | |
| Cash and cash equivalents | 4 | 132,030 | 205,565 |
| Murabaha deposits | 5 | 3,057,816 | 3,047,529 |
| FVIS investments | 6 | 544,090 | 185,143 |
| Premiums receivable - net | 7 | 980,543 | 749,449 |
| Reinsurer's share of unearned premiums | 14 | 1,356 | 900 |
| Reinsurer's share of outstanding claims | 15 | 1,720 | 3,012 |
| Prepayments and other assets | 8 | 131,546 | 91,483 |
| Deferred policy acquisition costs | 9 | 72,281 | 78,415 |
| **Total insurance operations' assets** | | 4,921,382 | 4,361,496 |
| **SHAREHOLDERS' ASSETS** | | | |
| Cash and cash equivalents | 4 | 93,800 | 593,297 |
| Murabaha deposits | 5 | 987,494 | 500,000 |
| FVIS investments | 6 | 714,330 | 439,785 |
| Other receivables | 8 | 17,445 | 1,691 |
| Furniture, fixtures and equipment | 10 | 90,945 | 77,167 |
| Due from insurance operations | | 148,477 | - |
| Goodwill | 3 | 98,000 | 98,000 |
| Accrued interest on statutory deposit | 11 | 3,585 | 1,872 |
| Statutory deposit | 11 | 80,000 | 80,000 |
| **Total shareholders' assets** | | 2,234,076 | 1,791,812 |
| **TOTAL ASSETS** | | 7,155,458 | 6,153,308 |

Chairman

Director and Chief Executive Officer

NADEEL ASHOOR
Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

## STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2016

| | Notes | 2016 SR'000 | 2015 SR'000 |
|---|---|---|---|
| **INSURANCE OPERATIONS' LIABILITIES AND SURPLUS** | | | |
| **Insurance operations' liabilities** | | | |
| Unearned premiums | 14 | 3,094,990 | 2,890,679 |
| Outstanding claims | 15 | 1,321,622 | 1,054,369 |
| Reinsurance balances payable | 13 | 15,117 | – |
| Accrued expenses and other liabilities | 16 | 171,292 | 262,149 |
| Due to shareholders' operations | | 148,477 | – |
| **Total insurance operations' liabilities** | | 4,751,498 | 4,207,197 |
| **Insurance operations' surplus** | | | |
| Policyholders' share of accumulated surplus from insurance operations | | 169,884 | 154,299 |
| **Total insurance operations' liabilities and accumulated surplus** | | 4,921,382 | 4,361,496 |
| **SHAREHOLDERS' LIABILITIES AND EQUITY** | | | |
| **Shareholders' liabilities** | | | |
| Accrued expenses and other liabilities | 16 | 62,140 | 48,622 |
| Accrued Zakat and income tax | 18 | 116,953 | 42,577 |
| Accrued interest on statutory deposit | 11 | 3,585 | 1,872 |
| Amount due to related parties | 12 | 24,344 | 32,201 |
| **Total shareholders' liabilities** | | 207,022 | 125,272 |
| **Shareholders' equity** | | | |
| Share capital | 19 | 800,000 | 800,000 |
| Statutory reserve | 21 | 403,902 | 277,761 |
| Share based payments | 20 | 16,931 | 9,600 |
| Shares held under employees share scheme | 20 | (23,404) | (13,101) |
| Retained earnings | | 829,625 | 592,280 |
| **Total shareholders' equity** | | 2,027,054 | 1,666,540 |
| **Total shareholders' liabilities and equity** | | 2,234,076 | 1,791,812 |
| **TOTAL LIABILITIES, INSURANCE OPERATIONS' ACCUMULATED SURPLUS AND SHAREHOLDERS' EQUITY** | | 7,155,458 | 6,153,308 |

Chairman

Director and Chief Executive Officer

NADEEM KHAN BOOPT
Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
For the year ended 31 December 2016

| | *Notes* | *2016 SR'000* | *2015 SR'000* |
|---|---|---|---|
| **REVENUE** | | | |
| Gross written premiums | 14 | 7,938,630 | 7,328,016 |
| Premiums ceded to reinsurers | 14 | (67,459) | (42,464) |
| Net written premiums | | 7,871,171 | 7,285,552 |
| Movement in net unearned premiums | | (203,855) | (546,154) |
| Net earned premiums | | 7,667,316 | 6,739,398 |
| **CLAIMS** | | | |
| Gross claims paid | 15 | 5,944,793 | 5,007,697 |
| Claims recovered | 15 | (34,893) | (48,910) |
| Net claims paid | | 5,909,900 | 4,958,787 |
| Movement in net outstanding claims | | 268,545 | 252,259 |
| Net claims incurred | | 6,178,445 | 5,211,046 |
| **Net underwriting result** | | 1,488,871 | 1,528,352 |
| **EXPENSES** | | | |
| Selling and marketing | 22 | (535,711) | (505,367) |
| General and administration | 23 | (379,490) | (318,774) |
| **Investment and commission income** | 24 | 80,188 | 26,261 |
| **Other income** | | 91 | 704 |
| **SURPLUS FROM INSURANCE OPERATIONS** | | 653,949 | 731,176 |
| Shareholders' share of surplus from insurance operations | 2(ii) | (588,554) | (658,058) |
| **Policyholders' share of surplus from insurance operations** | 2(ii) | 65,395 | 73,118 |
| Policyholders' share of accumulated surplus from insurance operations at beginning of the year | | 154,299 | 81,181 |
| Distribution of surplus during the year | | (49,810) | – |
| **Policyholders' share of accumulated surplus from insurance operations at end of the year** | | 169,884 | 154,299 |

Chairman

Director and Chief Executive Officer

NADER ASHOOR
Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

## STATEMENT OF SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2016

| | *Notes* | *2016 SR'000* | *2015 SR'000* |
|---|---|---|---|
| **REVENUE** | | | |
| Shareholders' share of surplus from insurance operations | 2(ii) | 588,554 | 658,058 |
| **EXPENSES** | | | |
| General and administration | 23 | (7,962) | (5,267) |
| | | 580,592 | 652,791 |
| Investment and commission income / (losses) | 24 | 50,237 | (7,714) |
| Other losses | | (124) | – |
| **Net income for the year** | | 630,705 | 645,077 |
| Weighted average number of ordinary shares outstanding (in thousands) | 31 | 79,826 | 79,981 |
| Basic and diluted earnings per share (in Saudi Arabian Riyals) | 31 | 7.90 | 8.07 |

Chairman

Director and Chief Executive Officer

NADER ASHOOR
Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

## STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | *Notes* | *2016 SR'000* | *2015 SR'000* |
|---|---|---|---|
| **Net income for the year** | | 630,705 | 645,077 |
| **Other comprehensive income / (expense)** | | | |
| ***Items that will not be reclassified to statement of shareholders' operations*** | | | |
| Provision for zakat | 18 | (102,160) | (13,602) |
| Provision for income tax | 18 | (35,194) | (36,153) |
| Income tax recovered from foreign shareholders during the year | 28 | 31,304 | 23,220 |
| Amount payable to foreign shareholders | 28 | (1,169) | -- |
| **Total comprehensive income for the year** | | 523,486 | 618,542 |

Chairman

Director and Chief Executive Officer

NADER ASHOOR

Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2016

| | Notes | Share capital SR'000 | Statutory reserve SR'000 | Share based payments SR'000 | Shares held under employees share scheme SR'000 | Retained earnings SR'000 | Total SR'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2015** | | **800,000** | **277,761** | **9,600** | **(13,101)** | **592,280** | **1,666,540** |
| **Total comprehensive income** | | | | | | | |
| Net income for the year | | – | – | – | – | 630,705 | 630,705 |
| Provision for Zakat for the year | 18 | – | – | – | – | (102,160) | (102,160) |
| Provision for income tax for the year | 18 | – | – | – | – | (35,194) | (35,194) |
| Dividend | 28 | – | – | – | – | (160,000) | (160,000) |
| Income tax recovered from foreign shareholders | 28 | – | – | – | – | 31,304 | 31,304 |
| Amount payable to foreign shareholders | | – | – | – | – | (1,169) | (1,169) |
| **Transfer to statutory reserve** | 21 | – | 126,141 | – | – | (126,141) | – |
| **Transactions with owners of the Company** | | | | | | | |
| Purchase of shares under LTIP | 20 | – | – | – | (10,303) | – | (10,303) |
| Provision for LTIP | 20 | – | – | 7,331 | – | – | 7,331 |
| **Balance at 31 December 2016** | | **800,000** | **403,902** | **16,931** | **(23,404)** | **829,625** | **2,027,054** |

| | Notes | Share capital SR'000 | Statutory reserve SR'000 | Share based payments SR'000 | Shares held under employees share scheme SR'000 | Retained earnings SR'000 | Total SR'000 |
|---|---|---|---|---|---|---|---|
| Balance at 31 December 2014 | | 400,000 | 148,746 | – | – | 502,753 | 1,051,499 |
| **Total comprehensive income** | | | | | | | |
| Net income for the year | | – | – | – | – | 645,077 | 645,077 |
| Provision for Zakat for the year | 18 | – | – | – | – | (13,602) | (13,602) |
| Provision for income tax for the year | 18 | – | – | – | – | (36,153) | (36,153) |
| Income tax recovered from foreign shareholders | 28 | – | – | – | – | 23,220 | 23,220 |
| **Transfer to statutory reserve** | 21 | – | 129,015 | – | – | (129,015) | – |
| **Transactions with owners of the Company** | | | | | | | |
| Bonus shares issued | | 400,000 | – | – | – | (400,000) | – |
| Purchase of shares under LTIP | 20 | – | – | – | (13,101) | – | (13,101) |
| Provision for LTIP | 20 | – | – | 9,600 | – | – | 9,600 |
| Balance at 31 December 2015 | | 800,000 | 277,761 | 9,600 | (13,101) | 592,280 | 1,666,540 |

Chairman

Director and Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these financial statements.

BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

## STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For the year ended 31 December 2016

| | Notes | 2016 SR'000 | 2015 SR'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Policyholders' share of surplus for the year | | 65,395 | 73,118 |
| Adjustments for: | | | |
| Distribution of surplus | | (49,810) | – |
| Depreciation | 10,23 | 14,561 | 14,341 |
| Allowance for doubtful premiums receivable - net | 7,22 | 35,326 | 38,571 |
| Investment income | | (2,379) | 2,408 |
| Realised losses/(gains) on investments | 6 | 614 | (7,031) |
| Unrealised (gains)/losses on investments | 6 | (2,238) | 6,184 |
| Unearned premiums | | 204,311 | 507,321 |
| Reinsurer's share of unearned premiums | | (456) | 38,833 |
| Deferred policy acquisition costs | | 6,134 | (21,814) |
| | | 271,458 | 651,931 |
| Changes in operating assets and liabilities: | | | |
| Premiums receivable | | (266,420) | (189,333) |
| Prepayments and other assets | | (40,063) | (20,668) |
| Outstanding claims | | 267,253 | 241,839 |
| Reinsurer's share of outstanding claims | | 1,292 | 10,420 |
| Due to/(from) shareholders' operations | | 133,916 | (14,341) |
| Reinsurance balances payable | | 15,117 | (3,253) |
| Accrued expenses and other liabilities | | (90,857) | (1,319) |
| Obligation under Long-Term Incentive Plan | | – | (22,754) |
| Net cash from operating activities | | 291,696 | 652,522 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of FVIS investments | 6 | (504,582) | (418,557) |
| Proceeds from disposal of FVIS investments | 6 | 149,638 | 421,821 |
| Proceed from Murabaha deposit matured during the year | 5 | 4,709,070 | 1,637,352 |
| Placement in Murabaha deposits | 5 | (4,719,357) | (3,471,854) |
| Net cash used in investing activities | | (365,231) | (1,831,238) |
| **Net decrease in cash and cash equivalents** | | (73,535) | (1,178,716) |
| **Cash and cash equivalents at beginning of the year** | | 205,565 | 1,384,281 |
| **Cash and cash equivalents at end of the year** | 4 | 132,030 | 205,565 |

Chairman

Director and Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 33 form part of these financial statements.

BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

## STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2016

| | Notes | 2016 SR'000 | 2015 SR'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income for the year | | 630,705 | 645,077 |
| Adjustment for: | | | |
| Share based payment expense | 20 | 7,331 | 9,600 |
| Investment income | | (3,750) | – |
| Realised losses/(gains) on investments | 6 | 1,264 | (3,588) |
| Unrealised losses on investments | 6 | 8,589 | 18,381 |
| Employee end of service benefit expense | 16 | 15,335 | 12,276 |
| Losses on disposal of furniture, fixtures and equipment | | 124 | 230 |
| | | 659,598 | 681,976 |
| Changes in operating assets and liabilities: | | | |
| Other receivables | | (15,754) | (1,817) |
| Accrued expenses and other liabilities | | 2,274 | 150 |
| Amounts due to related parties | | (9,026) | (12,289) |
| Due (from) / to insurance operations | | (133,916) | 14,341 |
| | | 503,176 | 682,361 |
| Employee end of service benefits paid | 16 | (4,091) | (4,330) |
| Zakat and income tax paid | 18 | (62,978) | (31,081) |
| Net cash from operating activities | | 436,107 | 646,950 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of furniture, fixtures and equipment | 10 | (28,498) | (31,088) |
| Proceeds from disposal of furniture, fixtures and equipment | | 35 | 17 |
| Purchase of investments | 6 | (865,827) | – |
| Proceeds from disposal of investments | 6 | 585,179 | – |
| Increase in statutory deposit | | – | (40,000) |
| Proceed from Murabaha deposit matured during the year | 5 | 1,670,104 | 44,730 |
| Placement in Murabaha deposits | 5 | (2,157,598) | (500,000) |
| Purchase of shares held under LTIP | 20 | (10,303) | (13,101) |
| Net cash used in investing activities | | (806,908) | (539,442) |
| **FINANCING ACTIVITIES** | | | |
| Dividends paid | 28 | (160,000) | – |
| Tax recovered from foreign shareholders | 28 | 31,304 | 23,220 |
| Net cash (used in)/from financing activities | | (128,696) | 23,220 |
| **Net (decrease)/increase in cash and cash equivalents** | | (499,497) | 130,728 |
| **Cash and cash equivalents at beginning of the year** | | 593,297 | 462,569 |
| **Cash and cash equivalents at end of the year** | 4 | 93,800 | 593,297 |
| Non-cash transactions | | | |
| Zakat and income tax charged to comprehensive income | | 137,354 | 49,755 |
| Amount payable to foreign shareholder | | 1,169 | – |

Chairman

Director and Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 33 form part of these financial statements.

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

Bupa Arabia For Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry's Resolution number 138/K dated 24 Rabi Thani 1429H (corresponding to 1 May 2008). The Commercial Registration number of the Company is 4030178881 dated 5 Jumad Awwal 1429H (corresponding to 11 May 2008). The Registered Office of the Company is situated at:

Al-Khalediyah District,
Prince Saud Al Fasial Street,
In front of the Saudi Airlines Cargo Building,
P.O. Box 23807,
Jeddah 21436,
Kingdom of Saudi Arabia.

Following are the details of the Company's Branches and their Commercial Registrations numbers:

| **Branch** | **Commercial Registration Numbers:** |
|---|---|
| Riyadh | 1010274696 |
| Khobar | 2051041274 |
| Makkah | 4031068486 |
| Khamis Mushayt | 5855036547 |
| Jubail | 2055023792 |

The Company is licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree No. M/74 dated 29 Shabaan 1428 H (corresponding to 11 September 2007) pursuant to the Council of Ministers' Resolution No 279 dated 28 Shabaan 1428 H (corresponding to 10 September 2007). The Company was listed on the Saudi Stock Exchange (Tadawul) on 17 May 2008.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia in accordance with its articles of association, and applicable regulations in the Kingdom of Saudi Arabia. The Company underwrites medical insurance only.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *i)* BASIS OF MEASUREMENT

These financial statements are prepared under going concern basis and historical cost convention except for the measurement of fair value through income statement (FVIS) investments at fair value. The Company presents its statements of financial position broadly in order of liquidity. The Company does not present Statement of Comprehensive Income for Insurance Operations as Insurance Operations does not have any other comprehensive income / expenses. All financial assets and liabilities except for statutory deposit and the associated return on investments /accrued return on investment in the statutory deposit and obligation under LTIP, are expected to be recovered and settled respectively within twelve months after the reporting date.

### *ii)* STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

As required by Saudi Arabian Insurance Regulations, the Company maintains separate books of account for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly. The physical custody of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective books of account. The basis of allocation of expenses from joint operations is determined by the management and the Board of Directors. As per the by-laws of the Company, the surplus arising from the Insurance Operations is distributed as follows:

| | |
|---|---|
| Shareholders | 90% |
| Policyholders | 10% |
| | 100% |

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *ii)* STATEMENT OF COMPLIANCE (continued)

If the insurance operations result in a deficit, the entire deficit is borne by the shareholders' operations.

In accordance with Article 70 of the Saudi Arabian Monetary Authority (SAMA) Implementing Regulations, the Company proposes to distribute, subject to approval of SAMA, its annual net policyholders' surplus directly to policyholders at a time, and according to criteria, as set by its Board of Directors, provided the customer contract is active and paid up to date at the time of settlement of the cooperative distribution amount.

### *iii)* FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Saudi Arabian Riyals (SR), which is the Company's functional currency. All financial information presented in SR has been rounded to the nearest thousand except where indicated otherwise.

### *iv)* SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's financial statements for the year ended 31 December 2015 except for the new and amended standards and interpretations adopted which are effective for annual period beginning on or after 1 January 2016. The new standards, amendments to standards and interpretation which are effective for annual periods beginning after 1 January 2016 as mentioned in note 2*(vi)* have not had a significant effect on the financial statements of the Company. The significant accounting policies used in preparing these financial statements are set out below:

**a) Financial instruments – initial recognition and subsequent measurement**

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, murabaha deposits, FVIS investments, premiums receivable, reinsurance share of outstanding claim, due from insurance operations, statutory deposit, other receivables. Financial liabilities consist of outstanding claims, reinsurance balances payable, due to shareholders' operations, policyholders' share of surplus from insurance operations, amounts due to related parties and certain other liabilities.

*Date of recognition*
Regular way sale and purchase of financial instruments is recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial instruments that require settlement of instrument within the time frame generally established by regulation or convention in the market place.

*Measurement of financial instruments*
All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Subsequent to initial measurement, financial instruments are carried at amortised cost except for FVIS investments which are carried at fair value.

**b) Cash and cash equivalents**
Cash and cash equivalents consist of bank balances and Murabaha deposits that have original maturity periods not exceeding three months from the date of acquisition.

**c) Murabaha deposits**
Murabaha deposits, with original maturity of more than three months, are initially recognized in the statement of financial position at fair value and are subsequently measured at amortised cost using the effective interest method, less any impairment in value.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***iv)*** **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Investments**
Investments are classified as at fair value through income statement if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in income statement as incurred. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the statement of insurance operations and accumulated surplus or statement of shareholders' operations.

**e) Premiums receivable**
Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Allowance for uncollectible amount is established when there is objective evidence that Company will not be able to collect all amounts due according to their original terms. Bad debts are written off as incurred. Subsequent recoveries of amounts previously written off are credited in Statement of insurance operations and accumulated surplus as other income.

**f) Policy acquisition costs**
Commission to sales staff and incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are deferred. The deferred policy acquisition costs are subsequently deferred and amortised over the terms of the insurance contracts as premiums are earned and reported under selling and marketing expense.

**g) Goodwill**
Goodwill is initially measured at excess of the fair value of the consideration paid over the fair value of the identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised in statement of shareholders' operations. Impairment losses relating to goodwill cannot be reversed in future periods.

**h) Furniture, fixtures and equipment**
Furniture, fixtures and equipment are initially recorded in the statement of financial position at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

| | Years |
|---|---|
| Furniture, fixtures and office equipment | 3 to 5 |
| Computer applications | 4 to 7 |
| Motor vehicles | 4 |

Residual values, useful lives and the method of depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the year is recognised in the statement of insurance operations and accumulated surplus on an actual basis. Similarly, impairment losses, if any, are recognised in the statement of insurance operations and accumulated surplus.

Expenditure for repairs and maintenance is charged to the statement of insurance operations and accumulated surplus. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Gain / loss on sale of furniture, fixtures and equipment are included in statement of shareholder's operations.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*iv)* **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i) Liability adequacy test**
At each statement of financial position date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and accumulated surplus and an unexpired risk provision created.

**j) Accounts payable and accruals**
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**k) Provisions**
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**l) Employees' end of service benefits**
The Company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employee's length of service and the completion of a minimum service period. Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the statement of financial position date. The charge for the period is transferred to the statement of insurance operations and accumulated surplus on an actual basis.

**m) Share based payment**
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. Grant date is date at which the entity and employee agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity as a reserve for share based payment, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The statement of insurance operations and accumulated surplus charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

In cases, where an award is forfeited (i.e. when the vesting conditions relating to award are not satisfied), the Company reverses the expense relating to such awards previously recognized in the statement of insurance operations and accumulated surplus.

Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

**n) Shares held under employee share scheme**
The Company purchases shares held under employee share scheme to hedge itself against adverse changes in fair value of its shares between grant date and date these shares are transferred to employees. When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from equity. Repurchased shares are classified as shares held under employee share scheme and are presented in the statement of changes in shareholders' equity. When shares held under employee share scheme are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***iv)* SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**o) Impairment of financial assets**

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, an impairment loss is recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing a significant financial difficulty, default or delinquency in repayments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Impairment is determined as follows:

(a) for assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
(b) for assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

**p) Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's (CGU), fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of insurance operations and accumulated surplus and statement of shareholders' operations in expense categories consistent with the function of the impaired asset, except for a property previously revalued and where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets, excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of insurance operations and accumulated surplus and statement of shareholders' operations unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses relating to goodwill, if any, are not reversed in future periods.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***iv)* SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**q) De-recognition**

*Financial asset*

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

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

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

*Financial liability*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

**r) Revenue recognition**

*Premiums earned*

The Company only issues short-term insurance contracts for providing health care services ('medical insurance') in Saudi Arabia. Premiums are taken to income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the statement of insurance operations and accumulated surplus in order that revenue is recognised over the period of risk.

*Investment and commission income*

Investment income or loss comprises of unrealised and realised gains and losses on investments. Commission income on Murabaha deposits is recognised using the effective interest method.

**s) Reinsurance premiums**

Reinsurance premiums ceded are recognised as an expense when payable.

Reinsurance premiums are charged to income over the terms of the policies to which they relate on a pro-rata basis.

**t) Claims**

Claims, comprising amounts payable to contract holders and third parties, net of prompt payment discounts and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

The Company estimates its claims based on previous experience. 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 at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***iv)* SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

**v) Reinsurance contracts held**
In order to minimise financial exposure from large claims the Company enters into reinsurance agreements with internationally reputable reinsurers. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contracts. These amounts, if any, are shown as "Reinsurers' share of outstanding claims" in the statement of financial position until the claim is agreed and paid by the Company. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to amounts due from/(to) reinsurers.

At each reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

**w) Expenses**
Selling and marketing expenses are those which specifically relate to salesmen, sales promotion and advertisements as well as any allowance for doubtful debts and regulatory levies. All other expenses are classified as general and administration expenses.

**x) Segmental reporting**
An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)\; and
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

**y) Leases**
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of insurance operations and accumulated surplus on a straight-line basis over the lease term.

**z) Foreign currencies**
The accounting records of the Company are maintained in Saudi Riyals. Transactions in foreign currencies are recorded in Saudi Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate at the reporting date. All differences are taken to either the statement of insurance operations and accumulated surplus or the statement of shareholders' operations.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *iv)* SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**aa) Offsetting**

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

**bb) Cash dividend to shareholders**

The Company recognises a liability to make cash distributions to shareholders of the Company when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders and SAMA. A corresponding amount is recognised directly in equity.

**cc) Zakat and income tax**

Under Saudi Arabian Zakat and Income Tax laws, zakat and income tax are the liabilities of the Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity and / or net income using the basis defined under the zakat regulations. Income tax is computed on the foreign shareholders' share of net income for the year. The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Zakat and income tax are charged to retained earnings as these are liabilities of the shareholders. Income tax charged to the retained earnings, in excess to the proportion of the Saudi Shareholders' zakat per share, is recovered from the foreign shareholders and credited to retained earnings.

No adjustments are made in the financial statements to account for the effect of deferred income taxes since zakat and income tax are the liabilities of the shareholders in the Kingdom of Saudi Arabia.

### *v)* SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. 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 are critical in preparation of these financial statements:

**a) Provision for outstanding claims**

Judgement by management is required in the estimation of amounts due to policyholders and third parties arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its previous experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The provision for outstanding claims, as at 31 December, is also verified by an independent actuary.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***v)* SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**b) Premium deficiency reserve**
Estimation of premium deficiency for medical insurance is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the company's actuarial team, and also the independent actuary, consider the claims and premiums relationship which is expected to apply on month to month basis, and ascertain, at the end of the financial period, whether a premium deficiency reserve is required.

**c) Allowance for doubtful receivable**
A provision for impairment of premiums receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the premiums receivable is impaired.

**d) Deferred acquisition costs**
Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs and are amortised in the statement of insurance operations and accumulated surplus over the period of policy coverage. 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 write-offs in the statement of insurance operations and accumulated surplus.

**e) Useful lives of furniture, fixtures and equipment**
The Company's management determines the estimated useful lives of its furniture, fixtures and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

**f) Fair value of financial instruments**
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

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

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***vi)* NEW IFRS, IFRIC AND AMENDMENTS THEREOF, ADOPTED BY THE COMPANY**

The Company has adopted the following amendments and revisions to existing standards, where applicable, which were issued by the International Accounting Standards Board (IASB):

| Standard/ Amendments | Description |
|---|---|
| IFRS 14 | IFRS 14 – "Regulatory Deferral Accounts", applicable for the annual periods beginning on or after 1 January 2016, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS. |
| IFRS 10<br>IFRS 11<br>IFRS 12<br>IAS 28 | Amendments to IFRS 10 – "Consolidated Financial Statements", IFRS 12 – "Disclosure of Interests in Other Entities" and IAS 28 – "Investments in Associates", applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. Amendments to IFRS 11 – "Joint Arrangements", applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – "Business Combinations" and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be re-measured if the joint operator retains joint control. |
| IAS 1 | Amendments to IAS 1 – "Presentation of Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to;<br>• The materiality requirements in IAS 1.<br>• That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated.<br>• That entities have flexibility as to the order in which they present the notes to financial statements.<br>• That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.<br><br>The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. |

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**vi) NEW IFRS, IFRIC AND AMENDMENTS THEREOF, ADOPTED BY THE COMPANY (continued)**

| ***Standard/ Amendments*** | ***Description*** |
|---|---|
| IAS 16 & IAS 38 | Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 38 – "Intangible Assets", applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. |
| IAS 16, IAS 41 & IAS 20 | Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 41 – "Agriculture", applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance", instead of IAS 41. |
| IAS 27 | Amendments to IAS 27 – "Separate Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. |
| IFRS 5 | Amendments to IFRS 5 – "Non-current Assets Held for Sale and Discontinued Operations", applicable for the annual periods beginning on or after 1 January 2016, amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. |
| IFRS 7 | Amendments to IFRS 7 – "Financial Instruments: Disclosures", applicable for the annual periods beginning on or after 1 January 2016, 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 condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. |
| IAS 19 | Amendments to IAS 19 – "Employee Benefits" , applicable for the annual periods beginning on or after 1 January 2016, 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. |
| IAS 34 | Amendments to IAS 34 – "Interim Financial Reporting", applicable for the annual periods beginning on or after 1 January 2016, clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-referencing to the interim financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. |

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***vii)*** **NEW IFRS AND AMENDMENTS THEREOF, ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Company financial statements are listed below. The listing is of standards issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards, where applicable, when they become effective.

| *Standard / Interpretation* | *Description* | *Effective from annual periods beginning on or after the following date* |
|---|---|---|
| IAS 7 | Amendments to IAS 7 Disclosure Initiative | 1 January 2017 |
| IAS 12 | Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised losses | 1 January 2017 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 2 | Amendments to IFRS 2 Classification and measurement of Share Based Payment Transactions | 1 January 2018 |
| IFRS 9 | Financial Instruments | See Below |
| IFRS 16 | Leases | 1 January 2019 |

The implementation of IFRS 9 is expected to result in a significant portion of a company's financial assets classified as available-for-sale being re-classified as at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in OCI, are expected to increase due to the introduction of the expected credit loss methodology. Upon implementation of the revised standard IFRS 4 'Insurance Contracts', more assets may be classified as at fair value through profit or loss under the fair value option. The Company continues to monitor the IASB progress on amendments to IFRS 4 which also introduces a temporary exemption for the implementation of IFRS 9 for reporting entities whose activities predominantly relate to insurance. The Company expects that it will be eligible for this temporary exemption and will consider deferring the implementation of IFRS 9 until a later date, but no later than January 1, 2021.

The Company is currently assessing the implications of adopting the above mentioned standards, amendments or interpretations on the Company's financial statements.

**3 GOODWILL**

On 31 December 2008, the Company entered into an agreement with Bupa Middle East Limited E.C. (the "Seller"), a related party, pursuant to which it acquired the Seller's insurance operations in the Kingdom of Saudi Arabia, effective from 1 January 2009. The acquisition transaction was approved by the Saudi Arabian Monetary Agency ("SAMA") and resulted in goodwill of SR 98 million. The entire amount was paid in the previous years, to the Seller, after obtaining the required regulatory approvals.

In accordance with the requirements of International Financial Reporting Standards, the Company's management has annually carried out an annual impairment test in respect of the abovementioned goodwill. The management conducted the impairment exercise for the year ended 31 December 2016. The recoverable amount of the operations has been determined based on value in use. The two key assumptions used in the test are the discount rate and estimated future cash flows from the business as follows:

- An average discount rate of 10 % was used to discount future cash flows.
- Budget EBTIDA growth rate of 12-13% was used for the first three years. Thereafter, a growth rate of 3% was used in the terminal value calculation.

## 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| ***Insurance Operations*** | | |
| Cash in banks (see note 6 (a)) | 132,030 | 205,565 |
| ***Shareholders' Operations*** | | |
| Cash in banks (see note 6 (a)) | 93,800 | 593,297 |

## 5 MURABAHA DEPOSITS

The murabaha deposits are held with commercial banks in the Kingdom of Saudi Arabia. These murabaha deposits are denominated in Saudi Arabian Riyals and have an original maturity of more than three months to one year and yield financial income at rates ranging from 2.75% to 4.15% per annum (2015: 0.9% to 2.5% per annum).

The movements in the murabaha deposits during the year ended 31 December 2016, and 31 December 2015, are as follows:

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| ***Insurance Operations*** | | |
| Balance at beginning of the year | 3,047,529 | 1,213,027 |
| Matured during the year | (4,709,070) | (1,637,352) |
| Placed during the year | 4,719,357 | 3,471,854 |
| Balance at end of the year | 3,057,816 | 3,047,529 |

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| ***Shareholders' Operations*** | | |
| Balance at beginning of the year | 500,000 | 44,730 |
| Matured during the year | (1,670,104) | (44,730) |
| Placed during the year | 2,157,598 | 500,000 |
| Balance at end of the year | 987,494 | 500,000 |

## 6 FVIS INVESTMENTS

*Insurance operations*
FVIS Investments of the insurance operations are designated as such upon initial recognition and are comprised of the following:

| | 2016 SR'000 | 2015 SR'000 |
|---|---|---|
| Investment in discretionary portfolio | -- | 147,863 |
| Mutual funds – money market fund | 300,437 | -- |
| Sukuk | 243,653 | 37,280 |
| | 544,090 | 185,143 |

During the year ended 31 December 2016, the Company has withdrawn discretionary portfolio management mandate (DPM) given to external Investment Manager and accordingly investments of Insurance operations under this mandate amounting to SR 147.8 million are now being managed directly by the Company. The discretionary portfolio of insurance operations was invested in following type of securities and investments at the year end.

| | 2016 SR'000 | 2015 SR'000 |
|---|---|---|
| Mutual funds | -- | 50,987 |
| Bonds/Sukuks | -- | 82,766 |
| Equities | -- | 12,540 |
| Other assets, net | -- | 1,570 |
| | -- | 147,863 |

The movements in the investments during the year ended 31 December 2016 and 31 December 2015 are as follows:

| | 2016 SR'000 | 2015 SR'000 |
|---|---|---|
| Balance at beginning of the year | 185,143 | 189,968 |
| Purchased during the year | 504,582 | 418,557 |
| Disposed during the year | (149,638) | (421,821) |
| Income earned/(received) during the year, net | 2,379 | (2,408) |
| Realised (losses)/gains during the year | (614) | 7,031 |
| Unrealised gains/(losses) during the year | 2,238 | (6,184) |
| Balance at end of the year | 544,090 | 185,143 |

## 6 FVIS INVESTMENTS (continued)

*Shareholders' operations*

FVIS investments of shareholders' operations are designated as such upon initial recognition and comprised the following:

| | 2016 SR'000 | 2015 SR'000 |
|---|---|---|
| Investment in discretionary portfolio | **100,370** | 439,785 |
| Mutual funds – money market fund | **251,887** | -- |
| Sukuk | **362,073** | -- |
| | **714,330** | 439,785 |

The discretionary portfolio of shareholders' operations is invested in following type of securities and investments at the year end.

| | 2016 SR'000 | 2015 SR'000 |
|---|---|---|
| Mutual funds | -- | 149,236 |
| Bonds/Sukuks | -- | 248,250 |
| Equities | **92,277** | 37,619 |
| Other assets, net | **8,093** | 4,680 |
| | **100,370** | 439,785 |

The movements in the investments during the year ended 31 December 2016 and 31 December 2015 are as follows:

| | 2016 SR'000 | 2015 SR'000 |
|---|---|---|
| Balance at beginning of the year | **439,785** | 454,578 |
| Purchased during the year | **865,827** | -- |
| Disposed during the year | **(585,179)** | -- |
| Income earned during the year, net | **3,750** | -- |
| Realised (losses)/gains during the year | **(1,264)** | 3,588 |
| Unrealised losses during the year | **(8,589)** | (18,381) |
| Balance at end of the year | **714,330** | 439,785 |

a) Amounts payable to/receivable from shareholders' operations are settled by transfer of cash or an equivalent amount of assets (at fair value) between the operations at each reporting date. During the year ended 31 December 2016, the insurance operations transferred cash of SR 188.6 million (2015: SR 600.52 million) to the shareholders' operations.

All FVIS investments are denominated in Saudi Arabian Riyals and US Dollars.

## 7 PREMIUMS RECEIVABLE - NET

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| ***Insurances operations*** | | |
| Gross premiums receivable | **1,123,540** | 863,715 |
| Allowance for doubtful premiums receivable | **(142,997)** | (114,266) |
| Premiums receivable – net | **980,543** | 749,449 |

The movements in the allowance for doubtful premiums receivable were as follows:

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Balance at beginning of the year | **114,266** | 77,858 |
| Provision made during the year (note 22) | **35,326** | 38,571 |
| Utilised during the year | **(6,595)** | (2,163) |
| Balance at end of the year | **142,997** | 114,266 |

The age analysis of unimpaired premiums receivable arising from insurance contracts is as follows:

| | | *Past due but not impaired* | | | |
|---|---|---|---|---|---|
| | *Neither past due nor impaired* *SR'000* | *Above three and up to six months* *SR'000* | *Above six and up to twelve months* *SR'000* | *Above twelve months* *SR'000* | *Total* *SR'000* |
| **31 December 2016** | **493,284** | **334,879** | **139,964** | **12,416** | **980,543** |
| 31 December 2015 | 469,274 | 183,486 | 78,068 | 18,621 | 749,449 |

Premium receivable includes amount of SR 2.1 Million (2015: 0.5 Million) due from related parties (see note 12).

Unimpaired receivables are estimated, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.

## 8 PREPAYMENTS AND OTHER ASSETS

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| ***Insurance Operations*** | | |
| Prepayments | **40,118** | 28,717 |
| Accrued income | **44,425** | 27,897 |
| Restricted deposit (refer note 29 (b)) | **15,676** | 17,121 |
| Other receivables | **31,327** | 17,748 |
| | **131,546** | 91,483 |
| ***Shareholders' Operations*** | | |
| Other receivables | **17,445** | 1,691 |

## 9 DEFERRED POLICY ACQUISITION COSTS

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Balance at beginning of the year | 78,415 | 56,601 |
| Paid and accrued during the year | 151,171 | 174,313 |
| Amortisation for the year | (157,305) | (152,499) |
| Balance at end of the year | 72,281 | 78,415 |

## 10 FURNITURE, FIXTURES AND EQUIPMENT

| | *Furniture, fixtures and office equipment SR'000* | *Computer applications SR'000* | *Motor vehicles SR'000* | *Capital work in progress SR'000* | *Total SR'000* |
|---|---|---|---|---|---|
| ***Shareholders' Operations*** | | | | | |
| **Cost:** | | | | | |
| At 1 January 2015 | 63,224 | 72,991 | 212 | 8,139 | 144,566 |
| Additions during the year | 6,116 | 12,680 | -- | 12,292 | 31,088 |
| Disposal during the year | (405) | -- | -- | -- | (405) |
| **At 1 January 2016** | **68,935** | **85,671** | **212** | **20,431** | **175,249** |
| **Additions during the year** | **4,376** | **8,677** | **--** | **15,445** | **28,498** |
| **Disposal during the year** | **(353)** | **--** | **--** | **--** | **(353)** |
| **At 31 December 2016** | **72,958** | **94,348** | **212** | **35,876** | **203,394** |
| **Accumulated depreciation:** | | | | | |
| At 1 January 2015 | 26,372 | 57,389 | 138 | -- | 83,899 |
| Charge for the year (see note (a) below) | 5,584 | 8,704 | 53 | -- | 14,341 |
| Disposal during the year | (158) | -- | -- | -- | (158) |
| **At 1 January 2016** | **31,798** | **66,093** | **191** | **--** | **98,082** |
| **Charge for the year (see note (a) below)** | **5,908** | **8,632** | **21** | **--** | **14,561** |
| **Disposal during the year** | **(194)** | **--** | **--** | **--** | **(194)** |
| **At 31 December 2016** | **37,512** | **74,725** | **212** | **--** | **112,449** |
| **Net book value:** | | | | | |
| **At 31 December 2016** | **35,446** | **19,623** | **--** | **35,876** | **90,945** |
| At 31 December 2015 | 37,137 | 19,578 | 21 | 20,431 | 77,167 |

a) As the furniture, fixtures and equipment are used for the benefit of insurance operations, the depreciation is charged to the statement of insurance operations and accumulated surplus.

## 11 STATUTORY DEPOSIT

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| ***Shareholders' Operations*** | | |
| Statutory deposit | **80,000** | 80,000 |

As required by Saudi Arabian Insurance Regulations designated by SAMA, the Company deposited an amount equivalent to 10% of its paid up share capital, amounting to SR 80 million in a bank account designated by SAMA. Commission accruing on this deposit is payable to SAMA and this deposit cannot be withdrawn without approval from SAMA.

## 12 TRANSACTIONS WITH RELATED PARTIES

Related parties represent major shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. All transactions with such related parties are conducted on normal terms and conditions and are approved by management.

In addition to transactions disclosed in notes 25 and 26, following are the details of the major related party transactions during the year and the related balance at the end of the year:

| ***Related party*** | ***Nature of transaction*** | ***Amount of transactions*** | | ***Receivable/(payable) balance as at*** | |
|---|---|---|---|---|---|
| | | ***Year ended 31 December 2016 SR'000*** | *Year ended 31 December 2015 SR'000* | ***31 December 2016 SR'000*** | *31 December 2015 SR'000* |
| ***Insurance Operations*** | | | | | |
| Shareholders | Gross written premiums | **29,145** | 34,465 | **2,156** | 521 |
| Shareholders | Premium ceded | **18,813** | 19,980 | **(3,844)** | (15,252) |
| Shareholders | Claims paid | **12,585** | 10,629 | **(763)** | – |
| Shareholders | Medical costs charged by providers | **779** | 751 | **(779)** | (295) |
| Shareholders | Expenses recharged to/from a related party-net | **1,397** | 5,519 | **–** | – |
| Shareholders | Tax equalisation - net | **31,304** | 23,220 | **(1,169)** | – |
| Bupa Middle East Holdings Two W.L.L. (Related party) | Trade mark fee (refer note 17) | **19,331** | 16,948 | **(19,331)** | (16,948) |
| Board member (related party) | Sharia review services | **150** | 150 | **–** | – |

## 13 REINSURANCE BALANCES PAYABLE

Reinsurance payable represents amounts payable to reinsurers SR 15 million (2015: SR Nil), based in France and Germany, for the excess of loss (XOL) reinsurance contract.

## 14 MOVEMENT IN NET UNEARNED PREMIUMS

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| | *SR'000* | *SR'000* | *SR'000* | *SR'000* | *SR'000* | *SR'000* |
| Balance, January 1 | **2,890,679** | **(900)** | **2,889,779** | 2,383,358 | (39,733) | 2,343,625 |
| Premiums written during the year | **7,938,630** | **(67,459)** | **7,871,171** | 7,328,016 | (42,464) | 7,285,552 |
| Premiums earned during the year | **(7,734,319)** | **67,003** | **(7,667,316)** | (6,820,695) | 81,297 | (6,739,398) |
| Balance, December 31 | **3,094,990** | **(1,356)** | **3,093,634** | 2,890,679 | (900) | 2,889,779 |

a) Movement in unearned premium comprises of the following:

| | *2016* | *2015* |
|---|---|---|
| | *SR'000* | *SR'000* |
| Gross premium written during the year | **(7,938,630)** | (7,328,016) |
| Gross premium earned during the year | **7,734,319** | 6,820,695 |
| | **(204,311)** | (507,321) |

b) Movement in reinsurer's share of unearned premium comprises of the following:

| | *2016* | *2015* |
|---|---|---|
| | *SR'000* | *SR'000* |
| Reinsurance premium ceded during the year | **67,459** | 42,464 |
| Reinsurance premium expensed during the year | **(67,003)** | (81,297) |
| | **456** | (38,833) |

## 15 MOVEMENT IN OUTSTANDING CLAIMS

Net movement in outstanding claims, during the year is as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Due from reinsurers** | **Net** | Gross | Due from reinsurers | Net |
| | ***SR'000*** | ***SR'000*** | ***SR'000*** | *SR'000* | *SR'000* | *SR'000* |
| Balance at 1 January | | | | | | |
| Represented by: | | | | | | |
| Outstanding claims including incurred but not reported | **1,038,445** | **(3,012)** | **1,035,433** | 798,857 | (13,432) | 785,425 |
| Claim handling provision | **15,924** | **--** | **15,924** | 13,673 | -- | 13,673 |
| | **1,054,369** | **(3,012)** | **1,051,357** | 812,530 | (13,432) | 799,098 |
| Claims paid | **5,944,793** | **(34,893)** | **5,909,900** | 5,007,697 | (48,910) | 4,958,787 |
| Claim incurred | **6,212,046** | **(33,601)** | **6,178,445** | 5,249,536 | (38,490) | 5,211,046 |
| Balance, 31 December | **1,321,622** | **(1,720)** | **1,319,902** | 1,054,369 | (3,012) | 1,051,357 |
| Balance at 31 December | | | | | | |
| Represented by: | | | | | | |
| Outstanding claims including incurred but not reported | **1,302,333** | **(1,720)** | **1,300,613** | 1,038,445 | (3,012) | 1,035,433 |
| Claim handling provision | **19,289** | **--** | **19,289** | 15,924 | -- | 15,924 |
| Total | **1,321,622** | **(1,720)** | **1,319,902** | 1,054,369 | (3,012) | 1,051,357 |

**Claims Triangulation Analysis by treatment year**

The following table reflects the estimated ultimate claim cost, including claims notified and incurred but not reported for each successive treatment year at each financial position date, together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims. The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier treatment years. In order to maintain adequate reserves, the Company transfers much of this release to the current treatment year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

## 15 MOVEMENT IN OUTSTANDING CLAIMS (continued)

| **Treatment year – gross outstanding claims** | **2014** | **2015** | **2016** | **Total** |
|---|---|---|---|---|
| **SR '000** | | | | |
| **Estimate of ultimate claims cost:** | | | | |
| At the end of treatment year | 3,687,583 | 5,399,170 | 6,319,632 | **15,406,385** |
| One year later | 3,648,518 | 5,275,355 | -- | **8,923,873** |
| Two years later | 3,635,368 | -- | -- | **3,635,368** |
| Current estimate of ultimate claims | 3,635,368 | 5,275,355 | 6,319,632 | **15,230,355** |
| Ultimate payments to date | (3,634,725) | (5,252,495) | (5,040,802) | **(13,928,022)** |
| Liability recognized in statement of financial position | 643 | 22,860 | 1,278,830 | **1,302,333** |
| Claims handling provision | | | | **19,289** |
| Balance 31 December | | | | **1,321,622** |

| **Treatment year – net outstanding claims** | **2014** | **2015** | **2016** | **Total** |
|---|---|---|---|---|
| **SR '000** | | | | |
| **Estimate of ultimate claims cost:** | | | | |
| At the end of treatment year | 3,673,378 | 5,348,275 | 6,317,912 | **15,339,565** |
| One year later | 3,648,451 | 5,275,355 | -- | **8,923,806** |
| Two years later | 3,635,368 | -- | -- | **3,635,368** |
| Current estimate of ultimate claims | 3,635,368 | 5,275,355 | 6,317,912 | **15,228,635** |
| Ultimate payments to date | (3,634,725) | (5,252,495) | (5,040,802) | **(13,928,022)** |
| Liability recognized in statement of financial position | 643 | 22,860 | 1,277,110 | **1,300,613** |
| Claims handling provision | | | | **19,289** |
| Balance 31 December | | | | **1,319,902** |

## 16 ACCRUED EXPENSES AND OTHER LIABILITIES

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| ***Insurance Operations*** | | |
| Accrued expenses | **96,248** | 166,706 |
| Advances from policyholders | **35,903** | 53,232 |
| Other liabilities | **39,141** | 42,211 |
| | **171,292** | 262,149 |
| ***Shareholders' Operations*** | | |
| Accrued expenses | **2,824** | 550 |
| Employees' end of service benefits (see note (a) below) | **59,316** | 48,072 |
| | **62,140** | 48,622 |

(a) The movement in the employees' end of service benefits provision during the year was as follows:

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Balance at beginning of the year | **48,072** | 40,126 |
| Charged during the year | **15,335** | 12,276 |
| Paid during the year | **(4,091)** | (4,330) |
| Balance at end of the year | **59,316** | 48,072 |

As the services of the employees are with respect to the insurance operations, the charge for the year is charged to the statement of insurance operations and accumulated surplus.

## 17 TRADE MARK FEE

During 2010, the Company entered into an agreement with a related party for obtaining a license to use the trade marks (the word Bupa with or without logo) of the related party. As per the terms of the agreement, the trade mark fee is payable at different rates linked to the results of the Company, subject to a maximum of 5% of the Company's profits in any financial year, as trade mark fee. Accordingly, a sum of SR 19.3 million (2015: SR 16.9 million) payable to a related party has been accrued for in these financial statements (see note 12 and 22).

## 18 ZAKAT AND INCOME TAX

### a) Zakat

**Charge for the year**

The Zakat payable by the Company has been calculated in accordance with Zakat regulations in Saudi Arabia.

The Zakat provision for the year is based on the following:

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Share capital | **590,000** | 295,000 |
| Opening retained earnings, reserve and surplus | **523,655** | 540,352 |
| Opening provisions | **119,725** | 87,013 |
| Adjusted net income | **494,378** | 507,856 |
| Furniture, fixtures and equipment and goodwill | **(65,045)** | (111,734) |
| Investments | **(3,955,750)** | (3,049,563) |
| Others | **(131,275)** | (29,500) |
| | **(2,424,312)** | (1,760,576) |
| Adjusted income for the year (see note below) | **670,343** | 688,619 |
| Zakat base | **670,343** | 688,619 |
| Attributable to Saudi shareholders and the general public @ 73.75% | **494,378** | 507,856 |

The differences between the financial and the "Zakatable" results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

The Zakat charge relating to the Saudi shareholders consists of:

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Provision for the year | | |
| Provision for zakat @ 2.5% | **12,359** | 12,696 |
| Adjustment for assessment of zakat | **25,927** | -- |
| Adjustment for the previous years | **63,874** | 906 |
| Charge for the year | **102,160** | 13,602 |

The movements in the Zakat provision during the year were as follows:

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Balance at beginning of the year | **19,745** | 12,529 |
| Charge for the year | **102,160** | 13,602 |
| Payment made during the year | **(12,963)** | (6,386) |
| Balance at end of the year | **108,942** | 19,745 |

**18 ZAKAT AND INCOME TAX (continued)**

**b) Income tax**

**Charge for the year**

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Income tax charge for the year | **35,194** | 36,153 |

The movements in the income tax provision during the year were as follows:

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Balance at beginning of the year | **22,832** | 11,374 |
| Charge for the year | **35,194** | 36,153 |
| Payment made during the year | **(50,015)** | (24,695) |
| Balance at end of the year | **8,011** | 22,832 |

**c) Accrued zakat and income tax**

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Zakat payable (note (a) above) | **108,942** | 19,745 |
| Income tax payable (note (b) above) | **8,011** | 22,832 |
| | **116,953** | 42,577 |

**d) Status of assessments**

The Company has filed its Zakat and income tax returns for the financial years up to and including the year 2015 with the General Authority of Zakat and Tax (the "GAZT"). The Company has received final assessments for the fiscal periods 2008 through 2012 and initial assessments for the periods 2013 through 2014 raising additional demands aggregating to SR 40 million, principally on account of disallowance of FVIS investments and statutory deposits from Zakat base. The Company has filed appeals against these assessments and the response from the GAZT is still awaited. The Company's management strongly believes in their stance and expects the decision to be received in their favour but has also accrued additional contingent provision for Zakat during the current year amounting to SR 89.8 million.

In addition, the Company is also awaiting the GAZT decision on additional submissions of 2014 relating to the treatment of the statutory deposit and the cooperative distribution for the fiscal periods 2008 through 2013.

The Company has recorded tax/zakat provision based on the recent circular No. 12746/16/1438 dated 20/4/1438H (18 January 2017) issued by the GAZT, in which Saudi public listed companies are to provide for tax and zakat based on the shareholding percentage of Saudi and non-Saudi shareholders as per the Articles of Association. This circular was issued, subsequent to an earlier circular No. 6768/16/1438 dated 5/3/1438H (4 December 2016), which stated that all Saudi public listed companies are required to provide for tax/zakat based on the nationality of the shareholders at year end and as such the tax and zakat provided at year end as reported in the reviewed financial statements for the twelve-month period ended 31 December 2016 have been adjusted in these financial statements to reflect this change.

## 19 SHARE CAPITAL

The share capital of the Company is SR 800 million divided into 80 million shares of SR 10 each (2015: SR 80 million shares of SR 10 each) and subscribed by the following:

| | Percentage holding | *2016 SR'000* | Percentage holding | *2015 SR'000* |
|---|---|---|---|---|
| Major shareholders | 52.5% | 420,000 | 52.5% | 420,000 |
| General public | 47.5% | 380,000 | 47.5% | 380,000 |
| | 100.0% | 800,000 | 100.0% | 800,000 |

## 20 SHARE BASED PAYMENT

The Company offers a Long-Term Incentive Plan (LTIP), to certain eligible executives The purpose of the scheme is to incentivize the senior management team to achieve the Company's long term goals and to attract and retain top performers. The plan provides focus on both current and future performance and enables the participants to share in the Company's success, and is measured based on net profit growth and profit margin. The plan vests over a period of a three year performance cycle. The Company's actual performance is assessed at the end of each year during the vesting period.

The LTIP scheme is entirely equity-settled share based payment under which the approved participants will receive Bupa Arabia shares after the completion of each three year performance period, the achievement of the performance measures, the achievement of the participant's conditions, and the completion of the required approvals. The planned is supervised by the Nomination and Remuneration Committee (N&RC) of the Board of Directors.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the plan ('the vesting date'). The expense, recognized for the plan at each reporting date until the vesting date, reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The total expense recognised for employees' services received is included in the 'salaries and employee related expenses' with a corresponding increase in the consolidated statement of changes in equity, as per the requirements of International Financial Reporting Standard (IFRS) 2 'Share Based Payments'. Any dividend distributions on the award shares during the vesting period are accumulated and transferred to the participants upon vesting. The Company has a practice to purchase shares at each grant date and retain it with investment Broker, currently NCB Capital.

During 2015, the Company completed the required approvals for the launching of current LTIP scheme, The number of LTIP shares purchased during the second half of 2015, in accordance with the approvals, rules and entitlements of the new LTIP scheme, was 51,103 LTIP shares. The grant date of 32,110 shares and 18,993 shares is 23 July 2015 and 26 November 2015, respectively and the grant date fair value per share is SR 277 and SR 221, respectively.

During the quarter ended 31 March 2016, the Company purchased a 89,855 shares for the 2016-2018 LTIP cycle, in accordance with the approvals, rules and entitlements of the new LTIP scheme. The grant date of the new LTIP shares purchased is 14 March 2016 and the grant date fair value was SR 115 per share. Following these purchases a total of 192,061 Bupa Arabia shares are being held in the Bupa Arabia "Bupa employees Long Term Incentive Plan" on behalf of the LTIP participants.

## 21 STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the shareholders' income shall be set aside from net income as a statutory reserve until this reserve amounts to 100% of the paid up share capital. Accordingly, during the year, the Company has transferred SR 126.14 million (2015: SR 129.02 million) to the statutory reserve. The statutory reserve level of SR 403.9 million represents 50.49% of the paid up share capital (2015: SR 277.76 million represented 34.72%).

## 22 SELLING AND MARKETING EXPENSES

| | *2016* | *2015* |
|---|---|---|
| | *SR'000* | *SR'000* |
| Employees' costs | **118,833** | 105,491 |
| Marketing expenses | **30,746** | 49,381 |
| Fulfilment costs | **11,203** | 12,217 |
| Commission expenses | **181,050** | 161,798 |
| Statutory levies | **119,079** | 109,920 |
| Trade mark fee (see note 12 and 17) | **19,331** | 16,948 |
| Allowance for doubtful premiums receivable (note 7) | **35,326** | 38,571 |
| Others | **20,143** | 11,041 |
| | **535,711** | 505,367 |

## 23 GENERAL AND ADMINISTRATION EXPENSES

| | *2016* | *2015* |
|---|---|---|
| | *SR'000* | *SR'000* |
| ***Insurance Operations*** | | |
| Employees' costs | **270,759** | 236,529 |
| Repairs and maintenance costs | **26,036** | 19,472 |
| Travelling expenses | **11,024** | 12,073 |
| Depreciation (see note 10 (a)) | **14,561** | 14,341 |
| Communication expenses | **11,399** | 9,536 |
| Others | **45,711** | 26,823 |
| | **379,490** | 318,774 |

| | *2016* | *2015* |
|---|---|---|
| | *SR'000* | *SR'000* |
| ***Shareholders' Operations*** | | |
| Board expenses (see note 26) | **3,772** | 1,544 |
| Corporate Social Responsibility (CSR) expenses | **3,674** | 2,516 |
| Others | **516** | 1,207 |
| | **7,962** | 5,267 |

## 24 INVESTMENT AND COMMISSION INCOME / (LOSS)

| | *2016* | *2015* |
|---|---|---|
| | *SR'000* | *SR'000* |
| ***Insurance Operations*** | | |
| - Profit on murabaha deposits/sukuk | **78,564** | 25,414 |
| - Realized / unrealised gains on investments – net | **1,624** | 847 |
| | **80,188** | 26,261 |

| | | |
|---|---|---|
| ***Shareholder's operations*** | | |
| - Profit on murabaha deposits/sukuk | **60,090** | 7,079 |
| - Realized / unrealised losses on investments – net | **(9,853)** | (14,793) |
| | **50,237** | (7,714) |

## 25 INFORMATION RELATING TO KEY MANAGEMENT PERSONNEL

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| **Compensation to key management personnel:** | | |
| Short-term benefits | **19,054** | 18,205 |
| Long-term benefits | **7,929** | 5,548 |
| | **26,983** | 23,753 |

Short-term benefits include salaries, allowances, commissions, annual bonuses and incentives whilst long-term benefits include employees' end of service benefits and the LTIP.

## 26 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Board of Directors' remuneration | **2,900** | 1,020 |
| Board attendance fees | **96** | 117 |
| Other board and sub-committees expenses | **776** | 407 |
| | **3,772** | 1,544 |

a) Board of Directors' remuneration is paid in accordance with the By-laws of the Company.
b) Board attendance fees represent allowances for attending board meetings and sub-committee meetings.
c) Other board and sub-committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses.

## 27 SEGMENT INFORMATION

The Company only issues short-term insurance contracts for providing health care services ('medical insurance'). All of the insurance operations of the Company are carried out in the Kingdom of Saudi Arabia. For management purposes, the operations are monitored in two customer categories, based on the number of members covered. Major customers represent large corporate, and all other customers are considered as non-major. Operating segments are reported in a manner consistent with internal reporting provided to Chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as Chief Executive Officer that makes strategic decisions.

Operating segments do not include shareholders' operations of the Company.

Segment results do not include investment and commission income, other income, selling and marketing expenses and general and administration expenses.

**27 SEGMENT INFORMATION (continued)**

Segment assets do not include cash and cash equivalents, murabaha deposits, FVIS investments and prepayments and other assets. Segment liabilities do not include reinsurance balances payable, accrued expenses and other liabilities, obligations under LTIP and policyholders' share of surplus from insurance operations.

Consistent with the Company's internal reporting process, operating segments have been approved by the management in respect of the Company's activities, assets and liabilities as stated below:

| | *For the year ended 31 December 2016* | | |
|---|---|---|---|
| | **Major** *SR'000* | **Non-major** *SR'000* | **Total** *SR'000* |
| Gross written premiums | 4,871,984 | 3,066,646 | 7,938,630 |
| Premiums ceded | (38,689) | (28,770) | (67,459) |
| Net written premiums | 4,833,295 | 3,037,876 | 7,871,171 |
| Movement in net unearned premiums | (130,467) | (73,388) | (203,855) |
| Net earned premiums | 4,702,828 | 2,964,488 | 7,667,316 |
| Claims paid | 3,723,910 | 2,220,883 | 5,944,793 |
| Claims recovered | (20,936) | (13,957) | (34,893) |
| Net claims paid | 3,702,974 | 2,206,926 | 5,909,900 |
| Net movement in outstanding claims | 165,889 | 102,656 | 268,545 |
| Net claims incurred | 3,868,863 | 2,309,582 | 6,178,445 |
| Net underwriting result | 833,965 | 654,906 | 1,488,871 |
| Unallocated income | | | 80,279 |
| Unallocated expenses | | | (915,201) |
| **Surplus from insurance operations** | | | 653,949 |

**27 SEGMENT INFORMATION (continued)**

| | *For the year ended 31 December 2015* | | |
|---|---|---|---|
| | Major *SR'000* | Non-major *SR'000* | Total *SR'000* |
| Gross written premiums | 4,433,449 | 2,894,567 | 7,328,016 |
| Premiums ceded | (26,938) | (15,526) | (42,464) |
| Net written premiums | 4,406,511 | 2,879,041 | 7,285,552 |
| Movement in net unearned premiums | (347,751) | (198,403) | (546,154) |
| Net earned premiums | 4,058,760 | 2,680,638 | 6,739,398 |
| Claims paid | 3,157,391 | 1,850,306 | 5,007,697 |
| Claims recovered | (33,253) | (15,657) | (48,910) |
| Net claims paid | 3,124,138 | 1,834,649 | 4,958,787 |
| Movement in net outstanding claims | 133,327 | 118,932 | 252,259 |
| Net claims incurred | 3,257,465 | 1,953,581 | 5,211,046 |
| Net underwriting result | 801,295 | 727,057 | 1,528,352 |
| Unallocated income | | | 26,965 |
| Unallocated expenses | | | (824,141) |
| Surplus from insurance operations | | | 731,176 |

| | ***As at 31 December 2016*** | | |
|---|---|---|---|
| | **Major** ***SR'000*** | **Non-major** ***SR'000*** | **Total** ***SR'000*** |
| **Insurance operations' assets** | | | |
| Premiums receivable – net | **615,851** | **364,692** | **980,543** |
| Reinsurer's share of unearned premiums | – | **1,356** | **1,356** |
| Reinsurer's share of outstanding claims | **1,560** | **160** | **1,720** |
| Deferred policy acquisition costs | **57,173** | **15,108** | **72,281** |
| Unallocated assets | | | **3,865,482** |
| **Total** | | | **4,921,382** |
| **Insurance operations' liabilities and surplus** | | | |
| Unearned premiums | **1,346,496** | **1,748,494** | **3,094,990** |
| Outstanding claims | **837,479** | **484,143** | **1,321,622** |
| Unallocated liabilities and surplus | | | **504,770** |
| **Total** | | | **4,921,382** |

## 27 SEGMENT INFORMATION (continued)

| | *As at 31 December 2015* | | |
|---|---|---|---|
| | Major *SR'000* | Non-major *SR'000* | Total *SR'000* |
| **Insurance operations' assets** | | | |
| Premiums receivable - net | 418,246 | 331,203 | 749,449 |
| Reinsurer's share of unearned premiums | -- | 900 | 900 |
| Reinsurer's share of outstanding claims | 2,672 | 340 | 3,012 |
| Deferred policy acquisition costs | 58,105 | 20,310 | 78,415 |
| Unallocated assets | | | 3,529,720 |
| **Total** | | | 4,361,496 |
| **Insurance operations' liabilities and surplus** | | | |
| Unearned premiums | 1,675,344 | 1,215,335 | 2,890,679 |
| Outstanding claims | 653,640 | 400,729 | 1,054,369 |
| Unallocated liabilities and surplus | | | 416,448 |
| **Total** | | | 4,361,496 |

## 28 DIVIDENDS

On 17 Rajab 1437H (corresponding to 24 April 2016), the Company's Board of Directors proposed to pay a dividend, for the year ended 31 December 2015, of SR 2 per share totalling SR 160 million to its shareholders (30 June 2015: Nil). This dividend proposal was approved by the shareholders in the Ordinary General Assembly Meeting held on 25 Sha'baan 1437H (corresponding to 1 June 2016). Accordingly, the dividend payment was made on 22 Ramadan 1437H (corresponding to 27 June 2016).

During the year, the Company recovered tax from a foreign shareholder amounting to SR 31.3 million (31 December 2015: SR 23.2 million) relating to 2015 tax equalisation. However, amount payable to a foreign shareholder is SR 1.169 million relating to equalisation of tax for the year ended 31 December 2016.

## 29 COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments:

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

| | *2016 SR'000* | *2015 SR'000* |
|---|---|---|
| Within one year | 13,911 | 10,611 |
| After one year but no more than five years | 47,361 | 37,765 |
| More than five years | 29,422 | 11,289 |
| | 90,694 | 59,665 |

b) As at 31 December 2016, performance guarantees amounting to SR 15.7 million (2015: SR 17 .1 million) were issued to the customers on behalf of the Company. The Company pledged bank balances equivalent to the amount of performance guarantees to the bank for obtaining such guarantees.

c) In addition to above, contingencies in respect of Zakat and income tax assessments of Company are disclosed in note 18(d) to these financial statements.

## 30 RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through strategic planning process.

**Risk management structure**

*Board of Directors*
The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

*Senior management*
Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's Board authorised risk appetite parameters.

*Audit committee*
The Audit Committee is appointed by the Board of Directors. The audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company.

*Internal audit*
All key operational, financial and risk management processes are audited by Internal Audit. Internal Audit examines the adequacy of the relevant policies and procedures, the Company's compliance with internal policies and regulatory guidelines. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

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

**Insurance risk**
Insurance risk is the risk that actual claims payable to policyholders in respect of past insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected. The Company only issues short-term contracts in connection with medical risks.

*Geographical concentration of risks*
The Company's insurance risk exposure relating to contract holders is primarily concentrated in Saudi Arabia.

*Frequency and amounts of claims*
The frequency and amounts of claims can be affected by several factors. The Company only underwrites medical risks. Medical insurance is designed to compensate holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers and a large population is covered under the policy. Claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

The Company's underwriting strategy is designed to ensure that risks are well diversified through product diversity between individual and corporate health insurance, level of insured benefits, variety of claim type exposures across diverse medical providers, clinics, individual hospitals and hospital groups, the use of medical screening in order to ensure that pricing takes account of current health conditions, 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 of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

*Independent actuarial review of claims and claims reserves*
In further mitigation of the insurance risk, the Company utilises an independent actuary who performs periodical reviews of the Company's claims modelling and claims projections as well as verifying the annual closing position claims reserves are adequate.

**30 RISK MANAGEMENT (continued)**

**Insurance risk (continued)**

*Key assumptions*
The principal assumption underlying the estimates is the Company's estimated ultimate loss ratio. The estimated ultimate loss ratio was determined using actuarial methods, as far as applicable, and was also reviewed by the independent actuary.

*Process used to decide on assumptions*
The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral reasonable estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Case estimates are reviewed regularly and are updated as and when new information is available.

The estimation of incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve, if applicable and required as per the result of the liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of balance sheet date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable. The details of estimation of the outstanding claims and premium deficiency reserves are given under Notes 2(v).

*Sensitivities*
The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio with all other assumptions held constant showing the impact on net liabilities and net income.

| | Change in assumptions | Increase / (decrease) in net liabilities *SR'000* | Decrease / (increase) in insurance operations and accumulated surplus *SR'000* |
|---|---|---|---|
| **Ultimate loss ratio – Insurance Operations** | | | |
| **2016** | **± 5%** | **± 383,366** | **± 383,366** |
| 2015 | ± 5% | ± 336,970 | ± 336,970 |

**Reinsurance risk**
In common with other insurance companies, in order to minimise financial exposure arising from large claims, the Company, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. All of the reinsurance is effected under excess-of-loss (XOL) reinsurance contracts. For any claim above SR 200 thousand and contingent on the policyholders' plan limit, the XOL reinsurance covers losses per claim between SR 200 thousand and SR 500 thousand. All other claims are borne and paid by the Company. In compliance with SAMA guidelines on reinsurance, all reinsurance companies are minimally rated A by international rating agencies. Reinsurance contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

The credit risk exposure in respect of reinsurers' share of outstanding claims is SR 1.7 million (2015: SR 3 million) (see note 15) and in respect of reinsurance balances payable is SR 15.1 million (2015: reinsurance balances receivable of SR 15.6 million).

**30 RISK MANAGEMENT (continued)**

**Regulatory framework risk**
The operations of the Company are also subject to regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise.

**Capital management (solvency) risk**
Capital requirements are set and regulated by the SAMA. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company manages its capital requirements by assessing the risk of 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 any possible amount of dividends paid to shareholders or raise new capital through the Saudi stock market.

As required by Saudi Arabian Insurance Regulations (Article 66 of the Implementation Regulations issued by SAMA), the Company is required to maintain a minimum solvency margin equivalent to the highest of: minimum capital requirement, premium solvency margin or claims solvency margin. As at 31 December 2016, the Company's solvency level is in excess of the minimum solvency margin required by the Saudi Arabian Insurance Regulations.

The following information summarizes the minimum regulatory capital of the Company:

| | *2016* *SR'000* | *2015* *SR'000* |
|---|---|---|
| Minimum regulatory capital | **1,259,387** | 1,166,761 |

**Financial risk**
The Company's principal financial instruments are receivables arising from insurance contracts, the statutory deposit, investments, cash and cash equivalents, Murabaha deposits, outstanding claims and certain other assets and liabilities.

The Company does not enter into derivative transactions.

The main risks arising from the Company's financial instruments are market price risk, commission rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks, as summarised below.

*Market price risk*
Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Insurance Operations and Shareholders' Operations are exposed to market risk with respect to their investments classified as FVIS. This risk is being mitigated through the proper selection of securities. Company maintains diversified portfolio and perform regular monitoring of developments in related markets. In addition, the key factors that affect stock and bond market movements are monitored, including analysis of the operational and financial performance of investees.

A 5% change in the value of investments with all other variables held constant, would impact the Insurance Operations and Shareholders' Operations by SR 27.2 million (2015: SR 9.2 million) and SR 35.7 million (2015: SR 22 million) respectively.

## 30 RISK MANAGEMENT (continued)

**Financial risk (continued)**

*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 is exposed to commission rate risk on its Murabaha deposits and investment in Sukkuk.

The Company places deposits which are realisable within three months to one year, with the exception of restricted deposits which are required to be maintained in accordance with regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk by monitoring changes in commission rates in the currencies in which its deposits are denominated. Details of maturities of the major classes of commission bearing securities as at 31 December are as follows:

***Insurance Operations***

| | ***2016 SR'000*** Less than 3 months | 3 months to 1 year | No fixed maturity | Total |
|---|---|---|---|---|
| Murabaha deposits | **921,481** | **2,136,335** | **--** | **3,057,816** |

| | *2015 SR'000* Less than 3 months | 3 months to 1 year | No fixed maturity | Total |
|---|---|---|---|---|
| Murabaha deposits | 1,075,637 | 1,971,892 | - | 3,047,529 |

***Shareholders' Operations***

| | ***2016 SR'000*** Less than 3 months | 3 months to 1 year | No fixed maturity | Total |
|---|---|---|---|---|
| Murabaha deposits | **288,327** | **699,167** | **--** | **987,494** |

| | *2015 SR '000* Less than 3 months | 3 months to 1 year | No fixed maturity | Total |
|---|---|---|---|---|
| Murabaha deposits | 125,000 | 375,000 | - | 500,000 |

The maturities of deposits have been determined on the basis of the remaining period, at the statement of financial position date, to the contractual maturity date.

The effective commission rates for the commission bearing financial instruments, at 31 December, were as follows:

| | ***2016*** | *2015* |
|---|---|---|
| ***Insurance operations*** | | |
| Saudi Riyal denominated murabaha deposits | **3.62%** | 1.64% |
| ***Shareholders' operations*** | | |
| Saudi Riyal denominated murabaha deposits | **3.13%** | 2.15% |

**30 RISK MANAGEMENT (continued)**

**Financial risk (continued)**

*Commission rate risk (continued)*
The Company had no deposits in currencies other than Saudi Riyal.

The following information demonstrates the sensitivity of statement of insurance operations and accumulated surplus and statement of shareholders' operations to possible changes in commission rates, with all other variables held constant.

| | *2016* | *2015* |
|---|---|---|
| ***Insurance operations*** | ***SR'000*** | *SR'000* |
| Increase in commission rates by 100 basis points | **30,572** | 30,475 |
| Decrease in commission rates by 100 basis points | **(30,572)** | (30,475) |
| ***Shareholders' operations*** | | |
| Increase in commission rates by 100 basis points | **9,889** | 5,000 |
| Decrease in commission rates by 100 basis points | **(9,889)** | (5,000) |

*Foreign currency risk*
Foreign 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 fluctuations, as the Company primarily deals in Saudi Riyals and United States Dollars, which is pegged to Saudi Riyals.

*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.

The Company seeks to limit its credit risk with respect to customers by following the Company's credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the premiums receivable. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks. The Company enters into reinsurance contracts with recognised, creditworthy third parties (rated A or above).

The following table shows the maximum exposure to credit risk by class of financial asset.

| | *2016* | *2015* |
|---|---|---|
| ***Insurance' Operations*** | ***SR'000*** | *SR'000* |
| Cash and cash equivalents | **132,030** | 205,565 |
| Murabaha deposits | **3,057,816** | 3,047,529 |
| FVIS investments | **544,090** | 185,143 |
| Premiums receivable – net | **980,543** | 749,449 |
| Reinsurer's share of outstanding claims | **1,720** | 3,012 |
| Other receivables | **31,327** | 17,748 |
| | **4,747,526** | 4,208,446 |

**30 RISK MANAGEMENT (continued)**

**Financial risk (continued)**

*Credit risk (continued)*

| | *2016* *SR'000* | *2015* *SR' 000* |
|---|---|---|
| ***Shareholders' Operations*** | | |
| Cash and cash equivalents | **93,800** | 593,297 |
| Murabaha deposits | **987,494** | 500,000 |
| FVIS investments | **714,330** | 439,785 |
| Other receivables | **17,445** | 1,691 |
| Accrued interest on statutory deposit | **3,585** | 1,872 |
| Statutory deposit | **80,000** | 80,000 |
| | **1,896,654** | 1,616,645 |

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade (satisfactory) or past due but not impaired.

***Insurance operations' financial assets***

| | | Non-investment grade | | |
|---|---|---|---|---|
| | *Investment grade SR'000* | *Satisfactory SR'000* | *Past due but not impaired SR'000* | *Total SR'000* |
| Cash and cash equivalents | **132,030** | -- | -- | **132,030** |
| Murabaha deposits | **3,057,816** | -- | -- | **3,057,816** |
| FVIS investments | **544,090** | -- | -- | **544,090** |
| Premiums receivable – net | -- | **493,284** | **487,259** | **980,543** |
| Reinsurer's share of outstanding claims | **1,720** | -- | -- | **1,720** |
| Other receivables | **15,676** | -- | -- | **15,676** |
| **31 December, 2016** | **3,751,332** | **493,284** | **487,259** | **4,731,875** |
| Cash and cash equivalents | 205,565 | -- | -- | 205,565 |
| Murabaha deposits | 3,047,529 | -- | -- | 3,047,529 |
| FVIS investments | 185,143 | -- | -- | 185,143 |
| Premiums receivable – net | -- | 469,274 | 280,175 | 749,449 |
| Reinsurer's share of outstanding claims | 3,012 | -- | -- | 3,012 |
| Other receivables | 17,121 | -- | -- | 17,121 |
| 31 December, 2015 | 3,458,370 | 469,274 | 280,175 | 4,207,819 |

**30 RISK MANAGEMENT (continued)**

**Financial risk (continued)**

*Credit risk (continued)*

***Shareholders' operations' financial assets***

| | | Non-investment grade | | |
|---|---|---|---|---|
| | *Investment grade SR'000* | *Satisfactory SR'000* | *Past due but not impaired SR'000* | *Total SR'000* |
| Cash and cash equivalents | 93,800 | -- | -- | 93,800 |
| Murabaha deposits | 987,494 | -- | -- | 987,494 |
| FVIS investments | 714,330 | -- | -- | 714,330 |
| Other receivables | -- | 17,445 | -- | 17,445 |
| Accrued interest on statutory deposit | 3,585 | -- | -- | 3,585 |
| Statutory deposit | 80,000 | -- | -- | 80,000 |
| **31 December, 2016** | 1,879,209 | 17,445 | -- | 1,896,654 |
| Cash and cash equivalents | 593,297 | -- | -- | 593,297 |
| Murabaha deposits | 500,000 | -- | -- | 500,000 |
| FVIS investments | 439,785 | -- | -- | 439,785 |
| Other receivables | -- | 1,691 | -- | 1,691 |
| Accrued interest on statutory deposit | 1,872 | -- | -- | 1,872 |
| Statutory deposit | 80,000 | -- | -- | 80,000 |
| 31 December , 2015 | 1,614,954 | 1,691 | -- | 1,616,645 |

In respect of gross premiums receivable, the 5 largest accounts outstanding accounted for 14% of the closing gross premiums receivable balance of 31 December 2016 (2015 the 5 largest accounted for 14.4% of the closing gross premiums receivable). Gross written premium from one of the major customers of the Company amounts more than 5% of Gross written premium.

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

## 30 RISK MANAGEMENT (continued)

Unearned premiums have been excluded from the analysis as it is not contractual obligation. The table below summarises the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

| *2016* | *Up to one year SR'000* | *More than one year SR'000* | *Total SR'000* |
|---|---|---|---|
| **INSURANCE OPERATIONS' FINANCIAL LIABILITIES** | | | |
| Outstanding claims | 1,321,622 | – | 1,321,622 |
| Reinsurance balances payable | 15,117 | – | 15,117 |
| Accrued expenses and other liabilities | 171,292 | – | 171,292 |
| Due to shareholders' operations | 148,477 | – | 148,477 |
| | 1,656,508 | – | 1,656,508 |
| **SHAREHOLDERS' FINANCIAL LIABILITIES** | | | |
| Accrued expenses and other liabilities | 2,824 | 59,316 | 62,140 |
| Accrued zakat and income tax | 27,152 | 89,801 | 116,953 |
| Accrued interest in a statutory deposit | – | 3,585 | 3,585 |
| Amount due to related parties | 24,344 | – | 24,344 |
| | 54,320 | 152,702 | 207,022 |
| **TOTAL FINANCIAL LIABILITIES** | 1,710,828 | 152,702 | 1,863,530 |

| *2015* | *Up to one year SR'000* | *More than one year SR'000* | *Total SR'000* |
|---|---|---|---|
| INSURANCE OPERATIONS' FINANCIAL LIABILITIES | | | |
| Outstanding claims | 1,054,369 | -- | 1,054,369 |
| Reinsurance balances payable | -- | -- | -- |
| Accrued expenses and other liabilities | 262,149 | -- | 262,149 |
| | 1,316,518 | -- | 1,316,518 |
| SHAREHOLDERS' FINANCIAL LIABILITIES | | | |
| Accrued expenses and other liabilities | 550 | 48,072 | 48,622 |
| Accrued zakat and income tax | 42,577 | -- | 42,577 |
| Accrued interest in a statutory deposit | -- | 1,872 | 1,872 |
| Amount due to related parties | 32,201 | -- | 32,201 |
| | 75,328 | 49,944 | 125,272 |
| TOTAL FINANCIAL LIABILITIES | 1,391,846 | 49,944 | 1,441,790 |

***Liquidity profile***

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above. There are no differences between contractual and expected maturity of the financial liabilities of the Company.

## 31 EARNINGS PER SHARE

The earnings per share have been calculated by dividing the net profit for the year by the weighted average number of ordinary shares issued and outstanding at the year end. Diluted earnings per share are not applicable to the Company. The weighted average number of shares are calculated after deducting the shares purchased for share based payment.

## 32 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

The principal or the most advantageous market must be accessible to by the Company.

The fair values of financial instruments are not materially different from their carrying values. At 31 December 2016 and 31 December 2015, apart from the investments which are carried at fair value (note 6), there were no other financial instruments held by the Company that were measured at fair value.

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

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

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

As at 31 December 2016 and 31 December 2015, all financial instruments which are fair valued are Level 2 instruments. The Company determines level 2 fair value of FVIS investments based on net asset value of investments at period end as communicated by Fund Manager. There were no transfers between levels during the years ended 31 December 2016 and 31 December 2015.

## 33 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were authorized for issue by the Board of Directors on 25 Jumada Al Awal 1438 H, corresponding to 22 February 2017.