

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

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' LIMITED REVIEW REPORT
FOR THE THREE MONTHS PERIOD AND YEAR ENDED DECEMBER 31, 2016**

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD AND YEAR ENDED DECEMBER 31, 2016

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Dr. Mohamed Al-Amri & Co.
Accountants & Consultants

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

SCOPE OF REVIEW

We have reviewed the accompanying interim statement of financial position of The Company for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at 31 December 2016 and the related interim statement of income - insurance operations and accumulated surplus, interim statements of comprehensive income for insurance operations and shareholders for the three and year then ended 31 December 2016, and interim statement of changes in shareholders' equity and interim statements of cash flows for insurance operations and shareholders for the year then ended, and the related notes which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (the "SOCPA"). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the auditing standards generally accepted in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

CONCLUSION

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with IAS 34.

EMPHASIS OF MATTER

We draw attention to the fact that these interim condensed financial statements are prepared in accordance with IAS 34 and not in accordance with the Standard on Interim Financial Reporting issued by SOCPA.

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18, January 2017



THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF FINANCIAL POSITION

	Notes	December 31, 2016 (Unaudited)	December 31, 2015 (Audited)
SAR '000			
<u>ASSETS - INSURANCE OPERATIONS</u>			
Property and equipment, net		298,406	312,251
Investment property		9,861	9,861
Investments in associates		12,691	13,602
Available-for-sale investments	4(i)	3,155,586	3,220,442
Prepaid expenses and other assets		282,796	549,991
Deferred policy acquisition costs		218,100	209,244
Reinsurers' share of outstanding claims	6	2,102,745	1,827,909
Reinsurers' share of unearned premiums		553,813	629,974
Receivables, net	3	2,326,988	1,943,579
Murabaha deposits	5	411,000	182,621
Bank balances and cash	5	968,402	579,247
Total assets - Insurance operations		10,340,388	9,478,721
<u>ASSETS - SHAREHOLDERS</u>			
Statutory deposit	9	100,000	100,000
Accrued income on statutory deposit		1,711	1,042
Investments in associates		94,958	80,402
Available-for-sale investments	4(ii)	1,377,991	2,178,923
Due from Insurance operations		539,326	46,326
Murabaha deposits	5	905,150	16,067
Bank balances and cash	5	116,597	45,746
Total assets - Shareholders		3,135,733	2,468,506
TOTAL ASSETS		13,476,121	11,947,227

The accompanying notes 1 to 18 form an integral part of these interim condensed financial statements.

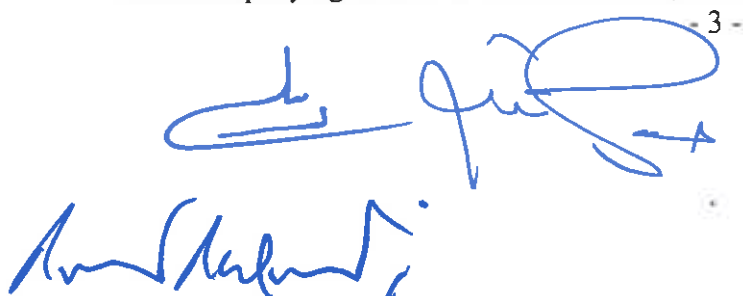


THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF FINANCIAL POSITION (continued)

	Notes	December 31, 2016 (Unaudited) SAR '000	December 31, 2015 (Audited)
<u>LIABILITIES AND SURPLUS - INSURANCE OPERATIONS</u>			
Liabilities - Insurance operations:			
Reserve for discontinued operations		1,621	11,211
Surplus distribution payable		-	100,176
Claims payable, accrued expenses and other liabilities		1,500,543	1,440,959
Reserve for takaful activities		12,902	13,467
Gross outstanding claims and reserves	6	3,577,820	3,182,367
Unearned commission income		54,439	51,024
Gross unearned premiums		4,390,229	4,233,561
Reinsurers' balances payable		177,828	502,579
Due to Shareholders' operations		539,326	46,326
Total liabilities - Insurance operations		10,254,708	9,581,670
Surplus - Insurance operations:			
Accumulated surplus		76,651	-
Fair value reserve for available-for-sale investments		9,029	(102,949)
Total liabilities and surplus - Insurance operations		10,340,388	9,478,721
<u>LIABILITIES AND EQUITY - SHAREHOLDERS</u>			
Shareholders' liabilities:			
Accrued expenses and other liabilities		-	647
Return payable on statutory deposit		1,711	1,042
Dividends payable		6,054	5,643
Zakat and income tax		206,035	152,106
Total liabilities - Shareholders		213,800	159,438
Shareholders' equity:			
Share capital	7	1,000,000	1,000,000
Legal reserve	10	1,000,000	883,465
Fair value reserve for available-for-sale investments		(71,182)	(56,861)
Retained earnings		993,115	482,464
Total Shareholders' equity		2,921,933	2,309,068
Total Shareholders' liabilities and equity		3,135,733	2,468,506
TOTAL LIABILITIES, INSURANCE OPERATIONS SURPLUS AND SHAREHOLDERS' EQUITY		13,476,121	11,947,227

The accompanying notes 1 to 18 form an integral part of these interim condensed financial statements.

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THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED
SURPLUS

	Three months ended December 31, 2016 (Unaudited)	Three months ended December 31, 2015 (Unaudited)	Year ended December 31, 2016 (Unaudited)	Year ended December 31, 2015 (Audited)
SAR '000				
REVENUES				
Gross premiums written	2,977,234	2,764,357	8,055,135	7,545,268
Less: Reinsurance ceded	(286,838)	(357,118)	(981,686)	(1,123,816)
Net premiums written	2,690,396	2,407,239	7,073,449	6,421,452
Changes in unearned premiums	(950,306)	(817,234)	(232,829)	(756,627)
Net premiums earned	1,740,090	1,590,005	6,840,620	5,664,825
Reinsurance commissions	24,176	32,477	103,066	93,623
Other income, net	12,363	9,024	58,386	45,886
Total revenues	1,776,629	1,631,506	7,002,072	5,804,334
COSTS AND EXPENSES				
Gross claims paid	1,405,599	1,506,089	5,327,532	4,999,478
Less: Reinsurance share	(101,017)	(308,236)	(343,851)	(747,772)
Net claims paid	1,304,582	1,197,853	4,983,681	4,251,706
Changes in outstanding claims and reserves	(4,482)	(64,040)	120,617	(107,796)
Net claims incurred	1,300,100	1,133,813	5,104,298	4,143,910
Policy acquisition costs	138,004	121,963	516,898	436,588
Excess of loss expenses	5,737	4,489	29,867	24,427
Changes in reserve for takaful activities	(196)	(2,600)	(565)	(2,873)
Other underwriting expenses	10,383	50,846	133,340	146,352
Manafeth insurance share distribution	23,865	15,027	106,674	49,087
Operating and selling expenses	65,583	152,527	359,768	461,690
Other general and administrative expenses	37,518	36,822	75,784	82,902
Total costs and expenses	1,580,994	1,512,887	6,326,064	5,342,083
Operating surplus	195,635	118,619	676,008	462,251
Investment income, net	2,452	11,844	140,543	88,251
Impairment of available-for-sale investments	-	(17,696)	(50,036)	(17,696)
Surplus from Insurance operations	198,087	112,767	766,515	532,806
Shareholders' appropriation from surplus	(178,279)	(101,490)	(689,864)	(479,525)
Surplus from Insurance operations after Shareholders' appropriation	19,808	11,277	76,651	53,281
Accumulated surplus, beginning of the period / year	56,843	42,004	-	-
Distribution of surplus	-	(53,281)	-	(53,281)
ACCUMULATED SURPLUS, END OF THE PERIOD / YEAR	76,651	-	76,651	-


The accompanying notes 1 to 18 form an integral part of these interim condensed financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS

	Three months ended December 31, 2016 (Unaudited)	Three months ended December 31, 2015 (Unaudited)	Year ended December 31, 2016 (Unaudited)	Year ended December 31, 2015 (Audited)
SAR '000				
Surplus from Insurance operations after Shareholders' appropriation	19,808	11,277	76,651	53,281
Other comprehensive income / (loss):				
<i>To be recycled back to statement of income in subsequent periods:</i>				
Changes in fair value of available-for-sale investments	87,183	(9,095)	111,978	(108,303)
Total comprehensive income / (loss) for the period / year	106,991	2,182	188,629	(55,022)

The accompanying notes 1 to 18 form an integral part of these interim condensed financial statements.

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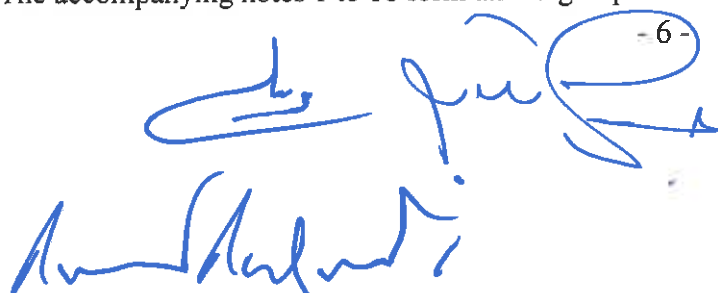
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THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS

	Three months ended December 31, 2016 (Unaudited)	Three months ended December 31, 2015 (Unaudited)	Year ended December 31, 2016 (Unaudited)	Year ended December 31, 2015 (Audited)
	SAR '000			
	Notes			
Appropriation of surplus from Insurance operations	178,279	101,490	689,864	479,525
Investment income, net	26,297	21,308	112,868	186,849
Share of profit from investments in associates, net	7,878	13,244	20,769	12,981
Impairment of available-for-sale investments	-	(36,032)	(22,034)	(36,032)
Other expenses, net	(160)	(550)	(520)	(1,020)
Income from operations before zakat and income tax	212,294	99,460	800,947	642,303
Zakat and income tax	(20,995)	(10,084)	(73,761)	(43,875)
Net income for the period / year	191,299	89,376	727,186	598,428
Other comprehensive income / (loss): <i>To be recycled back to statement of income in subsequent periods:</i>				
Changes in fair value of available for sale investments	102	(35,273)	(14,321)	(220,735)
Total comprehensive income for the period / year	191,401	54,103	712,865	377,693
Earnings per share:				
Basic and diluted earnings per share (in SAR)	15 <u>1.91</u>	<u>0.89</u>	<u>7.27</u>	<u>5.98</u>
Weighted average number of shares in issue	7 <u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>

The accompanying notes 1 to 18 form an integral part of these interim condensed financial statements.

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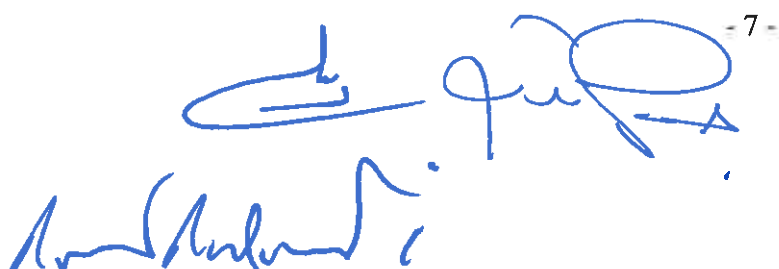


THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Legal reserve	Fair value reserve for available-for-sale investments	Retained earnings	Total
	SAR'000				
Audited					
Balance at January 1, 2015	1,000,000	763,779	163,874	148,722	2,076,375
Comprehensive income:					
Net income for the year	-	-	-	598,428	598,428
Changes in fair value of available-for-sale investments	-	-	(220,735)	-	(220,735)
Total comprehensive income / (loss) for the year	-	-	(220,735)	598,428	377,693
Transfer to the legal reserve	-	119,686	-	(119,686)	-
Dividend distribution	-	-	-	(145,000)	(145,000)
Balance at December 31, 2015	1,000,000	883,465	(56,861)	482,464	2,309,068
Unaudited					
Balance at January 1, 2016	1,000,000	883,465	(56,861)	482,464	2,309,068
Comprehensive income:					
Net income for the year	-	-	-	727,186	727,186
Changes in fair value of available-for-sale investments	-	-	(14,321)	-	(14,321)
Total comprehensive income / (loss) for the year	-	-	(14,321)	727,186	712,865
Transfer to the legal reserve	-	116,535	-	(116,535)	-
Dividend distribution	-	-	-	(100,000)	(100,000)
Balance at December 31, 2016	1,000,000	1,000,000	(71,182)	993,115	2,921,933

The accompanying notes 1 to 18 form an integral part of these interim condensed financial statements.

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THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS

	December 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Note	SAR '000	
Operating activities:		
Surplus from Insurance operations after Shareholders' appropriation	76,651	53,281
<u>Adjustments to reconcile surplus from Insurance operations to net cash (used in) / from operating activities:</u>		
Shareholders' appropriation from surplus	689,864	479,525
Depreciation	17,690	13,938
Provision for doubtful debts	(64,386)	65,763
Gain on sale of available-for-sale investments	(118,399)	(76,521)
Impairment on available-for-sale investments	50,036	17,696
Share from investments in associates, net	911	(4,044)
Operating surplus before changes in operating assets and liabilities	<u>652,367</u>	<u>549,638</u>
<u>Changes in operating assets and liabilities:</u>		
Prepaid expenses and other assets	267,195	(120,974)
Deferred policy acquisition costs	(8,856)	(35,611)
Reinsurers' share of outstanding claims	(274,836)	(627,662)
Reinsurers' share of unearned premiums	76,161	(186,034)
Receivables, net	(319,023)	(480,229)
Reinsurers' balances payable	(324,751)	188,679
Gross unearned premiums	156,668	942,661
Unearned commission income	3,415	9,470
Gross outstanding claims and reserves	395,453	519,866
Reserve for discontinued operations	(9,590)	-
Reserve for takaful activities	(565)	(2,873)
Claims payable, accrued expenses and other liabilities	59,584	144,696
Due from Shareholders' operations	(689,864)	(479,525)
Cash (used in) / from operating activities	<u>(16,642)</u>	<u>422,102</u>
Surplus paid to policyholders during the year	<u>(100,176)</u>	<u>-</u>
Net cash (used in) / from operating activities	<u>(116,818)</u>	<u>422,102</u>
Investing activities:		
Proceeds from sale of available-for-sale investments	3,642,778	3,483,518
Purchase of available-for-sale investments	(3,397,581)	(3,884,438)
Purchase of property and equipment	(3,845)	(52,329)
Net cash from / (used in) investing activities	<u>241,352</u>	<u>(453,249)</u>
Financing activity:		
Due from Shareholders' operations	493,000	92,465
Net cash from financing activity	<u>493,000</u>	<u>92,465</u>
Net change in cash and cash equivalents	617,534	61,318
Cash and cash equivalents at the beginning of the year	5 761,868	700,550
Cash and cash equivalents at the end of the year	5 1,379,402	761,868
Non-cash supplemental information:		
Changes in fair value of available-for-sale investments	<u>111,978</u>	<u>(108,303)</u>

The accompanying notes 1 to 18 form an integral part of these interim condensed financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF CASH FLOWS - SHAREHOLDERS

	December 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	SAR '000	
Operating activities:		
Net income for the year before zakat and income tax	800,947	642,303
<u>Adjustments to reconcile net income before zakat and income tax to net cash from operating activities:</u>		
Appropriation of surplus from Insurance operations	(689,864)	(479,525)
Impairment of available-for-sale investments	22,034	36,032
Gain on sale of investments	(43,191)	(171,890)
Share from investments in associates, net	(20,769)	(12,981)
Operating profit before changes in operating assets and liabilities	69,157	13,939
<u>Changes in operating assets and liabilities:</u>		
Due from Insurance operations	689,864	479,525
Accrued expenses and other liabilities	(647)	255
Zakat and income tax	(19,832)	(16,395)
Net cash from operating activities	738,542	477,324
Investing activities:		
Proceeds from sale and maturity of available-for-sale investments	6,018,367	2,621,992
Purchase of available-for-sale investments	(5,210,599)	(2,833,672)
Dividends received from investment in associates	6,213	12,422
Net cash from / (used in) investing activities	813,981	(199,258)
Financing activities:		
Dividends paid	(99,589)	(144,371)
Due from Shareholders' operations	(493,000)	(92,465)
Net cash used in financing activities	(592,589)	(236,836)
Net change in cash and cash equivalents	959,934	41,230
Cash and cash equivalents at the beginning of the year	61,813	20,583
Cash and cash equivalents at the end of the year	1,021,747	61,813
Non-cash supplemental information:		
Changes in fair value of available-for-sale investments	(14,321)	(220,735)

The accompanying notes 1 to 18 form an integral part of these interim condensed financial statements.

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THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2016

1. GENERAL

The Company for Cooperative Insurance (the "Company") is a Saudi Joint Stock Company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/5 and incorporated on January 18, 1986, corresponding to Jumada al-Awal 8, 1406H, under Commercial Registration No. 1010061695. The Company's Head Office is located on Thumamah Road (at Takhassusi) ArRabi District, P.O. Box 86959, Riyadh 11632, Kingdom of Saudi Arabia.

The purpose of the Company is to transact cooperative insurance operations and all related activities including reinsurance and agency activities. Its principal lines of business include medical, motor, marine, fire, engineering, energy, aviation, takaful and casualty insurance.

On July 31, 2003, corresponding to Jumada al-Thani 2, 1424H, the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On December 1, 2004, corresponding to Shawwal 18, 1425H, the Saudi Arabian Monetary Agency ("SAMA"), as the principal agency responsible for the application and administration of the Insurance Law and its Implementing Regulations, granted the Company a license to transact insurance activities in the Kingdom of Saudi Arabia.

The Company conducts the business and advances funds to the insurance operations as required. On January 20, 2004, the Company amended its Articles of Association, giving authority to the Board of Directors to determine the disposition of the surplus from insurance operations.

On March 20, 2004, the Board of Directors approved the distribution of the surplus from insurance operations in accordance with the Implementing Regulations issued by SAMA, whereby the Shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the Policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the Shareholders' operations in full.

2. BASIS OF PREPARATION

(a) Basis of presentation

The interim condensed financial statements for the three months period and year ended December 31, 2016 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015.

The interim condensed financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of available-for-sale investments. The Company presents its statement of financial position in order of liquidity.

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly. Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(continued)
DECEMBER 31, 2016

2. BASIS OF PREPARATION (continued)

(a) Basis of presentation (continued)

These interim condensed financial statements have been presented in Saudi Arabian Riyals (SAR), being the functional currency of the Company. All financial information presented has been rounded off to the nearest thousand (SAR '000).

In management's opinion, these interim condensed financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim period presented.

(b) Critical accounting judgments, estimates and assumptions

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial reporting period. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimate and judgments used by management in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2015. Following are the accounting judgments and estimates that were critical in preparation of these interim condensed financial statements:

Estimation of insurance contract reserves:

Following are the critical areas of estimation and judgments for which the Company acquires the services of an independent actuary to determine such reserves.

i) Incurred but not reported claims ("IBNR")

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The claims reserves are sensitive to assumptions made about the number of months used to average the completion factors and the claims trend.

ii) Premium deficiency reserve ("PDR")

Estimation of the premium deficiency reserve for medical business is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and premiums relationship which is expected to apply on a month to month basis. However, as at 31 December 2016 and 2015 no premium deficiency reserve was held.

2. BASIS OF PREPARATION (continued)

(c) Significant accounting policies

The accounting and risk management policies adopted in the preparation of these condensed interim financial statements are consistent with the Company's audited financial statements for the year ended December 31, 2015, except for the adoption of the following amendments to existing standards mentioned below which had no financial impact on the interim condensed financial statements of the Company:

- Amendments to IAS 1 - "Presentation of Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to:
 - The materiality requirements in IAS 1;
 - That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated;
 - That entities have flexibility as to the order in which they present the notes to financial statements; and
 - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- Amendments to IAS 16 - "Property, Plant and Equipment" and IAS 38 - "Intangible Assets", applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments are as follows:

- IFRS 5 - "Non-current Assets Held for Sale and Discontinued Operations", amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
- IFRS 7 - "Financial Instruments: Disclosures" has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(continued)
DECEMBER 31, 2016

2. BASIS OF PREPARATION (continued)

(c) Significant accounting policies (continued)

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

- IAS 34 - "Interim Financial Reporting" - amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-referencing to the interim financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

(d) Segmental reporting

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

- Medical - coverage for health insurance.
- Motor insurance.
- Property and Casualty - coverage for property, engineering, marine, aviation, energy and general accidents insurance.
- Manafeth - third party liability insurance for foreign vehicles and the profit of this segment is shared with other insurance companies.

Operating segments do not include Shareholders' operations of the Company. No inter-segment transactions occurred during the period / year.

(e) Seasonality of operations

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

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3. RECEIVABLES, NET

Receivables of insurance operations comprise balances from the following:

	December 31, 2016 SAR'000 (Unaudited)	December 31, 2015 SAR'000 (Audited)
Policyholders	1,901,043	1,399,860
Brokers and agents	318,085	293,446
Related parties (note 12)	155,061	197,714
	<u>2,374,189</u>	<u>1,891,020</u>
Receivables from reinsurers	32,489	202,269
Administrative service plan	24,070	18,436
	<u>2,430,748</u>	<u>2,111,725</u>
Provision for doubtful receivables	(103,760)	(168,146)
Receivables, net	<u>2,326,988</u>	<u>1,943,579</u>

4. AVAILABLE-FOR-SALE INVESTMENTS

i) Insurance operations:

Available-for-sale investments of insurance operations comprise the following:

	December 31, 2016 SAR'000 (Unaudited)	December 31, 2015 SAR'000 (Audited)
Local / regional funds and fixed income investments	2,512,343	2,258,711
Local / regional equity	64,496	582,916
Foreign funds and fixed income investments	578,747	378,815
Total	<u>3,155,586</u>	<u>3,220,442</u>

ii) Shareholders:

Shareholders' available-for-sale investments comprise the following:

	December 31, 2016 SAR'000 (Unaudited)	December 31, 2015 SAR'000 (Audited)
Local / regional funds and fixed income investments	929,228	1,882,673
Local / regional equity	52,751	246,636
Foreign funds and fixed income investments	396,012	-
Foreign equity	-	49,614
Total	<u>1,377,991</u>	<u>2,178,923</u>

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5. CASH AND CASH EQUIVALENTS

i) Insurance operations:

	2016	2015
	(Unaudited)	(Audited)
	SAR'000	
Murabaha deposits	411,000	182,621
Bank balances and cash	968,402	579,247
	<u>1,379,402</u>	<u>761,868</u>

ii) Shareholders:

	2016	2015
	(Unaudited)	(Audited)
	SAR'000	
Murabaha deposits	905,150	16,067
Bank balances and cash	116,597	45,746
	<u>1,021,747</u>	<u>61,813</u>

Murabaha deposits are maintained with financial institutions and have a maturity of three months or less from the date of acquisition. These earn commission at an average rate of 3.2% per annum as at 31 December 2016 (2015: 1.8% per annum).

Bank balances and cash under insurance operations includes call account balance of SAR 483 million (2015: SAR nil).

6. GROSS OUTSTANDING CLAIMS AND RESERVES, NET

Gross outstanding claims and reserves, net comprise of the following:

	December 31,	December 31,
	2016	2015
	(SAR'000)	(SAR'000)
	(Unaudited)	(Audited)
Gross outstanding claims	2,254,192	1,860,957
Less: Realizable value of salvage and subrogation	(123,100)	(88,643)
	<u>2,131,092</u>	<u>1,772,314</u>
Add: Incurred but not reported claims	1,446,728	1,410,053
Gross outstanding claims and reserves	<u>3,577,820</u>	<u>3,182,367</u>
Less: Reinsurers' share of gross outstanding claims	(1,764,393)	(1,495,909)
Less: Reinsurers' share of incurred but not reported claims	(338,352)	(332,000)
Reinsurers' share of outstanding claims and reserves	<u>(2,102,745)</u>	<u>(1,827,909)</u>
Net outstanding claims and reserves	<u>1,475,075</u>	<u>1,354,458</u>

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7. SHARE CAPITAL

The authorized, issued and paid up capital of the Company was SAR 1 billion at December 31, 2016 and December 31, 2015, consisting of 100 million shares of SAR 10 each.

8. CONTINGENT LIABILITIES

As at December 31, 2016, the Company was contingently liable for letters of credit and guarantees, issued on its behalf by the banks, amounting to SAR 175 million (December 31, 2015: SAR 163 million) occurring in the normal course of business.

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position. Management believes that appropriate provisions have been made in the financial statements in relation to pending legal proceedings.

9. STATUTORY DEPOSIT

In compliance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company had deposited 10 percent of its share capital, amounting to SAR 100 million, in a bank designated by SAMA. The statutory deposit is maintained with the National Commercial Bank and can be withdrawn only with the consent of SAMA.

10. LEGAL RESERVE

In accordance with the Articles of Association of the Company and in compliance with Article 70(2)(g) of the Insurance Implementing Regulations issued by SAMA, the Company is required to allocate 20% of its net income for the year to the legal reserve until it equals the value of share capital, which was reached in 2016. This transfer is only made at the year end. The legal reserve is not available for distribution to Shareholders until liquidation of the Company.

11. MANAFETH SHARED AGREEMENT

On 13 January 2015 together with 25 related insurance companies, the Company signed the Manafeth shared agreement relating to third party liability motor insurance which is effective from 1 January 2015. The agreement relates to motor insurance for vehicles entering the Kingdom of Saudi Arabia.

The main terms of the above mentioned agreement are as follows:

- The Company obtains 15% management fee of the net result of the Manafeth portfolio;
- The Company obtains 4.25% of Manafeth's gross premiums written to cover the related indirect expenses; and
- The net result of the Manafeth portfolio after deducting the two above mentioned items is due to be shared equally by the Company and its related insurers.

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12. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of the major related party transactions during the year and the related balances:

	Transactions for the year ended		Balance receivable / (payable) as at	
	December 31, 2016 (SAR'000) (Unaudited)	December 31, 2015 (SAR'000) (Audited)	December 31, 2016 (SAR'000) (Unaudited)	December 31, 2015 (SAR'000) (Audited)
<u>Major shareholders</u>				
Amount of claims paid to hospitals owned by major shareholders	69,133	62,286	5,488	(4,259)
Medical insurance premium written	33,351	39,996	1,985	3,277
<u>Associates</u>				
Insurance premium written	35,071	792	22,360	-
Rent expenses paid	1,662	1,852	-	-
Najm fees paid	31,199	41,291	20,980	4,252
United Insurance Company fees and claims, net	8,436	8,490	1,223	3,663
<u>Entities controlled, jointly controlled or significantly influenced by related parties</u>				
Insurance premium written	419,212	250,366	130,716	194,437
Chedid Reinsurance	8,056	8,119	(5,125)	(2,068)

In accordance with the Company's Articles of Association, the Board of Directors is entitled each year to remuneration of up to 10% of the remaining profit from Shareholders' operations, as defined, based on a decision by the General Assembly.

The compensation of key management personnel during the year is as follows:

	December 31, 2016 (SAR'000) (Unaudited)	December 31, 2015 (SAR'000) (Audited)
Salaries and other allowances	9,038	7,501
End of service indemnities	597	1,843

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13. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for that asset or liability, or in its absence, the most advantageous market to which the Company has access at that date. Consequently, differences can arise between the carrying values and fair value estimates. The fair values of financial assets that are traded in an active market are based on quoted market prices or dealer price quotations. For all other financial instruments, the fair value is based on other valuation techniques.

Determination of fair value and fair value hierarchy

The Company uses the following hierarchy method for determining and disclosing the fair value of financial instruments at the reporting period end.

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses the financial instruments measured at fair value at the end of the reporting period December 31, 2016 and December 31, 2015 by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	(SAR'000)			
	Level 1	Level 2	Level 3	Total
December 31, 2016 (Unaudited)				
Available-for-sale financial assets				
- Insurance operations	646,908	-	2,508,678	3,155,586
- Shareholders	544,887	-	833,104	1,377,991
Total	1,191,795	-	3,341,782	4,533,577
December 31, 2015 (Audited)				
Available-for-sale financial assets				
- Insurance operations	1,662,896	-	1,557,546	3,220,442
- Shareholders	1,403,928	-	774,995	2,178,923
Total	3,066,824	-	2,332,541	5,399,365

There were no transfers between the levels of fair value hierarchies during the period.

Level 3 investments comprise investments in Private Equity Funds and debt instruments. The valuation technique used to measure Private Equity Funds is NAV (net assets value). The fair value of Private Equity Funds is based on the latest reported net assets value as at the financial position date. Further, the debt instruments are measured at the fair value based on the discounted cash flow technique, which, as per the management, is the best estimate of the exit price i.e. fair value.

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14. OPERATING SEGMENTS

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

Segment assets do not include Insurance operations' property and equipment, net prepayments and other assets, receivables, net and cash and cash equivalents. Accordingly, they are included in unallocated assets. Segment liabilities do not include due to Shareholders' operations, reinsurance balances payable, claims payable, accrued expenses and other liabilities. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premiums receivable and depreciation on the property and equipment) are not reported to the chief operating decision maker under related segments and are monitored on a centralized basis.

For the three months period ended December 31, 2016
(Unaudited)

Operating Segments	Medical	Motor	Manafeth SAR' 000	Property & casualty	Total
Gross premiums written:					
Compulsory	1,697,199	-	-	-	-
Non - compulsory	555,427	-	-	-	-
Total gross premiums written	2,252,626	363,604	55,904	305,100	2,977,234
Net premiums written	2,242,358	363,607	55,904	28,527	2,690,396
Net premiums earned	1,264,280	385,275	56,946	33,589	1,740,090
Reinsurance commissions	910	16	-	23,250	24,176
Net claims incurred	(981,623)	(300,292)	(11,986)	(6,199)	(1,300,100)
Policy acquisition costs	(70,195)	(44,440)	(9,940)	(13,429)	(138,004)
Excess of loss expenses	-	(3,598)	(676)	(1,463)	(5,737)
Changes in reserve for takaful activities	196	-	-	-	196
Other underwriting expenses	(26,485)	7,559	(4,659)	13,202	(10,383)
Income from Insurance operations	187,083	44,520	29,685	48,950	310,238
General, administrative, operating and selling expenses					(103,101)
Investment income, net					2,452
Other income, net					12,363
Manafeth insurance share distribution					(23,865)
Surplus from Insurance operations					198,087

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14. OPERATING SEGMENTS (continued)

For the three months period ended December 31, 2015
(Unaudited)

Operating Segments	Medical	Motor	Manafeth	Property & casualty	Total
	SAR' 000				
Gross premiums written:					
Compulsory	1,626,662	-	-	-	-
Non - compulsory	400,449	-	-	-	-
Total gross premiums written	2,027,111	398,760	46,657	291,829	2,764,357
Net premiums written	1,932,469	398,760	46,657	29,353	2,407,239
Net premiums earned	1,198,627	309,408	46,417	35,553	1,590,005
Reinsurance commissions	343	6	-	32,128	32,477
Net claims incurred	(880,446)	(238,162)	(17,254)	2,049	(1,133,813)
Policy acquisition costs	(59,813)	(41,565)	(6,422)	(14,163)	(121,963)
Excess of loss expenses	-	(2,160)	(510)	(1,819)	(4,489)
Changes in reserve for takaful activities	2,600	-	-	-	2,600
Other underwriting expenses	(43,533)	(2,657)	(2,992)	(1,664)	(50,846)
Income from Insurance Operations	217,778	24,870	19,239	52,084	313,971
General, administrative, operating and selling expenses					(189,349)
Investment income, net					11,844
Impairment on available-for-sale investments					(17,696)
Other income, net					9,024
Manafeth insurance share distribution					(15,027)
Surplus from Insurance Operations					112,767

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14. OPERATING SEGMENTS (continued)

Operating Segments	For the year ended December 31, 2016 (Unaudited)				Total
	Medical	Motor	Manafeth SAR' 000	Property & casualty	
Gross premiums written:					
Compulsory	4,421,272	-	-	-	-
Non - compulsory	809,815	-	-	-	-
Total gross premiums written	5,231,087	1,512,411	235,643	1,075,994	8,055,135
Net premiums written	5,195,999	1,512,411	235,643	129,396	7,073,449
Net premiums earned	4,992,831	1,475,708	233,578	138,503	6,840,620
Reinsurance commissions	6,355	31	-	96,680	103,066
Net claims incurred	(3,996,114)	(1,019,049)	(43,557)	(45,578)	(5,104,298)
Policy acquisition costs	(257,442)	(173,389)	(35,975)	(50,092)	(516,898)
Excess of loss expenses	-	(18,059)	(3,248)	(8,560)	(29,867)
Changes in reserve for takaful activities	565	-	-	-	565
Other underwriting expenses	(98,458)	(7,781)	(20,756)	(6,345)	(133,340)
Income from Insurance operations	647,737	257,461	130,042	124,608	1,159,848
General, administrative, operating and selling expenses					(435,552)
Investment income, net					140,543
Impairment on available-for-sale investments					(50,036)
Other income, net					58,386
Manafeth insurance share distribution					(106,674)
Surplus from Insurance operations					766,515

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14. OPERATING SEGMENTS (continued)

For the year ended December 31, 2015
(Audited)

Operating Segments	Property & casualty				Total
	Medical	Motor	Manafeth		
	SAR' 000				
Gross premiums written:					
Compulsory	4,111,028	-	-	-	-
Non - compulsory	801,778	-	-	-	-
Total gross premiums written	4,912,806	1,294,864	195,352	1,142,246	7,545,268
Net premiums written	4,798,758	1,294,864	195,352	132,478	6,421,452
Net premiums earned	4,287,836	1,080,815	157,550	138,624	5,664,825
Reinsurance commissions	194	(4,391)	-	97,820	93,623
Net claims incurred	(3,313,344)	(751,661)	(53,818)	(25,087)	(4,143,910)
Policy acquisition costs	(225,775)	(141,696)	(24,129)	(44,988)	(436,588)
Excess of loss expenses	-	(12,612)	(2,330)	(9,485)	(24,427)
Changes in reserve for takaful	2,873	-	-	-	2,873
Other underwriting expenses	(103,657)	(14,075)	(9,986)	(18,634)	(146,352)
Income from Insurance Operations	648,127	156,380	67,287	138,250	1,010,044
General, administrative, operating and selling expenses					(544,592)
Investment income, net					88,251
Impairment on available-for-sale investments					(17,696)
Other income, net					45,886
Manafeth insurance share distribution					(49,087)
Surplus from Insurance Operations					532,806

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14. OPERATING SEGMENTS (continued)

As at December 31, 2016
(Unaudited)

Operating Segments	Medical	Motor	Manafeth	Property & casualty	Total
	SAR' 000				
Assets - Insurance operations					
Reinsurer's share of unearned premiums	6,204	22	-	547,587	553,813
Reinsurer's share of outstanding claims	3,553	18,843	3,213	2,077,136	2,102,745
Deferred policy acquisition costs	117,411	77,369	1,831	21,489	218,100
Investments (including investment property)					3,178,138
Receivables, net					2,326,988
Unallocated assets					1,960,604
Total assets					10,340,388
Liabilities and surplus - Insurance operations					
Gross unearned premiums	2,980,156	720,978	39,867	649,228	4,390,229
Gross outstanding claims and reserves	894,254	398,883	30,657	2,254,026	3,577,820
Unearned commission income	4,657	6	-	49,776	54,439
Reserve for takaful activities	12,902	-	-	-	12,902
Unallocated liabilities and surplus					2,304,998
Total liabilities and surplus					10,340,388

As at December 31, 2015
(Audited)

Operating Segments	Medical	Motor	Manafeth	Property & casualty	Total
	SAR' 000				
Assets - Insurance operations					
Reinsurer's share of unearned premiums	89,377	11,329	-	529,268	629,974
Reinsurer's share of outstanding claims	24,377	25,025	-	1,778,507	1,827,909
Deferred policy acquisition costs	120,725	64,964	1,600	21,955	209,244
Investments (including investment property)					3,243,905
Receivables, net					1,943,579
Unallocated assets					1,624,110
Total assets					9,478,721
Liabilities and surplus - Insurance operations					
Gross unearned premiums	2,860,161	695,582	37,802	640,016	4,233,561
Gross outstanding claims and reserves	930,415	287,895	24,542	1,939,515	3,182,367
Unearned commission income	6,241	24	-	44,759	51,024
Reserve for takaful activities	13,467	-	-	-	13,467
Unallocated liabilities and surplus					1,998,302
Total liabilities and surplus					9,478,721

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15. EARNINGS PER SHARE

Basic and diluted earnings per share have been calculated by dividing the net income for the period / year ended December 31, 2016 and December 31, 2015 by 100 million shares.

16. ZAKAT AND INCOME TAX

Status of Assessment

The Company had filed Zakat returns with the General Authority of Zakat and Tax ("GZIT") for the years from 2005 to 2015 but the final assessments have not been raised yet.

Status of Appeal

The Company had filed an appeal against the assessment of GZIT for the year 2005-2006 which is raised to Board of Grievances.

17. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to conform with the presentation in the current period. These changes were made for better presentation of balances and transactions in the interim condensed financial statements of the Company.

18. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements have been approved by the Audit Committee on behalf of the Board of Directors, on Rabi' Al-Thani 17, 1438H, corresponding to January 15, 2017.