### المجموعة المتحدة للتأمين التعاوني

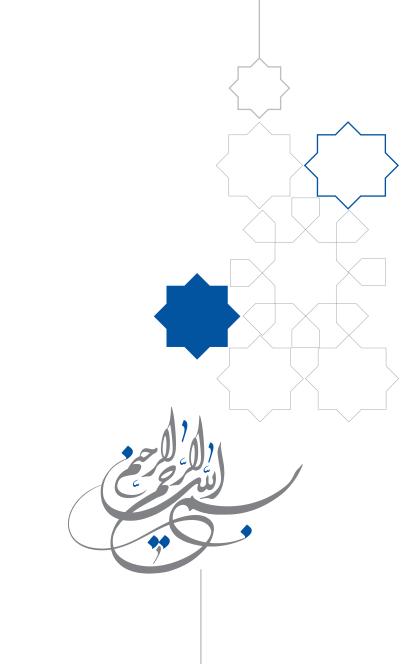
Allied Cooperative Insurance Group







ANNUAL REPORT 616









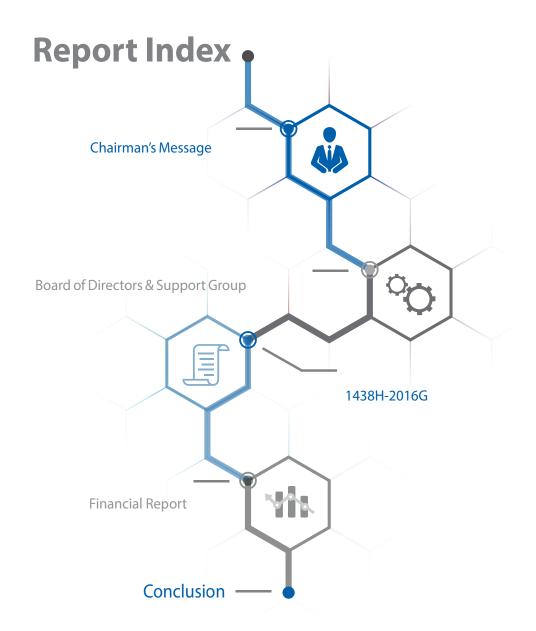














## The board chairman speech

Ladies and gentlemen, the shareholders

#### Greetings

On behalf of myself and the Board of Directors, I am pleased to put in your hands the annual report of 2016 which shows the performance of the company, and the results of its principal activities as well as the financial statements for the year ending December 31, 2016. Thanks to God Almighty for the achievements and we look forward to achieve better results. On behalf of myself and the Board of Directors I thank you and all concerned Regulatory and Governmental Authorities and all ACIG employees for the efforts, support and contribution to what has been achieved during the year 2016.

Thamar Abdullah Mohammed Bin Rayes Chairman of Board of Directors



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## **Board of Directors and Supporting Committees**

#### **Board of Directors**

Eng/ Thamer bin Abdullah bin Reese (Chairman of the Board)

Eng/ Soliman bin Abdullah Al Khraiji (Vice Chairman of the Board)

Eng/ Mohammed Hani Abdul Qadir Al Bakry (Member)

Mr./ Hossam Bin Talal Al Ghazzawi (Member)

Dr/ Abdul Latif bin Mohammed Al-Sheikh (Member)

Mr/ Ali bin Hassan Al Jasser Al Shahri (Member)

Eng/ Tarek bin Abdullah Hussein Al Rumeim (Member)

Dr/ Yousef bin Abdullah Basoudan (Member)

Mr/ Riyad Ahmed Al Thagafi (Member)

Mr/ Hesham bin Mohammed Al Sharif (Member and CEO)



#### **Investment Committee**

Eng./ Thamer bin Abdullah bin Reese Mr./ Hesham bin Mohammed Al Sharif Eng./ Tarek bin Abdullah Hussein Al Rumeim Mr./ Shakul Hamid (Chairman of the Committee)

(Committee Member)

(Committee Member)

(Committee Member)

#### **Risk Management Committee**

Eng./ Thamer bin Abdullah bin Reese Mr./ Hossam Bin Talal Al Ghazzawi Mr./ Hesham bin Mohammed Al Sharif (Chairman of the Committee)

(Committee Member)

(Committee Member)

#### **Shariah Supervisory Board**

Sheikh/ Abdullah Bin Beah
Dr./ Hani Bin Ahmed Abdul Shakoor
Mr./ Hassan Bin Hussein Al-Mubaraki

(Chairman)

(Member)

(Member)

#### **Executive Committee**

Eng./ Thamer bin Abdullah bin Reese (Chairman of the Committee)

Eng./ Mohammed Hani Abdul Qadir Al Bakry (Committee Member)

Mr./ Hossam Bin Talal Al Ghazzawi (Committee Member)

Mr./ Hesham bin Mohammed Al Sharif (Committee Member)

Mr./ Ali bin Hassan Al Jasser Al Shahri (Committee Member)

#### **Audit Committee**

Dr./ Yousef bin Abdullah Basoudan (Chairman of the Committee)

Eng./ Soliman bin Abdullah Al Khraiji (Vice Chairman of the Committee)

Mr./ Nabil Nassif (Committee Member)

Dr./ Masum Billah (Committee Member)

Mr./ Abdullah Al-Harbi (Committee Member)

#### **Committee of Governance, Compensations, Nominations and Social Liability**

Mr./ Ali bin Hassan Al Jasser Al Shahri (Chairman of the Committee)

Dr./ Abdul Latif bin Mohammed Al-Sheikh (Committee Member)

Mr./ Nayef Al-Tamimi (Committee Member)



## **Board of Directors' Report**

**First: Main Activities** 

ALLIED COOPERATIVE INSURANCE GROUP (ACIG), as a public company, operates in cooperative insurance, under the final authorization issued by the Saudi Arabian Monetary No. T M N / 20095/21 dated 15/05/1430 AH corresponding to 11/05/2009, which has been renovated on 15/05/1436 AH (corresponding to 06/03/2015) for a period of three years ending on 14/5/1439 AH (corresponding to 31/01/2018).

The main activity of the company includes: general insurance, including in particular vehicle insurance, property insurance against fire, theft, damage and the like, marine insurance, engineering insurance and general accidents insurance. Health insurance activity has acquired about 36% of the Company's activity, and vehicle insurance has also acquired about 55% of the Company's activity with the end of the year 2016.

The company faces several risks by offering general insurance and health insurance, most important of which are risks of market which has become crowded with more than thirty insurance companies, the thing which significantly raises level of competition. The Company hopes to achieve its objectives and pursue its work for the interests of shareholders and clients.

## **Third: Summary of Financial Reuslts:**

The following table shows a summary of financial statements for the fiscal year ending 31/12/2016:

Activity	2016	2015	2014	2013	2012
Assets of insurance					
operations	431,714	395,779	242,731	258,918	149,177
Assets of Shareholders'	127,456	118,380	112,438	104,438	90,921
Total Assets	559,170	514,159	355,169	363,356	240,098
Liabilities of insurance operations	427,742	392,951	240,989	257,814	149,177
Surplus from insurance operations	3,972	2,828	1,742	1,104	_
Total liabilities and surplus from insurance operations	431,714	395,779	242,731	258,918	149,177
Shareholders' liabilities	2,305	1,421	1,907	2,188	1,016
Shareholders' equity	125,151	116,959	110,531	102,250	89,905
Total liabilities and shareholders' equity	127,456	118,380	112,438	104,438	90,921
Gross written premiums	510,618	549,441	297,374	347,010	145,683
Net written premiums	431,792	458,544	229,320	234,508	132,993
Net revenue	450,687	401,944	216,591	208,098	137,130
Total paid claims	353,566	284,317	165,503	136,851	106,627
Net incurred claims	344,715	290,990	149,357	136,009	101,230
Total expenses	66,034	56,540	44,473	36,137	27,900
Investment revenues and other income of insurance operations	6,584	2,094	2,344	1,436	779
Surplus (deficit) in the insurance operations less return on investments of the policyholders (the results of operations)	6,519	9,986	5,347	10,256	(22,373)
Net profit (loss) for the year before Zakat	8,344	11,133	8,932	12,583	(23,215)

#### **Second: Future Prospects for Company's Business**

- 1. Expanding the number of sales teams and their allocation to companies' sales in all major branches of the Company.
- 2. Increasing activating the role and productivity of mediators' sales management and working to improve and develop business relationships with insurance mediators.
- 3. Increasing the effectiveness of telesales unit works and their contribution in bringing the insurance of companies sector through insurance producers: Comprehensive vehicle insurance and companies health insurance, in addition to increasing the activation of their work in order to increase the insurance product sales: medical malpractice insurance, health insurance product for small groups and compulsory insurance on vehicles (third party).
- 4. Increasing the effectiveness of points of sale, developing their mechanisms in the sale of insurance products for individuals segments, such as: medical malpractice insurance product, travel insurance product, compulsory vehicle insurance product (third party), medical insurance product for small groups, as well as shops insurance product and houses insurance product.
- 5. Start work on activating the automated sales system, so that the company can sell insurance policies for all of its products that do not require a preview.
- 6. Increasing the activation of cross-selling mechanism among all units of sales.
- 7. Increasing the number of points of sale in the western, southern and northern region to increase production and selling parity.
- 8. Developing agents' mechanisms and helping them to spread in order to increase productivity.
- 9. Developing the role of supervision, quality and follow-up unit at the sales department in coordination with the compliance department.
- 10. Intensification of training courses for sales staff at the level of the Kingdom under the terms and conditions of sale of insurance companies.
- 11. Working on marketing campaigns for some insurance products of individuals segments, which shall be meeting all the terms and conditions of the Saudi Arabian Monetary Agency.
- 12. Conducting several marketing agreements and strategic partnerships with third-party companies specialized in providing special after-sales offers and services to the customer.
- 13. Working on increasing e-marketing campaigns in order to raise the sales of non-compulsory products.
- 14. Developing service quality unit at the customer service department with the intensification of monitoring the quality of services provided to customers.
- 15. Increasing working to raise the scale of customer satisfaction.
- 16. Working on establishing a unit specialized in e-marketing and social networking.
- 17. Activating the online sales for non-compulsory products.

216

## The fundamental differences in the operating results:

A. Net profit for the year has reached 8,344 thousand riyals compared to 11,133 thousand riyals for the previous year. The surplus from insurance operations during the year has reached 11,441 thousand riyals compared to 10,855 thousand riyals for the previous year.

B. There is a decrease in revenue from 549,441 thousand riyals in 2015, to 510,618 thousand riyals in 2016, with a value of 38,823 thousand riyals by 7 % and that's due to:

- 1- Decrease in the target segment in vehicle insurance due to the decrease in vehicle sales.
- 2- Stopping sales of vehicle insurance product during the last month of 2016.
- 3-The company has decreasing of net profit during the current period compared to the same period of the previous year due to decrease in gross premiums written by 7%, decrease in net written premiums by 6%, increase policy acquisition cost by 11%, increase general and administrative expenses by 18%, increase in net claims incurred by 18%, decrease in other underwriting income by 2% besides to the loss in shareholders investments in amount SR 768 thousands during the current period comparing to the profit of shareholders investments in amount SR 2,960 thousands during the same period of the previous year. Although increase in reinsurance commission earned by 5%, increase in net premiums earned by 13%, increase in other income by 36%, increase in net profit of policy holders investments by 466%.
- 4- Certain of the prior year amounts have been reclassified to conform to the presentation in the current year.

  The company sells all types of general and health insurance. The following is an analysis of work volume carried out by the Company during the years 2012 2016

# The following are some of the indicators and financial ratios for the previous numbers: -

- Net profit for the year has reached 8,344 thousand riyals compared to net profit of 11,133 thousand riyals for the previous year with a decrease of 25%.
- Surplus from insurance operations less return on investments of the policyholders (the results of operations) during the year has reached 6,519 thousand riyals compared to 9,986 thousand riyals for the previous year with a decrease of 35%.
- Gross written premiums (GWP) during the year has reached 510,618 thousand riyals compared to 549,441 thousand riyals compared to the previous year with a decrease of 7%, as well, the net written premiums (NWP) during the year has reached 431,792 thousand riyals compared to 458,544 thousand riyals compared to the previous year with a decrease of 6%.
- Net incurred claims during the year has reached 344,715 thousand riyals compared to 290,990 thousand riyals compared to the previous year with an increase of 18%.
- Total assets of the insurance operations during the year has reached 431,714 thousand riyals compared to 395,779 thousand riyals compared to the previous year with an increase of 9 %.
- Total shareholders' assets during the year has reached 127,456 thousand riyals compared to 118,380 thousand riyals compared to the previous year with an increase of 8 %.
- Total assets during the year has reached 559,170 thousand riyals compared to 514,159 thousand riyals compared to the previous year, with an increase of 9 %.
- Total liabilities and surplus from insurance operations during the year has reached 431,714 thousand riyals compared to 395,779 thousand riyals compared to the previous year, with an increase of 9 %.
- Total liabilities of shareholders during the year has reached 2,305 thousand riyals compared to 1,421 thousand riyals compared to the previous year, with an increase of 62 %.
- Total shareholders' equity during the year has reached 125,151 thousand riyals compared to 116,959 thousand riyals compared to the previous year, with an increase of 7 %.
- Total liabilities and shareholders' equity during the year has reached 127,456 thousand riyals compared to 118,380 thousand riyals compared to the previous year, with an increase of 8 %.

Inquiry and request information as not to compromise the interests of the company and not oppose the market system and implementing regulations.

Paragraph (h) of Article VI, which states that (Investors from people with legal status who act on behalf of others - such as investment funds – must disclose their policies in voting and their actual voting in their annual reports, as well as the disclosure of how to deal with any material conflict of interest that may affect the exercise of fundamental rights of their investments) because the company is not acting on behalf of others, such as investment funds.

Paragraph (p) of Article XII, which states that (no legal person may be entitled, according to the company's system, appoint representatives in the Board of Directors - vote on selecting other members of the Board) and that's because of the Articles of Association did not provide for the eligibility of a person with legal status to appoint representatives in the Board.

The Ordinary General Meeting has met on Monday 20-10-1437 AH corresponding to 25/07/2016 and approved the amendments and

Name	Value per				
	thousand	thousand	thousand	thousand	thousand
	riyals	riyals	riyals	riyals	riyals
	2016	2015	2014	2013	2012
Fire Insurance	12,441	18,002	23,213	16,409	6,708
Engineering	8,817	12,768	4.050	E 764	2.042
Insurance			4,959	5,764	2,043
Marine	1,134	1,073	1.604	2 449	2 1 4 1
Insurance			1,604	2,448	2,141
General	22,603	20,098	16,220	15,398	14,981
Insurance	22,003	20,098	10,220	13,396	14,961
Motor	278,858	320,469	120 251	110 221	120 201
Insurance			130,251	110,331	120,391
Health	186,765	177,031	121 127	106 661	40 557
Insurance			121,127	196,661	40,557
Total	510,618	549,441	297,374	347,010	186,821

## The following is a geographical sales analysis through 2016

Area Name	Value per thousand riyals 2016
Central Region	157,307
Western Region	279,112
Eastern Province	41,791
Northern Region	11,981
Southern Region	20,427
Total	510,618

#### **D-Board of Directors Formation:**

This is the fourth session of the Board of Directors formed by the ordinary general assembly dated 1/5/2016. This session shall commence on 18/5/2016 and expires on 17/5/2019 (for three years) the members were elected by accumulative voting. The number of the current board of directors is 10 members as follows:

This is the fourth session of the Board of Directors formed by the ordinary general assembly dated 1/5/2016. This session shall commence on 18/5/2016 and expires on 17/5/2019 (for three years) the members were elected by accumulative voting. The number of the current board of directors is 10 members as follows:

Membership Category	Name	Other joint stock companies in which board of directors is participated
Non-executive	THAMER ABDULLAH BIN RAYES	NA
Independent	SULIMAN ABDULLAH ALKHARIJI	NA
Non-executive	MOHAMED HANI ABDULKADER ALBAKRI	ABDULKADER ELBAKRI HOLDING CO  ALBARA CO  National Company for warehouses and Pipeline CO  Leading Utility Company
Non – Executive	HOSSAM TALAL ALGHAZAWI	NA
Non – Executive	RIYAD AHMED ALTHAQAFI	NA

additions to the Corporate Governance Regulation, in order to keep in line with Corporate Governance Regulation issued by the Saudi Arabian Monetary Agency, after adding some paragraphs on the old Corporate Governance Regulation.

#### **B- Dividend Policy:**

additions to the Corporate Governance Regulation, in order to keep in line with Corporate Governance Regulation issued by the Saudi Arabian Monetary Agency, after adding some paragraphs on the old Corporate Governance Regulation.

- 1. Retention of Zakat and income tax.
- 2. Retention of (20%) of the net profit to form a statutory reserve. The Ordinary General Assembly may stop such retention whenever the said reserve reaches the total paid-up capital.
- 3. Based on based on the proposal of the Board of Directors, the Ordinary General Assembly may set aside a proportion of the net annual profits in order to form additional reserves and allocate it to a specific purpose or purposes determined by the General Assembly.
- 4. After that a down payment will be distributed to shareholders, but not less than (5%) of the paid-up capital.
- 5. The rest will be distributed then to shareholders as a share in the profits or converted to the retained earnings account.
- 6. Under a decision of the Board of Directors, periodic profits might be distributed and deducted from the determined annual earnings.

The Company shall inform the Capital Market Authority immediately about any decisions to the distribution of profits or their recommendations, and pay the dividends to be distributed to shareholders in the place and dates determined by the Board of Directors, in accordance with instructions issued by Ministry of Trade and investments, taking into account the prior written consent of the Saudi Arabian Monetary Agency.

#### **C-Board of Directors:**

The Board of Directors of the Company assumes the responsibility for supervising the management of the Company which operates its operational and financial affairs, and takes all key decisions related to its policies. The primary responsibility of the Board is ensuring the effective governance of the Company's affairs for the interests of shareholders and policyholders. The Board bears also the responsibility for the balance between the diverse interests of beneficiaries, including the customers of the Company and institutions associated with the Company in business relations. Through all the measures determined by the Board, the members of the Board of Directors are keen on taking the appropriate action to serve the interest of the Company in the best possible image. The Board and its committees follow up the executive management of the Company in applying the decisions and strategies adopted by the Board and its committees, and ensure their implementation as required.

Mr./ RIYAD AHMED AL-THAQAFI	REPRESNTED IDB (4,000,000 SHARES)
Eng./ SULIMAN ABDULLAH ALKHARIJI	1,000 SHARES
Dr. ABDULLATEEF M. AL SHEIKH	1,000 SHARES
Mr./ALI HASSAN ALJASER ALSHEHRI	2,000 SHARES
Mr./HESHAM MOHAMMED AL SHERIF	2,000 SHARES
Eng./TAREQ ABDULLAH HUSSAIN AL RAMIM	1,000 SHARES
Dr./ YOUSEF ABDULLAH BASODAN	1,000 SHARES

## **C- Privileges and Rewards of the Board Directors and Senior Executives:**

1- Rewards and indemnity paid to the Board members during 2016 Ad (Saudi riyal)

Name	Board of D	irectors	Audit Committee	Executive Committee	Investment Committee	Risks Management Committee Meeting	Nomination & Rewards Committee	Total (SR)
	.Rewards	Meeting Allowance 3000 SR	Meeting Allowance 1500 SR	Meeting Allowance 1500 SR	Meeting Allowance 1500 SR	Allowance 1500 SR	Meeting Allowance 1500 SR	
Eng./THAMER ABDULLAH BIN RAYES.	87.947	18.000		6.000	4.500			116.447
Eng./SULIMAN ABDULLAH ALKHARIJI	58.631	18.000	9.000					85.631
Eng./ MOHAMMED HANI ABDELQADER AL BAKRI	58.631	12.000		3.000				73.631
Mr./ALI HASSAN ALJASER ALSHEHRI	58.631	12.000		4.500			7.500	82,631

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Independent	ALI HASSAN ALJASER ALSHEHRI	NA
Independent	ABDULLATEEF M. AL SHEIKH	NA
Independent	TAREQ ABDULLAH HUSSAIN AL RAMIM	NA
Independent	Dr./ YOUSEF ABDULLAH BASODAN	NA
Executive	HESHAM MOHAMMED AL SHERIF	NAJM Insurance Company Services

There is a change in the members of the Board of Directors during 2016 as on 17/5/2016 AD, the third session ended and Mr./ KHAMIS BIN SALEM AL- QAZAH is no longer a board director.

Dr. / YOUSEF ABDULLAH BASODAN- is a new member at the beginning of the fourth session which commenced on 18/5/2016, and approved by the ordinary general assembly on 1/5/2016 AD.

On 25/7/2016 the ordinary general assembly agreed to appoint Mr./ RIYAD AHMED ALTHAQAFI as a Board member representing Islamic Development Bank.

In accordance with Article Eleven of the Company's Articles of Association, the Board members have purchased 1000 shares, which were held to guarantee the liability of the Board members.

Name	Number of the shares owned by the Company
Eng./MOHAMMED HANI ABDELQADER AL BAKRI	REPRESNTED ACIG BAHREEB (4,000,000 SHARES)
Eng./ THAMER ABDULLAH BIN RAYES.	1,025 SHARES
Mr./ HOSSAM TALAL AL-GHAZAWI	1,000 SHRES

## **Board of Director Meetings:**

The number of the Board meetings reached 7 meetings during 2016 AD and the attendees were as follows:

		L et	_ nd	and	l -th	th	ath	_th	
S	Member Name	1 <sup>st</sup> meeting 17/1/2016	2 <sup>nd</sup> meeting 18/2/2016	3 <sup>rd</sup> meeting 18/4/2016	4 <sup>th</sup> meeting 18/5/2016	5 <sup>th</sup> meeting 26/7/2016	6 <sup>th</sup> meeting 18/10/2016	7 <sup>th</sup> meeting 20/12/2016	Number of attendance
1	Eng./ THAMER ABDULLAH BIN RAYES.	attended	attended	attended	attended	attended	attended	attended	7
2	Eng./ SULIMAN ABDULLAH ALKHARIJI	attended	attended	attended	attended	attended	attended	attended	7
3	Mr./HESHAM MOHAMMED AL SHERIF	attended	attended	attended	attended	attended	attended	attended	7
4	Eng./ MOHAMMED HANI ABDELQADER AL BAKRI	attended	attended	Did not attend	attended	attended	Did not attend	attended	5
5	Mr./ALI HASSAN ALJASER ALSHEHRI	Did not attend	attended	attended	attended	Attended by proxy	attended	attended	6
6	Mr./ HOSSAM TALAL AL- GHAZAWI	attended	attended	attended	Attended by proxy	Did not attend	attended	attended	6
7	Dr. ABDULLATEEF M. AL SHEIKH	attended	attended	attended	attended	attended	Did not attend	attended	6
8	Mr./ KHAMIS SALEM AL-QAZAH	Did not attend	Did not attend	Did not attend	The session ended and a new one started				0
9	Eng./TAREQ ABDULLAH HUSSAIN AL RAMIM	Attended	Attended	Attended	Attended	attended	Attended by proxy	attended	7
10	Dr./ YOUSEF ABDULLAH BASODAN	Has not joined yet	Has not joined yet	Has not joined yet	Attended	attended	attended	Attended by proxy	4
11	Mr./ RIYAD AHMED AL-THAQAFI	Has not joined yet	Has not joined yet	Has not joined yet	Has not joined yet	attended	attended	attended	3

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Mr./HESHAM	58.631	18.00 <b>0</b>	4.500	6.000	4.500		87.131
MOHAMMED AL							
SHERIF							
Dr./ YOUSEF		9.000					13.500
ABDULLAH							
BASODAN							
Mr./ RIYAD AHMED							
AL-THAQAFI							
Mr./ HOSSAM	58.631	12.000		4.500			75.131
TALAL AL -							
GHAZAWI							
Dr. ABDULLATEEF	58.631	15.000				6.000	79.631
M. AL SHEIKH							
Mr./ KHAMIS							
Mr./ KHAMIS SALEM AL-							
QAZAH							
Eng./TAREQ ABDULLAH	58.631	15.000			3.000		76.631
HUSSAIN AL RAMIM	100.00:	100.005	10.500		10.000	40.500	
TOTAL	498.364	129.000	13.500	24.000	12.000	13.500	690,364

## 2- Privileges and rewards that were paid to five of the senior executives who received the highest rewards and indemnities, in addition to the executive officer and financial director:

Statement	Value (SR)
Salaries and indemnities	3.450.000
Allowances	1.567.524
Periodic and annual rewards	387.970
Encouraging plans	0
Any real indemnities or privileges paid monthly or annually	20.204
Total	5.425.698

#### The Committee held six meetings during 2016 AD, and implemented its following duties:

- Reviews the Company's financial statements and assures their safety, and the soundness of the conclusion of the financial reports, the internal accounting systems and Company's financial control.
- Annually independently reviews the financial statements of the Company, asks for the assistance of the external auditors and evaluates the external auditors' qualifications, implementation and independence.
- Recommends the appointment of internal auditor and systemic controller, as well as reviews their duties and liabilities.
  - The Company's commitment to the controls of the policies and procedures prescribed in the Company.

### **Nomination and Rewards Committee:**

#### The Nomination and Rewards Committee consists of three Board members as follows:

- 1 Mr./ALI HASSAN ALJASER ALSHEHRI Committee President
- 2 Dr. ABDULLATEEF M. AL SHEIKH Member
- 3 Mr./ NAYEF AL TAMIMI Member

## The Committee held three meetings during 2016 AD, the Committee performs the following duties and liabilities:

- Files the recommendations with respect to the nominees for the Board membership to be presented to the general assembly, as well as the candidates for the top administrative executive positions such as the executive officer and its deputies.
  - Prepares clear procedures and policies to develop the policy of the Board rewards.
- Notifies the Board of Directors concerning the annual review of the Board's implementation, and files its recommendations with regard to the nominees for the committees' membership to be appointed.
- Files recommendation to the Board of Directors to adopt the policies and plans of the indemnities and annual bonuses, in addition to the policies of incentives to attract, maintain and encourage the distinguished employees.
  - Evaluates the skills and expertise of the members of the Board of Directors, and the top executive

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#### Board of Directors has taken two resolutions to be passed on the following dates:

- 1- Board of Director's resolution No. 2016-1 dated 18/5/2016 AD.
- 2- Board of Director's resolution No. 2016-2 dated 26/7/2016 AD.

## **C- Board of Directors Committees:**

#### **Executive Committee:**

The Executive Committee consists of five members, Mr. THAMER ABDULLAH BIN RAYES.(Committee President), and the membership of Eng./ MOHAMMED HANI ABDELQADER AL BAKRI, Mr./ HOSSAM TALAL AL-GHAZAWI, Mr./HESHAM MOHAMMED AL SHERIF and Mr./ALI HASSAN ALJASER ALSHEHRI. The Executive Committee held five meetings during 2016 AD. The Executive Committee examines the issues presented to the Board of Directors to be discussed in the Board, and issues its recommendations which facilitates the discussion, moreover, the Committee takes resolutions concerning matters assigned to it by the Board from time to time, delegating to it some authorities as required by the Company.

#### **Audit Committee:**

The Audit Committee consists of five independent members. The Committee President and Vice-president are Board members and other members are from outside the Board, they are:

Dr./YOUSEF ABDULLAH BASODAN Eng./ SULIMAN ABDULLAH ALKHARIJI Mr. NABIL ABDULLAH NASIF Dr. / MASOUM BILLAH Mr./ ABDELAH AL HARBI Committee President Vice-President Member Member Member ance of the resolutions and legal opinions concerning Islamic Law (Fatwah) with respect to contracts and documents to comply with the Islamic Shari'a laws and all works presented by the executive administration with the view to assure the Company's adherence to the Islamic Shari'a laws. The Committee held one meeting during 2016.

## **D- General Assembly**

#### 1 - Ordinary General Assembly

During 2016, two ordinary general assemblies were held:

The Company's first ordinary general assembly was held during the six months following the end of the fiscal year, in accordance with the provisions of the Company's articles of association. The ordinary general assembly held on 1/5/2016 agreed upon the following decisions:

- 1 The approval of the Board of Director's report on the fiscal year ending on 31/12/2015 AD.
- 2 The approval of the auditors' report for the fiscal year 31/12/2015 AD.
- 3 The approval of the Company's financial statements for the year ending on 31/12/2015 AD.
- 4 The approval of the appointment of the Company's auditors PKF, and Ahmed Tayser Ibrahim Company and Partner among all the nominees of the Audit Committee in order to audit the financial statements for the fiscal year 2016 AD, and the quarterly financial statements along with determining their fees.
- 5 Approval of the works performed during 2015 AD with Al Bakri Investment Group, which are insurance policies amounting 527 thousand riyal, as Eng. Mohammed Hani Al Bakri is a Board member, and is considered one of the related parties, and the license for the next year according to the normal conditions.
- 6 Approval of the works performed during 2015 AD with Al Rayes Investment Group, which are insurance policies amounting 470 thousand riyals, as Eng. THAMER ABDULLAH BIN RAYES is the Chairman of the Board of Directors, and is considered one of the related parties, and the license for the next year according to the normal conditions.
- 7 Approval of the works performed during 2015 AD with Al Ghazawi Investment Group, which are insurance policies amounting 445 thousand riyals, as Mr./ HOSSAM TALAL AL-GHAZAWI is a Board member, and is considered one of the related parties, and the license for the next year according to the normal conditions.

administration, as well as files recommendations in connection with the necessary training programs in light of the evaluation results.

- Places the social responsibility programs and follows up the execution thereof in cooperation with the executive administration.
- Assures that the Company is continuously in compliance with the government requirements, and files that to the Board of Directors.

#### **Investment Committee:**

The Investment Committee consists of four members, Eng./ THAMER ABDULLAH BIN RAYES.(Committee President), and the membership of Mr./HESHAM MOHAMMED AL SHERIF, Eng./TAREQ ABDULLAH HUSSAIN AL RAMIM and Mr./ SHAGHOUL HAMID. The Committee is specialized in the management of the Company's entire investment file.

The Committee shall have all authorities in this regard. It shall have the right to appoint expertise houses with respect to the investment file. The Committee held four meetings during 2016 AD.

#### **Risks Management Committee:**

The Risks Management Committee consists of three members, Eng./ THAMER ABDULLAH BIN RAYES.(-Committee President), and the membership of Mr./HESHAM MOHAMMED AL SHERIF and Mr./ HOSSAM TALAL AL-GHAZAWI. The Committee is specialized in the management of the risks in the Company, and the adoption of a comprehensive strategy to manage risks in accordance with the circumstances of the market, and the experience provided to treat the risks which the Company may be caused, as well as the conclusion of periodic reviews and risks management strategies updates through taking into account the Company's internal and external changes. The Committee held two meetings during 2016.

#### **Legitimate Authority**

It is the legitimate control authority. It is an independent authority consists of scientists specialized in jurisprudence of transactions as follows: His Honor Sheikh/ ABDULLAH BIN BIA (President), Dr./ HANI AHMED ABDEL SHAKOUR, Mr./ AHMED BIN HUSSAIN AL-MUBARAKI. The Legitimate Authority undertakes the issu-



# The 2nd ordinary general assembly held on 25/7/2016 AD approved the following resolutions:

1 - Approval of formation the Audit Committee, updating the rules of selecting the Committee members, and determination of their duties, its controls and the rewards of its members, for the new session which commences on 18/5/2016 for three years, noting that the candidates are:

Dr./YOUSEF ABDULLAH BASODAN

Eng./ SULIMAN ABDULLAH ALKHARIJI

ABDULLAH SALEH AL HARBI

NABIL ABDULLAH NASIF

Dr./ MASOUM BELLAH

- 2 Approval of the amendments and additions to the Company's governance regulation.
- 3 Approval of the regulation of the nominations and rewards.
- 4 Approval of the appointment of Mr./ RIYAD AHMED ALTHAQAFI as a Company's Board member representing Islamic Development Bank.
- 3- The Company's articles of association along with its by-laws include the following:
  - 1 The right to get a share from the profits prescribed to be distributed.
  - 2 The right to get a share from the company's assets upon the Company's liquidation.
- 3 The right to attend the general assemblies, participate in their deliberations and vote upon their resolutions.
  - 4 The right to dispose the shares.
- 5 The right to control and monitor the works of the Board of Directors and referring the responsibility to the Board's members.
- 6 The right to inquire and ask for information, in a manner that is not detrimental to the interests of the Company's interests and does not contravene with the market financial system and the implementing regulations thereof.

- 8 Approval of the works performed during 2015 AD with Mr. / HESHAM AL SHERIF, which are insurance policies amounting 35 thousand riyals, as Mr./ HESHAM AL SHERIF is a Board member, and is considered one of the related parties, and the license for the next year according to the normal conditions.
- 9 The assembly decided to elect the Company's Board members for the fourth session which will commence, if Allah will, on 18/5/2016 AD, for three years and will expire on 17/5/2019 AD. The members were selected by accumulative voting as follows: The approval of the Board of Director's report on the fiscal year ending on 31/12/2015 AD.
- 1- Eng./ THAMER ABDULLAH BIN RAYES
- 2- Allied Cooperative Insurance (ACIG), represented by Eng./ Mohammed Hani Abdel Qader Al Bakri
- 3- Mr./ HESHAM MOHAMMED ABDULLAH AL SHERIF
- 4- Eng./ SULIMAN ABDULLAH ALKHARIJI
- 5- Dr. ABDULLATEEF M. AL SHEIKH
- 6- Eng./TAREQ ABDULLAH HUSSAIN AL RAMIM
- 7- Mr./ HOSSAM TALAL AL-GHAZAWI
- 8- Mr./ALI HASSAN ALJASER ALSHEHRI
- 9- Dr./ YOUSEF ABDULLAH BASODAN
- 10 Approval of reimbursing the rewards to the Board members for the year 2015 AD with a sum amounting 557.000 riyals pursuant to the provision of Article 17 of the Company's articles of association.
- 11 Approval to hold the Board's members harmless from the Company's management during the fiscal year ending on 31/12/2015 AD.
  - 12 Approval of the Legitimate Control Authority report.



S	Name of the interested person			f the year	Net Variation	Variation Percentage	
		Shares No.	Debts Securities	Shares No.	Debts Securities		
1	Eng./THAMER ABDULLAH BIN RAYES	1.025		1.025			
2	Eng./ MOHAMMED HANI ABDELQADER AL BAKRI						
3	HESHAM MOHAMMED AL SHERIF	2.000		2.000			
4	HOSSAM TALAL ALGHAZAWI	1.000		1.000			
5	Riyadh Ahmed Althakfy						
6	TAREQ ABDULLAH HUSSAIN AL RAMIM	1.000		1.000			
7	SULIMAN ABDULLAH ALKHARIJI	1000		1000			
8	Dr. ABDULLATEEF M. AL SHEIKH	1000		1000			
9	Mr./ ALI HASSAN ALJASER ALSHEHRI	2000		2000			
10	Dr. YOUSEF ABDALLAH BASODAN			1000		1000	100%

As for Eng./ Mohammed Hani Al Bakri and Mr./ Riyad Al Thaqafi they represent companies. There is no interest inures to the senior executives, their spouses and minor children concerning the shares or debts securities of the Company or an of its affiliates.

# y- The activities of shares, debts securities, loans and any of the affiliate companies:

The Company's licensed issued capital is 200 million Saudi riyals as of 31/12/2016 AD, and consists of 20 million shares, each equals to 100 Saudi riyals for the share. The group shares are owned by Islamic Development Bank with a percentage of 20%, ACEG owns 20%, and the public owns 60%. During the year ending 31/12/2016, there were no debts securities issued by the Company, there were no interests in the shares categories that are entitled to vote for any persons, and there were no any interests, option rights and subscription rights belonging to the members of the Board of Directors, senior executives or their family members in the Company's shares. Further, there were no debts securities shall be transferred to shares, any option rights, rights memos or any similar rights issued or granted by the Company during the fiscal year ending on that date. Moreover, there were no transformation or subscription rights by virtue of the debts securities transferrable to shares, option rights or similar rights certificates issued or granted by the Company during 2016 AD. There was no recovery, purchase or cancellation on the part of the Company concerning the recoverable debts securities. Further, there were no arrangements or agreement by which any of the Shareholders assign any rights of the profits. The Company has no financial obligations towards third parties, loans, any of the debts securities or any activities related to the shares. The Board of Directors acknowledges that there are no loans owed by the Company.

Description to any interest inures to the members of the Board of Directors and their spouses and minor children in the shares or the debts securities or any of the affiliates:

## **G- Acknowledgments:**

#### **Allied Cooperative Insurance Group acknowledges that:**

- 1- It has no affiliate company.
- 2- The Company is not owed by any loans, whether due upon request or otherwise. The company did not pay any payments as loans during the fiscal year 2016 AD.
- 3-There are no debts securities that is transferable to shares, and there are no option rights, subscription right memos or similar rights issued or granted by the Company during 2016 AD.
- 4- There are no transformation or subscription rights by virtue of debts securities transferable to shares, rights, subscription rights, rights certificates or similar rights granted or issued by the Company during 2016 AD.
- 5- The Company has not recovered, purchased or cancelled, on its part, any recoverable debt securities or any value of the remaining stocks.
  - 6- There is no interest inures to individuals in the shares that have entitlement to vote.
- 7-There are no option rights or subscription right in which the exporter is a party that inure to the members of the Board of Directors, senior executive, their spouses and minor children.
  - 8-There are no arrangements or agreement by which any of the Shareholders assign any rights of the profits.
  - 9- There are no investments or other reserves established for the favor of the exporter's employees.
  - 10-There are no assignments for the salaries and indemnities.

## **O-External Auditors and International Accounting Standards:**

The Company's Shareholders general assembly held on 1/5/2016 AD decided to appoint PKF and Ahmed Tayser Ibrahim & Co. as accountants and chartered auditors for the Company in order to perform a common role as external auditors for the Company's accounts for the fiscal year ending on 31/12/2016 AD. The auditors issued their unqualified opinion along with the existence of a clause to draw the attention towards the Note (2) in the financial statements attached, as these financial statements were prepared in accordance with international standards of the financial reports, not according to the accounting standards generally accepted in KSA issued by SOCPA.

### T- Zakat, regular payments and loans:

	Balance at the beginning of the period  1/1/2016 AD  (thousand riyals)	Balance at the end of the period 31/12/2016 (thousand riyals)	Payments during 2016 AD (thousand riyals)
Zakat paid to the Zakat and Income Tax Dep.	748	1509	897
Withholding Tax paid to Zakat and Income Tax Dep.	3321	4572	4426
Supervision Fees for SAMA	466	234	2680
Supervision Fess for The Council of Co-operation Health Insurance	1770	323	3315
Tadawul Fees			220
Subscriptions paid to GOSI	220	180	3265
Penalties			303

The penalties include 301,000 Saudi riyals which have been paid to General Authority for Zakat and Tax because the Authority has linked the withholding taxes of the Company for the years 2008-2010 on the basis of the total re-insurance installments, not on the net that is transferred to the re-insurers outside the Kingdom. This penalty is for the variance between the total re-insurance installments and the value of the payments transferred abroad.

2,000 Saudi riyals have been paid as penalties for the traffic department.

approval or recommendation by taking the appropriate procedures to remedy any comments.

The Internal Audit Dep. assures that the different departments apply the Company's by-laws; It directed some departments that did not follow some of the written procedures to adopt such procedures. The Internal Audit Dep. drew the attention of some departments that did not apply the requirements of the regulatory regulations and circulations of SAMA and the Council of Co-operation Health Insurance.

The Executive Dep. did not exceed the total overheads in accordance with the estimate financial statement approved for the fiscal year ending on 31/12/2016 AD.

The Sales Dep. achieved total subscribed installments less than the total subscribed installments in the estimate financial statement approved for the fiscal year ending on 31/12/2016 AD due to an intense competition of the other insurance companies and the variation of prices in the market for the same product.

The mechanisms of issuing medical insurance policies for the small and intermediate groups were reviewed and amended.

The addition of some documents required by the Subscription Departments was reviewed before the issuance of the policies.

The application of the instructions of the surplus distribution instructions of 2015 was confirmed.

The adoption of the technical departments to the instructions of the actuary expert and the regulatory regulations of SAMA was verified.

In general, confirming that the Company adopts the instructions of the Ministry of Trade, and the instructions of CMA, GOSI and other government bodies.

The internal control system applied by the Company was prepared upon sound principles and was effectively executed with the guarantee of the authenticity of the financial reports and the compliance with the applicable regulations. The internal control system seeks to secure a

guarantee that the control and monitor means inside the Company are appropriate for limiting the risks.

The Company acknowledges that:

- A-The accounts records were properly prepared.
- B- The internal control system was prepared on sound principles and was effectively executed.
- C-There is no doubt in the exporter's ability to proceed its activity.

Reference to the Capital Market Authority circulation No. 2978/4 dated 25/3/2014 AD based on the letter of His Excellency/ Secretary General of SOCPA No. 4579/2014 dated 11/2/2014 AD including that Board of Directors of SOCPA acknowledged the applications of the International Accounting Standards at once, after the completion of the adoption thereof by SOCPA, to the financial statements prepared for the fiscal periods commencing on 1/1/2017 or thereafter, and the circulation of CMA No. 15/12231/1/R dated 12/8/2015 AD including the confirmation of CMA to the Company's Board of Directors the necessity of preparing a plan to apply the International Standards referred to and completing it before the end of 2015 AD. The Company's financial statements have been prepared in accordance with the international standards since 2008.

## U- The effectiveness and proficiency of the internal control procedures:

The scope of the Internal Audit Dep. includes the inspection and evaluation of the effectiveness and proficiency of the internal control systems in the Company. During 2016 AD, the audit processes were executed in accordance with the approach that relies on the determination of the risks, the evaluation of the internal control systems, determination and evaluation of weakness points, and updating the procedures adopted in accordance with the standards followed, and based upon the regulatory rules of the Internal Audit Dep. accepted by the Audit Committee and the Board of Directors.

The Internal Audit Dep. presents its quarterly reports to the Audit Committee emerging from the Board of Directors; these reports are based on the audit plan placed by the Internal Audit Dep. at the beginning of each fiscal year, with the consent and under the supervision of the Audit Committee.

The reports are sent in their final wording to the Audit Committee along with a copy to the Executive Dep. and the concerned departments. The Audit Committee discusses such reports in its quarterly meetings for



#### **Audit Committee and Internal Audit Function**

Risk management processes throughout the Company are audited annually by the Internal Audit function which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Auditor discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The risks faced by the Company and the manner in which these risks are mitigated by management are summarized below:

#### **Insurance risk management**

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under such contracts is the occurrence of the insured events and the severity of reported

claims. The Company's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

Underwriting and retention policies and procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local market are closely observed, reacting were necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of

business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

#### **R- Future Risks:**

A-There is no doubt that the future risks may affect the implementation of the companies working in the field of insurance, including the influence of the international re-insurance companies with the international markets, hence, non-commitment to the conditions of the re-insurance agreements. Notwithstanding the Company contracts only with high financial evaluation re-insurers, the variation in the public policies with the re-insurance companies is considered one of the future risks which may affect the implementation of the Company. Among the potential risks: shortage of qualified human resources in the Saudi insurance sector, which the Company seeks to reduce through the programs of training and qualification. In addition to other risks such as technology risks, liquidation risks, legal and regulatory risks and competitions risks.

#### **Risk governance**

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

#### Risk management structure

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

#### **Board of Directors**

The apex of risk governance is the centralised oversight of Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior management

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

#### **Frequency and Severity of Claims**

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly medical, motor, fire and burglary, general accident and marine classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

#### **Fire and Burglary**

Fire and burglary insurance contracts, with the main peril being fire damage and other allied perils resulting there from, are underwritten either on replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional treaties.

#### **Motor**

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 55% (2015: 58%) of gross written premium.

The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims. This risk is covered by per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

#### **General Accident and Workmen's Compensation**

For miscellaneous accident classes of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly

monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

#### **Sensitivities**

The Company believes that claim liabilities under insurance contract (outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions.

Sensitivity of loss for the year to change in claim liabilities based on an increase / decrease of 5% in outstanding claim reserve (net of reinsurance share) is given below.

	Change in assumptions	Impact on net liabilities	Impact on net income
2016	± 5%	±4,310	±4,310
2015	± 5%	±3,281	±3,281



#### **Credit risk**

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

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

The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

The Company investment portfolio is managed by the investment committee in accordance with the investment policy established by the investment committee.

The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.

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

#### **31 December 2016**

	Insurance operations	Shareholders '
	SR '000	SR '000
Cash and cash equivalents	204,500	55,036
Available-for-sale investments	-	47,682
Premiums receivable, net	89,661	-
Reinsurance receivables, net	4,739	-
Reinsurers' share of outstanding claims	43,224	-
Prepayments and other receivables	28,249	
	370,373	102,718

#### Marine

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

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

The Company does not have insurance contract covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation. The Company does not have any material claims where the amount and timing of payment is not resolved within one year of the reporting date.

#### Medical

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, 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. An arrangement has been made with reinsurers through proportional treaties.

#### **Regulatory framework risk**

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

Accrued and other payables	6,590	-	6,590
	188,080	-	188,080
Shareholders' Financial Liabilities			
Accrued and other payables	1,620	685	2,305
	1,620	685	2,305
Total Financial Liabilities	189,700	685	190,385

#### **31 December 2015**

	Up to	More than	Total
	one year	one year	
	SR '000	SR' 000	SR' 000
Insurance Operations' Financial Liabilities			
Reinsurance payables	38,430	-	38,430
Accounts payable	21,743	-	21,743
Outstanding claims	76,263	-	76,263
Accrued and other payables	5,126	-	5,126
	141,562	-	141,562
Shar eholders' Financial Liabilities			
Accrued and other payables	899	522	1,421
	899	522	1,421
Total Financial Liabilities	142,461	522	142,983

#### **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.

#### Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company principal transactions are carried out in Saudi Riyal. Management believes that there is no risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

#### **31 December 2015**

	Insurance operations SR '000	Shareholders' Operations SR '000
Cash and cash equivalents	167,613	30,551
Available-for-sale investments	-	65,442
Premiums receivable, net	82,492	-
Reinsurance receivables, net	1,336	-
Reinsurers' share of outstanding claims	10,633	-
Prepayments and other receivables	25,190	_
	287,264	95,993

#### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

#### **Maturity profiles**

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

#### **31 December 2016**

	Up to	More than	Total
	one year	one year	
	<b>SR</b> '000	SR' 000	SR' 000
Insurance Operations' Financial Liabilities			
Reinsurance payables	35,461	-	35,461
Accounts payable	16,609	-	16,609
Outstanding claims	129,420	-	129,420

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Shareholders' operations				
Available-for-sale investments	20,759	25,000	1,923	47,682
	20,759	25,000	1,923	47,682
As at 31 December 2015	Level 1	Level 2	Level 3	Total
Shareholders' operations				
Available-for-sale investments	17,655	45,864	1,923	65,442
	17,655	45,864	1,923	65,442

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' comprehensive income will be impacted.

#### **Capital management**

Capital requirements are set and regulated by the Saudi Arabian Monetary Authority. 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.

#### **Commission rate risk**

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the company to cash flow commission risk, whereas fixed commission rate instruments expose the company to fair value interest risk. The Company is exposed to commission rate risk on certain of its investments, cash and cash equivalents, and time deposits. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated.

The following table demonstrates the sensitivity of statement of Shareholders' comprehensive income to reasonably possible changes in commission rates, with all other variables held constant.

The sensitivity of the statement of shareholders' comprehensive income is the effect of the assumed changes in commission rates on the Company's income for the year, based on the floating rate financial assets and financial liabilities held as at December 31:

	Change in basis points	Effect on comprehensive
		income for the year
		SR'000
2016	50	+/- 1,040
2015	50	+/- 923

#### **Market price risk**

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

These investments are managed by a professional fund manager in accordance with the guidelines approved by the Board of Directors.



Special insurance policies were issued to the Financial Vice-President (Mr./ SHAGHOUL HAMID SHERIF amounting 3,000 Saudi riyals.

#### **I- Investments:**

The Company invests its funds deposited in the local banks in Murabha programs without applicable risks in accordance with Islamic Shari'a laws. ACEG owns shares in Najm for Insurance Services (Saudi closed Joint Stock Company), as it possesses 3.85% of the Company's shares. The nominal investment value in the Company's books amounts 1,923,000 Saudi riyals. Thus, it engages it activity in exercising the works of the vehicles claims settlements.

Thus, the Board of Directors report for the Company's works for 2016 AD ended.

May Allah Bless,,

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

#### **Contractors & obligations**

Insurance policies were issued to some of the members of the Board of Directors, the executive officer and the financial manager or to related companies and parties amounting 1,071 Thousand Saudi riyals. The receivables of these policies ending on 31/12/2016 amount 71 thousand Saudi riyals corresponding to 149 thousand Saudi riyals on 31/12/2015 AD.

Board Member	Client Name	Balance at the beginning of the year 1/1/2016 (thousand riyals)	Balance at the end of the year 31/12/2016 (thousand riyals)	The value of the policies issued during the year (thousand riyals)
MOHAMMD HANI AL BAKRI	AL BAJRI COMPANIES GROUP	1		468
Eng./ THAMER ABDULLAH RAYES	RAYES COMPANIES GROUP	60	71	465
Mr./ HOSSAM AL GHAZAWI	AL GHAAZAWI COMPANIES GROUP	88		120
Mr./ HESHAM M. AL SHERIF				18



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

#### EMPHASIS OF MATTER

We draw attention to note 2 to the accompanying financial statements that these financial statements have been prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia as issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

PKF Al-Bassam & Al-Nemer Allied Accountants

Ibrahm A. Al Bassam

License No. 337

SPECIAL SECURITARIS

SPECIAL S

Ahmed Tayseer Ibrahim & Co. Chartered Accountants

Ahmed Tayseer Ibrahim Certified Public Accountant Licence No. 213

9 March 2017 10 Jumaada Al Thani 1438H Jeddah, Kingdom of Saudi Arabia



Al-Bassam & Al-Nemer Allied Accountants (A member firm of PKF International) P.O. Box 15651 Jeddah - 21454

#### AHMED TAYSEER IBRAHIM & CO.

CHARTERED ACCOUNTANTS (Registration No. 640)



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ALLIED COOPERATIVE INSURANCE GROUP (ACIG) (A SAUDI JOINT STOCK COMPANY)

#### SCOPE OF AUDIT

We have audited the accompanying statement of financial position of Allied Cooperative Insurance Group (ACIG) - 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' operations cash flows for the year then ended and the notes from 1 to 30 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with international Financial Reporting Standards and the provisions of the Saudi Regulations for Companies and the Company's by-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a 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 at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards: and
- ii). Comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.



INDEX PAGE

Independent Auditors Report

Statement of Financial Position

Statement of Insurance Operations and Accumulated Surplus

Statement of Shareholders Operations

Statement of Shareholders Comprehensive Income

Statement of Changes in Shareholders Equity

Statement of Insurance Operations Cash flows

Statement of Shareholders Operations Cash flows

Notes to the Financial Statements

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



STATEMENT OF FINANCIAL POSITION - (continued) At 31 DECEMBER 2016

		31 December	31 December
	Note	2016	2015
		SR'000	SR'000
INSURANCE LIABILITIES AND SURPLUS			
Insurance operations' liabilities			
Reinsurance payables		35,461	38,430
Unearned commission income	13	644	1,943
Unearned premiums	14	232,296	234,971
Premium deficiency reserve		, <u>-</u>	6,969
Catastrophe reserve		248	133
Accounts payable	16	16,609	21,743
Outstanding claims	15	129,420	76,263
Accrued and other payables	17	6,590	7,373
Employees' terminal benefits		6,474	5,126
Total insurance operations' liabilities		427,742	392,951
Insurance operations' surplus			
Surplus from insurance operations		3,972	2,828
		424 744	205 770
Total insurance operations' liabilities and surplus		431,714	395,779
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities	17	795	673
Accruals and other payables			
Accrued zakat and income tax	19	1,510	748
Total shareholders' liabilities		2,305	1,421
Shareholders' equity	00	202.222	000 000
Share capital	20	200,000	200,000
Accumulated losses	•	(73,796)	(80,482)
Available-for-sale investments reserve	9	(1,053)	(2,559)
Total shareholders' equity		125,151	116,959
Total shareholders' liabilities and equity		127,456	118,380
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS			
AND SHAREHOLDERS' EQUITY		559,170	514,159

STATEMENT OF FINANCIAL POSITION At 31 DECEMBER 2016

	Note	31 December 2016 SR'000	31 December 2015 SR'000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	5	204,500	167,613
Term deposits	6		50,000
Premiums receivable, net	7	89,661	82,492
Reinsurance receivables, net		4,739	1,336
Reinsurers' share of unearned premiums	14	35,120	34,420
Reinsurers' share of outstanding claims	15	43,224	10,633
Deferred policy acquisition cost	10	17,532	17,923
Due from a related party		1,215	-
Prepayments and other receivables	11	28,249	25,910
Property and equipment, net	12	7,474	5,452
Total insurance operations' assets		431,714	395,779
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	55,036	30,551
FVIS investments	8	-	-
Available-for-sale investments	9	47,682	65,442
Prepayments and other receivables	11	4,738	2,387
Statutory deposit	18	20,000	20,000
Total shareholders' assets		127,456	118,380
TOTAL ASSETS		559,170	514,159

STATEMENT OF SHAREHOLDERS' OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	31 December 2016 SR'000	31 December 2015 SR'000
Shareholders' share of insurance operations surplus Realized (loss) / gain on available-for-sale investments Dividends Realized gain on FVIS investments Commission income Total revenues	_	10,297 (1,739) 385 - 586 9,529	9,770 2,311 118 423 108 12,730
EXPENSES General and administrative expenses Net income for the year	23 _	(1,185) 8,344	(1,597) 11,133
Weighted average number of ordinary shares outstanding ('000')	20 _	20,000	20,000
Basic and diluted earnings per share for the year (SR)	21 _	0.42	0.56

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS FOR THE YEAR ENDED 31 DECEMBER 2016

		31 December	31 December
	Note	2016	2015
		SR'000	SR'000
REVENUE			
Gross written premiums		510,618	549,441
Less: Premiums ceded		(72,342)	(85,293)
Excess of loss premiums		(6,484)	(5,604)
Net written premiums		431,792	458,544
Changes in net unearned premiums	14	3,375	(72,138)
Net premiums earned		435,167	386,406
Other underwriting income		10,494	10,740
Reinsurance commission earned	13	5,026	4,798
Net revenues		450,687	401,944
			· · · · · · · · · · · · · · · · · · ·
Cost and expenses			
Gross claims paid	15	353,566	284,317
Less: Reinsurers' share	15	(29,417)	(24,491)
Net claims paid		324,149	259,826
Changes in outstanding claims, net		20,566	31,164
Net claims incurred	15	344,715	290,990
Change in premium deficiency reserve		(6,969)	6,969
Change in catastrophe reserve		115	133
Policy acquisition cost	10	40,017	36,198
Other underwriting expense		1,918	2,353
Net cost and expenses		379,796	336,643
		<u> </u>	
Net result of insurance operations		70,891	65,301
General and administrative expenses	23	(61,891)	(52,670)
Supervision and inspection fee		(2,459)	(2,282)
CCHI fee		(1,684)	(1,588)
Investment income		4,922	<b>`</b> 869
Other income		1,662	1,225
Surplus from insurance operations		11,441	10,855
Shareholders' share of insurance operations surplus		(10,297)	(9,770)
Surplus for the year		1,144	1,085
Accumulated surplus at the beginning of the year		2,828	1,743
Accumulated surplus at the end of the year		3,972	2,828
A total mainted outplate at the elia of the year		-,-	,

STATEMENT OF SHAREHOLDERS' OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital SR '000	Accumulated losses SR '000	Available-for- sale investments reserve	Total SR '000
Balance as at 31 December 2015	200,000	(80,482)	(2,559)	116,959
Net income for the year		8,344	-	8,344
Change in fair value of available-for-sale investments	-	-	1,506	1,506
Zakat and income tax (note 19)	-	(1,658)	-	(1,658)
Balance as at 31 December 2016	200,000	(73,796)	(1,053)	125,151
Balance as at 31 December 2014	200,000	(90,895)	1,426	110,531
Net income for the year	-	11,133	-	11,133
Change in fair value of available-for-sale investments	-	-	(3,985)	(3,985)
Zakat and income tax	-	(720)	-	(720)
Balance as at 31 December 2015	200,000	(80,482)	(2,559)	116,959

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## ALLIED COOPERATIVE INSURANCE GROUP (ACIG) (A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	31 December 2016 SR '000	31 December 2015 SR '000
Net income for the year		8,344	11,133
Other comprehensive income / (expenses): Change in fair value of available-for-sale investments Zakat and income tax	9 19	1,506 (1,658)	(3,985) (720)
Total comprehensive income for the year	-	8,192	6,428

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS - (continued) 31 December 31 December FOR THE YEAR ENDED 31 DECEMBER 2016 2016 2015 SR'000 SR'000 **INVESTING ACTIVITIES** Purchase of property and equipment (4,362)(1,438)Investment in term deposit 50,000 (50,000)Net cash from / (used in) investing activities 45,638 (51,438)**NET CHANGE IN CASH AND CASH EQUIVALENTS** 36,887 37,672 CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR 167,613 129,941 204,500 167,613 CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	31 December 2016 SR '000	31 December 2015 SR '000
Cash flows from operating activities: Surplus for the year from insurance operations	1,144	1,085
Adjustment for:	1,177	1,000
Depreciation	2,340	1,933
Employees' terminal benefits, net	1,348	1,268
Provision for doubtful debts	3,592	951
	8,424	5,237
Changes in operating assets and liabilities:		
Premiums receivable, net	(10,761)	(37,428)
Reinsurance receivables, net	(3,403)	(69)
Reinsurers' share of unearned premiums	(700)	(7,909)
Reinsurers' share of outstanding claims	(32,591)	(1,527)
Deferred policy acquisition cost	391	(9,624)
Due from related party	(1,215)	-
Prepayments and other receivables	(2,339)	(10,264)
Reinsurance payables	(2,969)	18,600
Unearned commission income	(1,299)	(364)
Unearned premiums	(2,675)	80,047
Premium deficiency reserve	(6,969)	6,969
Catastrophe reserve	115	133
Accounts payable	(5,134)	8,829
Outstanding claims	53,157	32,691
Accrued and other payables	(783)	3,789
Net cash (used in) / from operating activities	(8,751)	89,110

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

#### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Allied Cooperative Insurance Group (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030171999 dated 9 Shabaan 1428H, corresponding to 22 August 2007. Registered Office address of the Company is Al Ruwais District, P. O. Box 7076, Jeddah 21462, Kingdom of Saudi Arabia.

During 2014, as per the shareholders resolution dated 13 May 2014, the registered office address of the Company has changed from Jeddah to Al Malka District P.O. Box 40523 Riyadh 11511, Kingdom of Saudi Arabia. The legal formalities to change the registered office address of the Company have been completed during 2014 and accordingly new Commercial Registration No. 1010417178 has been obtained and Articles of Association has been amended.

The activities of the Company are to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. On 4 April 2009, the Company received license from the Saudi Arabian Monetary Authority ("SAMA") to engage in insurance in Saudi Arabia. The Company commenced its commercial operations on 1 July 2009. The company was listed on the Saudi Stock Exchange (Tadawul) on 27 August 2007. As per Tadawul shareholding system at 31 December 2016, the Company is owned 98.97% (2015: 98.97%) by Saudi shareholders and 1.03% (2015: 1.03%) by non-Saudi shareholders.

#### 2. BASIS OF PREPARATION

Basis of measurement

The financial statements are prepared under the historical cost convention except for the measurement of available-for-sale and FVIS investments which are measured at fair value.

STATEMENT OF SHAREHOLDERS OPERATIONS' CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	31 December 2016	31 December 2015
	SR'000	SR'000
OPERATING ACTIVITIES		
Net income for the year	8,344	11,133
Adjustment for:	4 700	(0.044)
Realized loss / (gain) on available-for-sale investments	1,739	(2,311)
Dividend income  Realized asia on FV/IS investments	(385)	(118)
Realized gain on FVIS investments	0.000	(423)
Changes in appreting assets and liabilities:	9,698	8,281
Changes in operating assets and liabilities: Prepayments and other receivables	(2,350)	304
Accrued and other payables	122	60
Zakat paid	(896)	(1,266)
Net cash from operating activities	6,574	7,379
The same of the sa		· · · · · · · · · · · · · · · · · · ·
INVESTING ACTIVITIES		
Proceeds from sale of FVIS investments	-	5,742
Purchase of available-for-sale investments	(28,182)	(69,392)
Proceeds from sale of available-for-sale investments	45,708	42,469
Dividend received on FVIS investments	385	118
Net cash from / (used in) investing activities	17,911	(21,063)
NET CHANGE IN CASH AND CASH EQUIVALENTS	24,485	(13,684)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	30,551	44,235
	55,036	30,551
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	33,036	30,331
Non Cash Transactions:		
Change in fair value of available-for-sale investments	(1,506)	(3,985)

The accompanying notse 1 to 30 from part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 2. BASIS OF PREPARATION – (continued)

New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

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

Standard/ Interpretation	Description
IFRS 11	Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 27	Amendments to IAS 27 Equity Method in Separate Financial Statements
IFRS 10 and IAS 28	Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IAS 1	Amendments to IAS 1 Disclosure initiative
IAS 16 and IAS 41	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants.
IFRS 10, IFRS 12	Amendments to IFRS 10, IFRS 12 and IAS 28 Applying the Consolidation Exception
and IAS 28	
IFRS 5, IFRS 7, IAS	Annual Improvements to IFRS 2012 - 2014 cycle
19 and IAS 34	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 2. BASIS OF PREPARATION – (continued)

### Statement of Compliance

The Company has prepared these financial statements in accordance with International Financial Reporting Standards ("IFRS"). The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates and judgments are based on management s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### Basis of presentation

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders Operations. Assets, liabilities, income and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses of joint operations is determined by the management and approved by the Board of Directors.

As per the by-laws of the Company, surplus arising from the Insurance Operations is distributed as follows:

Transfer to Shareholders' operations	90%
Transfer to Policyholders' operations	10%
	100%

In case of deficit, the whole deficit will be transferred to Shareholders operations.

### **Functional and presentational currency**

The functional and presentational currency of the Company is Saudi Riyals (SR). The financial statement values are presented in Saudi Riyals, unless otherwise indicated.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Insurance contracts**

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

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

Insurance contracts are principally divided into marine, property, motor, engineering and accident and liability and are principally short term insurance contracts.

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

Property insurance contracts mainly compensate the Company s customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover). For property insurance contracts, the main risks are fire, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. In Saudi Arabia, it is compulsory for all vehicles to have minimum third party cover. The Company also issues comprehensive motor policies. Such motor policies cover damages to vehicles due to storm, tempest, flood, fire, theft and personal accident.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 2. BASIS OF PREPARATION – (continued)

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these interim condensed financial statements.

### Standards 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 and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they are effective.

Standard/ Interpretation	Description	Effective date
IAS 12	Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised lo	1 January 2017
IAS 7	Amendments to IAS 7 Disclosure Initiative	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued) Reinsurance

In the ordinary course of business, the Company cedes insurance premiums and risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' statement of financial position representing premiums due to reinsurers, net of commission income which represents income earned from reinsurance companies, or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties.

The Company assesses its reinsurance assets, if any, for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the impairment loss in the statement of insurance operations and accumulated surplus. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for insurance and other receivables. The impairment loss is also calculated following the same method used for these financial assets.

Impairment and uncollectibility of financial assets

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

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# ALLIED COOPERATIVE INSURANCE GROUP (ACIG) (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Accident insurance includes money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability insurance includes general third-party liability, product liability, workmen s compensation/employer s liability and professional indemnity cover protecting the insureds legal liability arising out of acts of negligence during their business operations. Engineering insurance covers two principal types (a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs. (b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

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 with a large population to be covered under the policy.

Claim and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

### **Deferred policy acquisition costs**

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

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

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

### **Investments**

All investments are initially recognised at cost, being the fair value consideration given including acquisition charges associated with the investment. Financial assets are initially recognised at fair values plus, in the case of all financial assets not carried at fair value through income statement, transaction costs that are directly attributable to their acquisition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued) **Reinsurance - (continued)**

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

For presentation purposes, the resulting reserve is carried in the respective category within the statement of financial position and the related statements of insurance operations and accumulated surplus or shareholders operations are adjusted.

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

Significant financial difficulty of the issuer or debtor;

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

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

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for







NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

### **Property and equipment**

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis based on the following estimated useful lives:

	Years
Motor vehicles	4
Furniture, fittings and office equipment	7
Computers & software	4
Leasehold improvements	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. The fair value of commission bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

### a) FVIS Investments

Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investments classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the st

atement of shareholders operations and statement of insurance operations and accumulated surplus.

### b) Available-for-sale investments

After initial recognition, investments which are classified as "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are included in statement of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported within statement of comprehensive income is included in the statement of shareholders operations.





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

### **Trade and other payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Liabilities are recognized for amounts to be paid for services received, whether or not billed to the Company.

### **Foreign currency translation**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement of such transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are included in the statement of insurance operations and accumulated surplus or shareholders' operations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

### **Trade date accounting**

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

### **Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand, cash at banks and short term deposits with an original maturity of less than three months at the date of acquisition.

### **Provisions for obligations**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

of the loss is recognized in the statement of insurance operations and accumulated surplus. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Subsequent recoveries, of amounts previously written off are credited in the statement of insurance operations and accumulated surplus. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.

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

Employees end-of-service benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labour Regulations on termination of their employment contracts. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. End-of-service payments are based on employees final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of Saudi Arabia.

### **Revenue recognition**

### Recognition of premiums and commission revenue

Gross premiums and commissions on insurance contracts are recognized when the insurance policy is issued. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents last three months of the premiums written during the current financial period.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of insurance operations and accumulated surplus.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of shareholders operations as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

### **Liability adequacy test**

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the contracts liabilities net of related deferred policy acquisition costs. In performing these tests management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of insurance operations and accumulated surplus initially by writing off related deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

### Insurance and other receivables

Insurance and other receivable are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

### Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell a (usually damaged) vehicle or a property acquired in settling a claim (i.e. salvage). The Company may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvaged vehicles or property acquired are recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the vehicle or property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

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

The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

### Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of insurance operations and accumulated surplus and shareholders operations unless required or permitted by any accounting standard or interpretation.

### 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued) Revenue recognition - (continued) Recognition of premiums and commission revenue - (continued)

Premiums and commission income, which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:

- Last three month of premiums for marine cargo business
- Actual number of days for other lines of business

### **Commission income**

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

### **Dividend income**

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

### **Claims**

Gross claims consist of benefits and claims paid to policyholders, changes in the valuation of the liabilities arising on policyholders contracts and internal and external claims handling expenses net of salvage recoveries. Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on Managements judgment and the Companys experience is maintained for the cost of settling claims incurred but not reported (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following period is included in the statement of insurance operations and accumulated surplus for that year. The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

**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.

### Offsetting financial assets and liabilities

Financial assets and 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 liability simultaneously. Income and expense are not offset in the statement of insurance operations and accumulated surplus and statement of shareholders operations unless required or permitted by any accounting standard or interpretation.

### **Premium deficiency reserve**

The Company carries out an analysis of loss/combined ratios for the expired period. Such ratios are being calculated by taking into account the relevant incurred but not reported provision and then used for the determination of premium deficiency reserve for each class of business.

### **Segmental reporting**

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incurs expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organized into business units based on their products and services and has three reportable operating segments as follows:

-Motor Insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016- (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

### **Zakat and income tax**

In accordance with the regulations of the Department of General Authority of Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders and to income taxes attributable to the foreign shareholders. Provisions for zakat and income taxes are charged to the equity accounts of the Saudi and the foreign shareholders, respectively. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

### **Unearned commission income**

Commission income on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. Amortisation is recorded in the statement of insurance operations and accumulated surplus.

### Fair values of financial instruments

Financial instruments comprise cash and cash equivalents, premiums receivable, reinsurance receivables, investments, outstanding claims, reinsurance payables and certain other assets and liabilities.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or based on the expected discounted cash flows.

The fair values of financial assets and liabilities are not materially different from their carrying values at the reporting date. 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);



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS - (continued)

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

### The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company s most critical accounting estimate. There are several sources of uncertainty that needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

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

### Impairment losses on receivables

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

- \_ Medical insurance, which covers medical costs, medicines, and all other medical services and supplies. General accident, which covers miscellaneous accident classes of insurance such as loss of money, personal accident, workmens compensation, travel, general third party liability and professional indemnity.
- \_ Other classes, which covers any other classes of insurance not included above.

### **Segmental reporting - (continued)**

Shareholders income is a non-operating segment. Income earned from short term deposits, time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations is allocated to this segment on an appropriate basis.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the accompanying financial statements.

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between operating segments are set on an arm s length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### **6. TERM DEPOSITS**

	31 December	31 December
	2016	2015
	SR'000	SR'000
Insurance Operations		
Term deposits		50,000

The term deposits are held with the commercial banks. These term deposits are denominated in Saudi Arabian Riyals and have been an original maturity of more than three months and less than twelve months. The carrying amounts of these term deposits reasonably approximate their fair values at the reporting date.

21 December

### 7. PREMIUMS RECEIVABLE, NET

			2016 SR'000	2015 SR'000
Due from policyholders			95,804	84,965
Due from policyholders - related parties			71	149
Provision for doubtful debts			(6,214)	(2,622)
		- -	89,661	82,492
	ı	Past due but not im	paired	
31 December 2016	Less than 90 days	91 to 180 days	More than 180 days	Total
Amount in SR '000				
Due from policyholders	72,851	11,905	11,048	95,804
Due from policyholders - related parties	-	60	11	71
Provision for doubtful debts	<u> </u>	(1,795)	(4,419)	(6,214)
Premiums receivable, net	72,851	10,170	6,640	89,661

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### **Deferred policy acquisition costs**

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs (DAC) and are amortized in the statement of insurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus.

### Reinsurance

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

5. CASH AND CASH EQUIVALENTS	31 December 2016 SR'000	31 December 2015 SR'000
Insurance operations		
Cash in hand and at banks	36,381	45,050
Short term deposit	168,119	122,563
	204,500	167,613
Shareholders' operations		
Cash in hand and at banks	15,168	18,551
Short term deposit	39,868	12,000
	55,036	30,551

Cash at banks are placed with counterparties who have good credit ratings.

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

9. AVAILABLE-FOR-SALE INVE Shareholders' operations	ESTMENTS		31 December 2016	31 December 2015
			SR'000	SR'000
Investment in Sukuk			25,000	26,503
Mutual funds			•	19,361
Quoted securities			20,759	17,655
Unquoted securities			1,923	1,923
			47,682	65,442
As at 31 December 2016	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
Investment in Najm for Insurance				
Services Company	1,923	-	-	1,923
Investment in mutual funds	19,361	(19,632)	271	-
Investment in Sukuk	26,503	(2,105)	602	25,000
Quoted securities	17,655	2,471	633	20,759
	65,442	(19,266)	1,506	47,682
	Balance at the	Movement	Change in fair	Balance at the
	beginning of the	during the	value for the year	end of the year
	year	year		
As at 31 December 2015 Investment in Najm for Insurance	SR'000	SR'000	SR'000	SR'000
Services Company	1,923	-	-	1,923
Investment in mutual funds	17,473	204	1,684	19,361
Investment in Sukuk	20,797	5,000	706	26,503
Quoted securities		24,030	(6,375)	17,655
	40,193	29,234	(3,985)	65,442



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 7. PREMIUMS RECEIVABLE, NET - (continued)

	Pá	ist aue but not impa	airea	
31 December 2015	Less than	91 to	More than	T
Amount in SR '000	90 days	180 days	180 days	Total
Due from policyholders	71,451	9,784	3,730	84,965
Due from policyholders - related parties	88	49	12	149
Provision for doubtful debts	-	(1,475)	(1,147)	(2,622)
Premiums receivable, net	71,539	8,358	2,595	82,492

### Movement in provision for doubtful debts is as follows:

	31 December	31 December
	2016	2015
	SR'000	SR'000
Balance at the beginning of the year	2,622	1,671
Provision for the year	3,592	951
Balance at the end of the year	6,214	2,622

Unimpaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customer balances accounted for approximately 15% of this balance as at 31 December 2016 (2015: 22%). Premiums receivable comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia.

### 8. FVIS investments

Shareholders' operations	31 December 2016 SR'000	31 December 2015 SR'000
Balance at the beginning of the year	-	5,319
Purchased during the year	-	-
Disposals during the year	-	(5,319
Change in fair value of investment	-	-
Balance at the end of the year		-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

11. PREPAYMENTS AND OTHER RECEIVABLES -(Continued).	31 December	31 December
	2016	2015
	SR'000	SR'000
Shareholders' Operations		
Zakat reimbursable from shareholders	2,345	2,345
Other receivables	2,393	42
	4,738	2,387

# 12. PROPERTY AND EQUIPMENT, NET Insurance Operations

	Motor Vehicles	furniture, fittings and office equipment	Computers & software	Leasehold Improvements	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Cost:					
At 1 January 2016	115	5,076	7,048	2,791	15,030
Additions	1	792	1,905	1,664	4,362
At 31 December 2016	116	5,868	8,953	4,455	19,392
Accumulated depreciation:					
At 1 January 2016	92	3,975	3,785	1,726	9,578
Charge for the year	6	817	984	533	2,340
At 31 December 2016	98	4,792	4,769	2,259	11,918
Net book value:					
At 31 December 2016	18	1,076	4,184	2,196	7,474
At 31 December 2015	23	1,101	3,263	1,065	5,452

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 9 AVAILABLE FOR SALE INVESTMENT - (Continued).

Investment in Najm for Insurance Services Company is classified under level 3. Investments in mutual funds and GACA Sukuk are classified under level 2.

The unrealized gain of SR 1,506 million for the year ended 31 December 2016 (31 December 2015: unrealised loss SR 3,985 million) was recognized to the statement of changes in shareholders equity as available-for sale investments reserve. The available-for-sale investments reserve as of 31 December 2016 is SR 1.053 million (31 December 2015: SR 2,599 million)

10. DEFERRED POLICY ACQUISITION COST	31 December 2016 SR'000	31 December 2015 SR'000
As at 1 January	17,923	11,929
Cost incurred during the year	40,017	36,198
Charge for the year	(40,408)	(30,204)
As at 31 December	17,532	17,923

11. PREPAYMENTS AND OTHER RECEIVABLES	31 December 2016	31 Decembe 2015
Insurance operations	SR'000	SR'000
Prepaid expenses	4,841	6,406
Guarantee deposits (note 26)	3,621	1,965
Staff advances	1,241	1,066
Deferred TPA fee	4,711	3,630
Others	13,835	12,843
	28,249	25,910



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 15. CLAIMS - (Continued).

- I. Gross outstanding claims as at 31 December 2016 include provision for IBNR, gross amounting to SR 104.97 million (2015: 60.17 million).
- II. Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

### **CLAIMS DEVELOPMENT TABLE**

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

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

### 31 December 2016

Accident year	2012 & earlier	2013	2014	2015	2016	Total
Estimate of ultimate claims cost:						
At the end of accident year	168,939	105,624	141,988	311,469	377,828	
One year later	228,283	158,114	174,436	395,126	-	
Two years later	245,800	163,629	183,710	-	-	
Three years later	253,929	169,744	-	-	-	
Four years later	264,998	-	-	-	-	

Reinsurers' share of claims

Net claims incurred

### **ALLIED COOPERATIVE INSURANCE GROUP (ACIG)** (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)		
13. UNEARNED COMMISSION INCOME	31 December 2016 SR'000	31 December 2015 SR'000
As at 1 January Commission received during the year Commission earned during the year As at 31 December	1,943 3,727 (5,026)	2,307 4,434 (4,798)
As at 31 December	644	1,943
14. MOVEMENT IN UNEARNED PREMIUMS	31 December 2016 SR'000	31 December 2015 SR'000
Gross unearned premiums as at 1 January	234,971	154,924
Gross unearned premiums as at 31 December	232,296	234,971
Movement in unearned premiums	2,675	(80,047)
Reinsurers' share of unearned premiums as at 1 January Reinsurers' share of unearned premiums as at 31 December	34,420 35,120	26,511 34,420
Movement in reinsurance share of unearned premiums	700	7,909
Movement in unearned premiums, net	3,375	(72,138)
15. CLAIMS		
	31 December 2016 SR'000	31 December 2015 SR'000
Gross claims paid	353,566	
Gross outstanding claims at the end of the year (see note (I) below)	129,420	
Gross outstanding claims at the beginning of the year	482,986 (76,263)	360,580 (43,572)
Gross claims incurred	406,723	
Reinsurance recoveries Reinsurers' share of outstanding claims at the end of the year (see note (II)	(29,417)	, ,
below)	(43,224) (72,641)	
Reinsurers' share of outstanding claims at the beginning of the year	10,633	9,106

(26,018)

290,990

(62,008)

344,715



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

16. ACCOUNTS PAYABLE	31 December 2016 SR'000	31 December 2015 SR'000
TPA fees	6,641	2,977
Insurance brokers	3,338	4,575
Medical Providers	3,583	5,699
CCHI fees payable	323	1,770
Payables to policy holders	2,257	6,382
Others	467	340
	16,609	21,743
		04.5
17. ACCRUED EXPENSES AND OTHER PAYABLES	31 December	31 December
	2016	2015
	SR'000	SR'000
Insurance operations		
Accrued expenses	6,356	6,907
Other payables	234	466
	6,590	7,373
Shareholders' Operations	SR'000	SR'000
Accrued expenses	110	100
Other payables	685	573
	795	673
	24 December	31 December
18. STATUTORY DEPOSIT	31 December	
	2016 SR'000	2015 SR'000
	OK 000	3K 000
Shareholders' Operations		
	20,000	20,000
Statutory deposit	20,000	20,000
		· · · · · · · · · · · · · · · · · · ·



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 15. CLAIMS - (Continued).

Accident year	2012 & earlier	2013	2014	2015	2016	Total
Current estimate of cumulative claims	264,998	169,744	183,710	395,126	377,828	1,391,406
Cumulative payments made to date	(263,090)	(167,134)	(180,304)	(377,997)	(273,461)	(1,261,986)
Liability recognised in statement of financial position	1,908	2,610	3,406	17,129	104,367	129,420

### 31 December 2015

Accident year	2011 & earlier	2012	2013	2014	2015	Total
Estimate of ultimate claims cost:						_
At the end of accident year	89,847	79,092	105,624	141,988	315,595	
One year later	125,454	102,829	158,114	174,436	-	
Two years later	133,120	112,680	163,629	-	-	
Three years later	137,763	116,166	-	-	-	
Four years later	142,721		<u>-</u>	<u>-</u>		
Current estimate of cumulative claims	142,721	116,166	163,629	174,436	315,595	912,547
Cumulative payments made to date	(142,261)	(115,398)	(160,867)	(170,488)	(247,270)	(836,284)
Liability recognised in statement of financial position	460	768	2,762	3,948	68,325	76,263



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 19. ZAKAT & INCOME TAX - (Continued).

### **Income Tax**

Foreign shareholder, being Islamic Development Bank (IDB) is exempted from income tax.

### **Status of assessment:**

Zakat and income tax returns have been filed with the General Authority of Zakat and Tax ("GAZT") for the years ended up to 31 December 2015. Final certificate has been received from GAZT for the year ended 31 December 2008. However, GAZT has raised an additional assessment in respect of the returns filed for the years ended 31 December 2008, 2009 and 2010 amounting to SR 1.86 million which has not been booked in the interim condensed financial statements. The major difference of the additional assessment relates to disallowance of a portion of pre-incorporation expenses and withholding tax. The Company has filed an objection against this additional assessment with the Preliminary Tax Objection Committee subsequent to the year end, an adverse decision was received from the Preliminary Tax Objection Committee, upon which the Company the appeal with the Higher Objection Committee. The high appeal committee issued its decision in favour of the Company with respect to Zakat and rejected the appeal

related to withholding tax. The Company is in the process of reforming the matter to the board of grievance. In this regard, the Company have issued a letter of guarantee amounting to SR 1.83 million in favour of GAZT (See Note 26).

### **20. SHARE CAPITAL**

The authorized, issued and paid up share capital of the Company is SR 200 million at the year-end consisting of 20 million shares of SR 10 each.

2016
2015

	% holding	SR'000	% holding	SR'000
Founding shareholders General public	40 60	80,000 120,000	40 60	80,000 120,000
Balance at the end of the year	100	200,000	100	200,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 20 million in a bank designated by the Saudi Arabian Monetary Authority (SAMA). The Company cannot withdraw this deposit without SAMAs approval

### 19. ZAKAT & INCOME TAX

The current year provision is based on the following	31 December 2016 SR'000	31 December 2015 SR'000
Equity	200,000	200,000
Opening provision and adjustments	9,848	6,823
Net book value of long term assets	(75,156)	(140,894)
Unrealized gain on available-for-sale investments	(1,053)	(2,559)
· ·	133,639	63,370
Adjusted income for the year	8,344	11,133
Zakat base	141,983	74,503

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

The movement in the Zakat and Income tax payable is as follows:

ement in the Zakat and meome tax payable is as follows.	31 December 2016 SR'000	31 December 2015 SR'000
Balance at the beginning of the year Charge for the year Paid during the year	748 1,658 (896)	1,294 720 (1,266)
Balance at the end of the year	1,510	748



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 24. TRANSACTIONS WITH RELATED PARTIES

Major related party transactions during the year and the related balances at the end of the year are as follows:

### **Insurance operations**

Related party	Nature of transaction	Amount of Transactions during the year		Closing balance Receivable / (Payable)	
		2016	2015	2016	2015
		SR'000	SR'000	SR'000	SR'000
ACIG Bahrain (Shareholder) Affiliates	Payment made on behalf of the Company Premiums written Claim paid	1,215 1,071 (207)	1,630 (34)	1,215 71 (200)	149 (313)
Board and audit	Meetings fee	690	689	<u> </u>	
Key management personnel	Short term benefits	5,426	4,915	10	70
	Long term benefits	310	232	(1,387)	(1,024)

### 25. SEGMENTAL INFORMATION

Consistent with the Companys internal reporting process, operating segments have been approved by the Management in respect of the Companys activities, assets and liabilities as stated below.

Segment results do not include general and administrative expenses and other income.

Segment assets do not include insurance operations cash and cash equivalents, investments, prepayments and other receivables, and property and equipment, net.

Segment liabilities do not include reinsurance payables, accrued expenses and other liabilities, due to shareholders operations and employees terminal benefits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

### 21. BASIC AND DILUTED EARNINGS PER SHARE

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

### **22. STATUTORY RESERVE**

As required by Saudi Arabian Insurance Regulations, 20% of the net shareholders income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. No appropriation has been made as the company has accumulated losses at the end of the year.

23. GENERAL AND ADMINISTRATIVE EXPENSES	31 December 2016 SR'000	31 December 2015 SR'000
Insurance operations		
Employee costs	41,158	37,386
Legal and professional fees	753	690
Doubtful debt provision	3,592	951
Office rent	3,914	3,030
Depreciation	2,340	1,934
Office expenses	3,449	2,693
Advertising	2,340	3,446
Traveling	36	6
Other	4,309	2,534
	61,891	52,670
Shareholders' operations	31 December 2016 SR'000	31 December 2015 SR'000
Legal and professional fees Others	508 677	502 1,095
	1,185	1,597

# ANNUAL REPORT \ 1000 \

# ALLIED COOPERATIVE INSURANCE GROUP (ACIG) (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016- (continued)

### 25. SEGMENTAL INFORMATION - (Continued).

	Motor	Medical	General accident	Others	Total
As at 31 December 2016	SR '000	SR '000	SR '000	SR '000	SR '000
Premiums and reinsurance receivables – net	26,164	33,714	1,839	32,683	94.400
Reinsurers' share of unearned premiums	30	17,396	2,653	15,041	35,120
Reinsurers' share of outstanding claims	1,100	7,572	2,870	31,682	43,224
Deferred policy acquisition cost	4,788	11,410	1,149	185	17,532
Unallocated assets					241,438
Total insurance operations assets				_	431,714
Unearned commission income	1	_	344	299	644
Unearned premiums	116,168	83,428	17,405	15,295	232,296
Outstanding claims	69,307	22,237	5,872	32,004	129,420
Other liabilities	-	-	-	56,289	56,289
Unallocated liabilities					13,065
Total insurance operations liabilities				<u> </u>	431,714

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

# **25. SEGMENTAL INFORMATION** - (Continued).

# **Operating segments**

31 December 2016	Motor	Medical	General accident	Others	Total
Revenue	SR '000	SR '000	SR '000	SR '000	SR '000
Gross written premiums	278,858	186,765	22,170	22,825	510,618
Less: Premiums ceded	(66)	(40,613)	(9,581)	(22,082)	(72,342)
Excess of loss premiums	(5,627)	-	(460)	(397)	(6,484)
Net written premiums	273,165	146,152	12,129	346	431,792
Changes in net unearned premiums	24,752	(17,453)	(4,220)	296	3,375
Net premiums earned	297,917	128,699	7,909	642	435,167
Other underwriting Income	10,494	-	-	-	10,494
Reinsurance commission earned	10	<del>-</del> -	1,539	3,477	5,026
Net revenues	308,421	128,699	9,448	4,119	450,687
Cost and expenses					
Gross claims paid	275,543	75,578	740	1,705	353,566
Less: Reinsurers' share	(2,762)	(25,165)	(198)	(1,292)	(29,417)
Net claims paid	272,781	50,413	542	413	324,149
Changes in outstanding claims, net	12,519	7,237	1,069	(259)	20,566
Net claims incurred	285,300	57,650	1,611	154	344,715
Change in premium deficiency reserve	(6,969)	-	-	-	(6,969)
Change in catastrophe reserve	-	-	-	115	115
Policy acquisition cost	25,089	13,146	1,065	717	40,017
Other underwritting expense	538	1,380	<u> </u>	<u> </u>	1,918
Net cost and expenses	303,958	72,176	2,676	986	379,796
Net result of insurance operations	4,463	56,523	6,772	3,133	70,891
General and administrative expenses					(61,891)
Supervision and inspection fee	(1,518)	(736)	(88)	(117)	(2,459)
CCHI fee	· ,	(1,684)	-	· -	(1,684)
Investment income		. ,			4,922
Other income				_	1,662
Surplus from insurance operations				=	11,441

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

## 25 SEGMENTANL INFORMATION (Continued).

	Motor	Medical	General accident	Others	Total
As at 31 December 2015	SR '000	SR '000	SR '000	SR '000	SR '000
Premiums and reinsurance receivables – net	32,847	30,125	653	20,203	83,828
Reinsurers' share of unearned premiums	40	16,453	3,017	14,910	34,420
Reinsurers' share of outstanding claims	1,773	4,684	1,273	2,903	10,633
Deferred policy acquisition cost	7,901	8,694	947	381	17,923
Unallocated assets				_	248,975
Total insurance operations assets					395,779
Unearned commission income	6	-	530	1,407	1,943
Unearned premiums	140,931	65,031	13,550	15,459	234,971
Outstanding claims	57,462	12,112	3,207	3,482	76,263
Premium deficiency reserve	6,969	-	-	-	6,969
Catastrophe reserve	-	-	-	133	133
Other liabilities	-	-	-	34,242	34,242
Unallocated liabilities				_	41,258
Total insurance operations liabilities				_	395,779

## **26. CONTINGENT LIABILITY**

As at 31 December 2016, the Company has a letter of guarantee amounting to SR 1.83 million (31 December 2015: SR 1.83 million) in favour of GAZT (See Note 19). A margin of SR 1.83 million (31 December 2015: SR 1.83 million) being deposited with a bank for this purpose is included in prepayments and other receivables in the statement of financial position of insurance operations. The Companys bankers have given guarantees to non-government customers amounting to SR 1.7 million (2015: Nil) in respect of motor insurance.

#### 27. GEOGRAPHICAL DISTRIBUTION

Most of the Company's assets and liabilities are located in the Kingdom of Saudi Arabia

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

# 25. SEGMENTAL INFORMATION - (Continued).

31 December 2015	Motor	Medical	accident	Others	Total
Revenue	SR '000				
Gross written premiums	320,469	177,031	19,831	32,110	549,441
Less: Premiums ceded	(90)	(44,629)	(9,965)	(30,609)	(85,293)
Excess of loss premiums	(4,672)	-	(464)	(468)	(5,604)
Net written premiums	315,707	132,402	9,402	1,033	458,544
Changes in net unearned premiums	(54,188)	(14,119)	(3,153)	(678)	(72,138)
Net premiums earned	261,519	118,283	6,249	355	386,406
Other underwriting Income	10,740	-	· -	-	10,740
Reinsurance commission earned	42	-	1,283	3,473	4,798
Net revenues	272,301	118,283	7,532	3,828	401,944
Cost and expenses					
Gross claims paid	221,850	56,017	2,897	3,553	284,317
Less: Reinsurers' share	(598)	(19,233)	(2,374)	(2,286)	(24,491)
Net claims paid	221,252	36,784	523	1,267	259,826
Changes in outstanding claims, net	31,754	(912)	301	21	31,164
Net claims incurred	253,006	35,872	824	1,288	290,990
Change in premium deficiency reserve	6,969	-	-	-	6,969
Change in catastrophe reserve	-	-	-	133	133
Policy acquisition cost	21,477	12,449	1,157	1,115	36,198
Other underwritting expense	1,219	1,134	-	-	2,353
Net cost and expenses	282,671	49,455	1,981	2,536	336,643
Net result of insurance operations	(10,370)	68,828	5,551	1,292	65,301
General and administrative expenses	,				(52,670)
Supervision and inspection fee	(1,263)	(794)	(86)	(139)	(2,282)
CCHI fee	(1,200)	(1,588)	-	(100)	(1,588)
Investment income		(1,000)			869
Other income					1,225
				-	10,855
Surplus from insurance operations				=	10,000

General

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

## 28 RISK MANAGEMENT – (continued)

Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The risks faced by the Company and the manner in which these risks are mitigated by management are summarized below:

# **Insurance risk management**

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal

## **Insurance risk management (continued)**

claims. The Companys risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

Underwriting and retention policies and procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local market are closely observed, reacting were necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Companys liability as primary insurer and thus a credit risk expo-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

#### 28. RISK MANAGEMENT

## Risk governance

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

# **Risk management structure**

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

#### **Board of Directors**

The apex of risk governance is the centralised oversight of Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

## **Senior management**

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

## **Audit Committee and Internal Audit Function**

Risk management processes throughout the Company are audited annually by the Internal Audit function which examines both the adequacy of the procedures and the Companys compliance with such procedures. The Internal Auditor discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

The primary objective of the Companys risk and financial management framework is to protect the



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

## 28. RISK MANAGEMENT – (continued)

resulting there from, are underwritten either on replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional treaties.

#### Motor

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 55% (2015: 58%) of gross written premium.

The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims. This risk is covered by per occurrence excess of loss treaties that also covers involvement of

## **General Accident and Workmen's Compensation**

For miscellaneous accident classes of insurance such as loss of money, personal accident, workmen s compensation, travel, general third party liability and professional indemnity are underwritten. The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

#### Marine

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

## 28 RISK MANAGEMENT – (continued)

sure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

#### **Sensitivities**

The Company believes that claim liabilities under insurance contract (outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions.

Sensitivity of loss for the year to change in claim liabilities based on an increase / decrease of 5% in outstanding claim reserve (net of reinsurance share) is given below.

	Change in assumptions	Impact on net liabilities	Impact on net income
2016	± 5%	±4,310	±4,310
2015	± 5%	±3,281	±3,281

# **Frequency and Severity of Claims**

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly medical, motor, fire and burglary, general accident and marine classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

# **Fire and Burglary**

Fire and burglary insurance contracts, with the main peril being fire damage and other allied perils



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

# 28. RISK MANAGEMENT – (continued) Credit risk – (continued)

third parties. It is the Companys policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Companys exposure to bad debts.

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

The Company investment portfolio is managed by the investment committee in accordance with the investment policy established by the investment committee.

The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.

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

#### 31 December 2016

	Insurance operations SR '000	Shareholders Operations SR '000
Cash and cash equivalents	204,500	55,036
Available-for-sale investments	-	47,682
Premiums receivable, net	89,661	
Reinsurance receivables, net	4,739	
Reinsurers' share of outstanding claims	43,224	
Prepayments and other receivables	28,249	
	370,373	102,718

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

28 RISK MANAGEMENT – (continued)

## **Concentration of insurance risk**

The Company does not have insurance contract covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation. The Company does not have any material claims where the amount and timing of payment is not resolved within one year of the reporting date.

#### Medical

The Companys underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, 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. An arrangement has been made with reinsurers through proportional treaties.

# **Regulatory framework risk**

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

## **Credit risk**

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

The following policies and procedures are in place to mitigate the Companys exposure to credit risk: The Company only enters into insurance and reinsurance contracts with recognised, credit worthy



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

# 28 RISK MANAGEMENT – (continued)

#### 31 December 2016

31 December 2016	11. (.	Maria di .	T. (.)
	Up to	More than	Total
	one year SR '000	one year SR' 000	CD; 000
Language Constitution of the Constitution of t	<u> </u>	<u> </u>	SR' 000
Insurance Operations' Financial Liabilities	05.404		05 404
Reinsurance payables	35,461	-	35,461
Accounts payable	16,609	-	16,609
Outstanding claims	129,420	-	129,420
Accrued and other payables	6,590	<u> </u>	6,590
	188,080	<u> </u>	188,080
Shareholders' Financial Liabilities			
Accrued and other payables	1,620	685	2,305
	1,620	685	2,305
Total Financial Liabilities	189,700	685	190,385
31 December 2015			
31 December 2015	Up to	More than	Total
	one year	one year	Total
	SR '000	SR' 000	SR' 000
Insurance Operations' Financial Liabilities			
Reinsurance payables	38,430	-	38,430
Accounts payable	21,743	-	21,743
Outstanding claims	76,263	-	76,263
Accrued and other payables	5,126	-	5,126
	141,562	-	141,562
Shareholders' Financial Liabilities			
Accrued and other payables	899	522	1,421
· ·	899	522	1,421
Total Financial Liabilities	142,461	522	142,983

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

28 RISK MANAGEMENT – (continued)

31 December 2015

	Insurance	Snarenoiders
	operations	Operations
	SR '000	SR '000
Cash and cash equivalents	167,613	30,551
Available-for-sale investments	-	65,442
Premiums receivable, net	82,492	-
Reinsurance receivables, net	1,336	-
Reinsurers' share of outstanding claims	10,633	-
Prepayments and other receivables	25,190	-
	287,264	95,993

# **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

## **Maturity profiles**

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations:



# <sup>2</sup>16

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

28 RISK MANAGEMENT – (continued)

# **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.

# Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company principal transactions are carried out in Saudi Riyal. Management believes that there is no risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

#### **Commission rate risk**

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the company to cash flow commission risk, whereas fixed commission rate instruments expose the company to fair value interest risk.

The Company is exposed to commission rate risk on certain of its investments, cash and cash equivalents, and time deposits. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated.

The following table demonstrates the sensitivity of statement of Shareholders comprehensive income to reasonably possible changes in commission rates, with all other variables held constant.

The sensitivity of the statement of shareholders comprehensive income is the effect of the assumed changes in commission rates on the Companys income for the year, based on the floating rate financial assets and financial liabilities

held as at December 31:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

## 28 RISK MANAGEMENT – (continued)

shares. In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

#### 29. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the presentation in the current year.

#### 30. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the board of directors on 28 February 2017 corresponding to 01 Jumaad Al Thani 1438H.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 - (continued)

## 28 RISK MANAGEMENT – (continued)

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Shareholders' operations				
Available-for-sale investments	20,759	25,000	1,923	47,682
	20,759	25,000	1,923	47,682
As at 31 December 2015	Level 1	Level 2	Level 3	Total
Shareholders' operations				
Available-for-sale investments	17,655	45,864	1,923	65,442
	17,655	45,864	1,923	65,442

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders comprehensive income will be impacted.

# **Capital management**

Capital requirements are set and regulated by the Saudi Arabian Monetary Authority. 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 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 Companys activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue

