

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

**INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED) AND  
INDEPENDENT AUDITORS' REVIEW REPORT**

**FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2017**

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

INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED) AND INDEPENDENT AUDITORS'  
REVIEW REPORT FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2017

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**INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE SHAREHOLDERS OF AL RAJHI COMPANY FOR COOPERATIVE INSURANCE (A SAUDI JOINT STOCK COMPANY)**

**INTRODUCTION**

We have reviewed the accompanying interim statement of financial position of Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at 30 September 2017 and the related interim statements of income - takaful operations and shareholders operations, interim statements of comprehensive income for takaful operations and shareholders operations for the three and nine-months period then ended and interim statement of changes in shareholders' equity and interim statements of cash flows for takaful operations and shareholders operations for the nine-month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) and Saudi Arabian Monetary Authority (SAMA) guidance on accounting for zakat and income taxes. Our responsibility is to express a conclusion on these interim financial information based on our review.

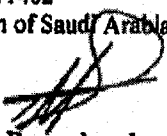
**SCOPE OF REVIEW**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**CONCLUSION**


Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on accounting for zakat and income taxes.

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P. O. Box 2195  
Riyadh 11451  
Kingdom of Saudi Arabia

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

Date: 1 November 2017  
Corresponding to: 12 Safar 1439H



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

INTERIM STATEMENT OF FINANCIAL POSITION

		30-Sep-17	31-Dec-16
		(Unaudited)	(Audited)
	Notes	SR'000	SR'000
<b>TAKAFUL OPERATIONS' ASSETS</b>			
Bank balances and cash	7	808,028	388,772
Contributions and re-takaful balances receivable	8	425,366	310,802
Financial assets at fair value through profit or loss	10 (i)(b)	68,558	13,101
Available-for-sale financial assets	10 (i)(b)	-	15,096
Prepayments		9,953	13,797
Re-takaful share of outstanding claims		178,916	95,709
Re-takaful share of unearned contributions		86,485	69,666
Re-takaful share of mathematical reserve		104	58
Deferred policy acquisition costs		44,966	30,366
Financial assets at amortised cost	10(i)(a)	949,257	-
Held-to-maturity investments	10(i)(a)	-	705,000
Due from shareholders' operations		196,822	196,822
Other assets		7,174	9,195
<b>TOTAL TAKAFUL OPERATIONS' ASSETS</b>		<b>2,775,629</b>	<b>1,848,384</b>
<b>SHAREHOLDERS' OPERATIONS' ASSETS</b>			
Bank balances and cash	7	304,198	85,248
Financial assets at fair value through profit or loss	10(ii)(b)	81,839	82,047
Financial assets at fair value through other comprehensive income	10(ii)(c)	86,085	-
Available-for-sale financial assets	10(ii)(c)	-	86,303
Management fees receivable – from takaful operations		243,720	169,553
Advances paid to supplier		16,555	13,333
Financial assets at amortised cost	10(ii)(a)	20,103	-
Held-to-maturity investments	10(ii)(a)	-	180,000
Property and equipment, net		18,877	20,005
Statutory deposits	9	39,968	40,000
Other assets		2,338	1,655
<b>TOTAL SHAREHOLDERS' OPERATIONS' ASSETS</b>		<b>813,683</b>	<b>678,144</b>
<b>TOTAL ASSETS</b>		<b>3,589,312</b>	<b>2,526,528</b>



Ahmed Sulaiman Al Rajhi  
Member-Board



Abdulaziz Mohammed Al Sedeas  
Chief Executive Officer



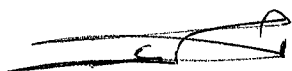
Robert Pereira  
Chief Financial Officer

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

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

INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30-Sep-17 (Unaudited) SR'000	31-Dec-16 (Audited) SR'000
<b>TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS</b>		
<b>TAKAFUL OPERATIONS' LIABILITIES</b>		
Gross outstanding claims	898,845	542,610
Gross unearned contributions	1,416,397	996,386
Unearned re-takaful commission income	7,287	6,728
Payables, accruals and other liabilities	74,524	51,891
Management fees payable – to shareholders' operations	243,720	169,553
Re-takaful balances payable	80,100	50,679
Financial liabilities at fair value through profit or loss	12 25,360	14,196
Other reserves	134	134
	<u>2,746,367</u>	<u>1,832,177</u>
<b>TAKAFUL OPERATIONS' SURPLUS</b>		
Surplus distributable to policyholders	4(c) 29,262	16,111
Fair value reserve	-	96
	<u>2,775,629</u>	<u>1,848,384</u>
<b>SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY</b>		
Payables to SAMA	3,246	2,564
Provision for Zakat & tax	11 21,490	18,391
Payables, accruals and other liabilities	27,206	21,133
Due to takaful operations	196,822	196,822
Employees' end of service benefits	10,142	9,871
	<u>258,906</u>	<u>248,781</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	400,000	400,000
Statutory reserve	44,538	17,725
Fair value reserve	10(ii)(c) 2,223	502
Retained earnings	108,016	11,136
	<u>554,777</u>	<u>429,363</u>
<b>TOTAL SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY</b>	<u>813,683</u>	<u>678,144</u>
<b>TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY</b>	<u>3,589,312</u>	<u>2,526,528</u>



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Member-Board



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Chief Executive Officer



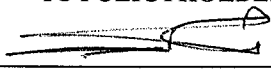
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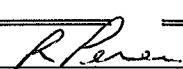
AL RAJHI COMPANY FOR COOPERATIVE INSURANCE  
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF INCOME – TAKAFUL OPERATIONS (UNAUDITED)

	Note	For the three month period ended		For the nine month period ended	
		30-Sep-17 SR'000	30-Sep-16 SR'000	30-Sep-17 SR'000	30-Sep-16 SR'000
Gross contributions written		742,329	433,658	2,529,621	1,472,936
Re-takaful contributions ceded		(28,763)	(22,535)	(82,517)	(69,565)
Excess of loss		(2,824)	(653)	(11,652)	(6,323)
<b>NET CONTRIBUTIONS WRITTEN</b>		<b>710,742</b>	<b>410,470</b>	<b>2,435,452</b>	<b>1,397,048</b>
Change in unearned contributions, net		8,173	(3,233)	(403,192)	(303,095)
<b>NET CONTRIBUTIONS EARNED</b>		<b>718,915</b>	<b>407,237</b>	<b>2,032,260</b>	<b>1,093,953</b>
Policy fees and other income		2,081	1,640	7,170	4,833
Re-takaful commission income		2,778	2,900	8,798	9,874
<b>TOTAL UNDERWRITING REVENUE</b>		<b>723,774</b>	<b>411,777</b>	<b>2,048,228</b>	<b>1,108,660</b>
Gross claims paid		(461,649)	(287,163)	(1,455,976)	(785,968)
Re-takaful share of claims paid		1,864	17,934	13,872	31,425
<b>NET CLAIMS PAID</b>		<b>(459,785)</b>	<b>(269,229)</b>	<b>(1,442,104)</b>	<b>(754,543)</b>
Movement in outstanding claims, net		(132,262)	(59,842)	(273,028)	(149,231)
<b>NET CLAIMS INCURRED</b>		<b>(592,047)</b>	<b>(329,071)</b>	<b>(1,715,132)</b>	<b>(903,774)</b>
Inspection and supervision fees		(4,520)	(2,451)	(15,632)	(8,772)
Policy acquisition costs		(24,560)	(11,467)	(65,386)	(31,157)
Other expenses		(2,420)	(3,376)	(6,856)	(7,219)
Change in mathematical reserve		(3,850)	(1,691)	(10,243)	(5,031)
Other income		925	914	3,048	2,620
<b>TOTAL CLAIMS AND OTHER EXPENSES</b>		<b>(626,472)</b>	<b>(347,142)</b>	<b>(1,810,201)</b>	<b>(953,333)</b>
<b>NET UNDERWRITING SURPLUS</b>		<b>97,302</b>	<b>64,635</b>	<b>238,027</b>	<b>155,327</b>
Special commission income		8,218	6,212	15,793	12,627
Net gains on investments mandatorily measured at fair value through profit or loss		966	-	3,779	-
Reversal of impairment loss / (Impairment loss)	6(b)	259	-	(158)	-
Management fee for administration of takaful operations		(44,821)	(33,459)	(120,227)	(99,127)
Net surplus for the period		61,924	37,388	137,214	68,827
Management fee attributable to shareholders' operations		(55,732)	(33,649)	(123,493)	(61,945)
<b>NET SURPLUS DISTRIBUTABLE TO POLICYHOLDERS</b>		<b>6,192</b>	<b>3,739</b>	<b>13,721</b>	<b>6,882</b>

  
Ahmed Sulaiman Al Rajhi  
Member-Board

  
Abdulaziz Mohammed Al Sedeas  
Chief Executive Officer

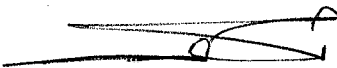
  
Robert Pereira  
Chief Financial Officer

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

AL RAJHI COMPANY FOR COOPERATIVE INSURANCE  
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INTERIM STATEMENT OF COMPREHENSIVE INCOME – TAKAFUL OPERATIONS  
(UNAUDITED)

	<i>For the three month period ended</i>		<i>For the nine month period ended</i>	
	<i>30-Sep-17</i> <i>SR'000</i>	<i>30-Sep-16</i> <i>SR'000</i>	<i>30-Sep-17</i> <i>SR'000</i>	<i>30-Sep-16</i> <i>SR'000</i>
Net surplus distributable to policyholders	6,192	3,739	13,721	6,882
<b><i>Other comprehensive income to be reclassified subsequently to the statement of income:</i></b>				
Net change in fair value of available-for-sale investments	-	146	-	311
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>6,192</b>	<b>3,885</b>	<b>13,721</b>	<b>7,193</b>



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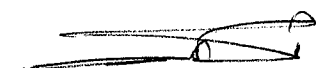
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AL RAJHI COMPANY FOR COOPERATIVE INSURANCE  
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INTERIM STATEMENT OF INCOME – SHAREHOLDERS’ OPERATIONS (UNAUDITED)

	<i>For the three month period ended</i>		<i>For the nine month period ended</i>	
	<i>30-Sep-2017</i>	<i>30-Sep-2016</i>	<i>30-Sep-2017</i>	<i>30-Sep-2016</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
		<i>(Restated)</i>		<i>(Restated)</i>
<b>REVENUE</b>				
Management fee for administration of takaful operations	44,821	33,459	120,227	99,127
Management fee attributable to shareholders’ operations	55,732	33,649	123,493	61,945
Dividend income	1,010	779	3,545	3,048
Net gains on investments mandatorily measured at fair value through profit or loss	636	-	1,948	-
Net change in fair value of investments held as fair value through income statement	-	(8,079)	-	(10,255)
Special commission income on held to maturity investments	919	2,579	3,396	7,025
Reversal of impairment loss	19	-	20	-
Realised gain on sale of available for sale investments	-	643	-	998
Other income	393	-	1,514	-
<b>TOTAL REVENUE</b>	<b>103,530</b>	<b>63,030</b>	<b>254,143</b>	<b>161,888</b>
General and administrative expenses	(44,821)	(33,459)	(120,227)	(99,127)
<b>INCOME FROM OPERATIONS</b>	<b>58,709</b>	<b>29,571</b>	<b>133,916</b>	<b>62,761</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (SAUDI RIYALS)</b>				
	15	0.74	3.35	1.57



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AL RAJHI COMPANY FOR COOPERATIVE INSURANCE  
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INTERIM STATEMENT OF COMPREHENSIVE INCOME – SHAREHOLDERS’  
OPERATIONS (UNAUDITED)

	Note	For the three month period ended		For the nine month period ended	
		30-Sep-17 SR’000	30-Sep-16 SR’000 (Restated)	30-Sep-17 SR’000	30-Sep-16 SR’000 (Restated)
Income from operations		58,709	29,571	133,916	62,761
<b><i>Items that will not be recycled to statement of income in subsequent periods:</i></b>					
Net gains on equity investments designated at fair value through other comprehensive income	10(ii)(c)	3,902	-	2,223	-
<b><i>Items that may be recycled to statement of income in subsequent periods:</i></b>					
Net change in fair value of available-for-sale investments		-	17	-	(55)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>62,611</b>	<b>29,588</b>	<b>136,139</b>	<b>62,706</b>



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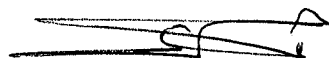
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AL RAJHI COMPANY FOR COOPERATIVE INSURANCE  
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INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the nine-month period ended 30 September 2017

	Share capital SR'000	Statutory reserve SR'000	Retained earnings / (deficit) SR'000	Fair value reserve SR'000	Total SR'000
Balance as at 1 January 2016 (Audited)	400,000	-	(59,766)	261	340,495
<b>Total comprehensive income</b>					
Income from operations	-	-	62,761	-	62,761
Changes in fair value of available-for-sale investments	-	-	-	(55)	(55)
Zakat	-	-	(6,400)	-	(6,400)
Balance as at 30 Sep 2016 (Unaudited)	<u>400,000</u>	<u>-</u>	<u>(3,405)</u>	<u>206</u>	<u>396,801</u>
Balance as at 1 January 2017 (Audited)	<b>400,000</b>	<b>17,725</b>	<b>11,136</b>	<b>502</b>	<b>429,363</b>
Changes on initial adoption of IFRS 9 (Note 4(b)B)	-	-	277	(502)	(225)
Restated balance as at 1 January 2017	<u>400,000</u>	<u>17,725</u>	<u>11,413</u>	<u>-</u>	<u>429,138</u>
<b>Total comprehensive income:</b>					
Income from operations	-	-	133,916	-	133,916
Net gains on equity investments designated at fair value through other comprehensive income – note 10(ii)(c)	-	-	-	2,223	2,223
Zakat	-	-	(10,500)	-	(10,500)
Transfer to statutory reserve	-	26,813	(26,813)	-	-
Balance as at 30 Sep 2017 (Unaudited)	<u>400,000</u>	<u>44,538</u>	<u>108,016</u>	<u>2,223</u>	<u>554,777</u>



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AL RAJHI COMPANY FOR COOPERATIVE INSURANCE  
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INTERIM STATEMENT OF CASH FLOWS – TAKAFUL OPERATIONS (UNAUDITED)

	Note	For the nine month period ended	
		30-Sep-2017 SR'000	30-Sep-2016 SR'000
<b>OPERATING ACTIVITIES</b>			
Net surplus distributable to policyholders		13,721	6,882
<i>Adjustment for:</i>			
Management fee for administration of takaful operations		120,227	99,127
Management fee attributable to shareholders' operations		123,493	61,945
Unrealised gain on financial assets measured at FVPL		(875)	-
Impairment loss		158	-
Allowance for doubtful receivables		3,448	3,448
<b>Net surplus before changes in operating assets and liabilities</b>		<b>260,172</b>	<b>171,402</b>
<b>Changes in operating assets and liabilities:</b>			
Due from shareholders' operations		-	4,488
Contributions and re-takaful balances receivable, net		(118,012)	(52,407)
Prepayments		3,844	2,286
Re-takaful share of outstanding claims		(83,207)	3,830
Re-takaful share of unearned contributions		(16,819)	(6,820)
Re-takaful share of mathematical reserve		(46)	119
Deferred policy acquisition costs		(14,600)	(9,084)
Gross outstanding claims		356,235	145,259
Payables, accruals and other liabilities		22,633	26,760
Reserve for protection and saving activities		11,164	4,911
Other reserves		-	2,057
Re-takaful balances payable		29,421	(2,951)
Gross unearned contributions		420,011	309,915
Other assets		2,021	-
Unearned re-takaful commission income		559	7
Deposit against letters of guarantee		(1,709)	1,997
		<b>871,667</b>	<b>601,769</b>
Management fee paid		(169,553)	(90,923)
<b>Net cash from operating activities</b>		<b>702,114</b>	<b>510,846</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of financial assets at amortised cost (held to maturity investments)	10(i)(a)	(1,100,000)	(825,000)
Redemption of financial assets at amortised cost (held to maturity investments)	10(i)(a)	855,000	375,000
Purchase of available for sale investments		-	(428,000)
Sale of available for sale investments		-	368,715
Purchase of financial assets measured at FVPL	10(i)(b)	(1,555,207)	-
Sale of financial assets measured at FVPL	10(i)(b)	1,515,721	-
Purchase of unit linked investments		-	(4,885)
<b>Net cash used in investing activities</b>		<b>(284,486)</b>	<b>(514,170)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>417,628</b>	<b>(3,324)</b>
Cash and cash equivalents at the beginning of the period		376,925	174,055
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	7	<b>794,553</b>	<b>170,731</b>

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information

Ahmed Sulaiman Al Rajhi  
Member-Board

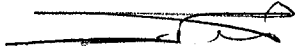
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INTERIM STATEMENT OF CASH FLOWS – SHAREHOLDERS’ OPERATIONS  
(UNAUDITED)

	Notes	For the nine month period ended	
		30-Sep-2017 SR’000	30-Sep-2016 SR’000
<b>OPERATING ACTIVITIES</b>			
Net profit for the period		133,916	62,761
<i>Adjustments for:</i>			
Depreciation and amortisation		6,001	6,965
Management fee for administration of takaful operations		(120,227)	(99,127)
Management fee attributable to shareholders’ operations		(123,493)	(61,945)
Employees’ end of service benefits		1,151	2,157
Reversal of impairment loss		(20)	-
Unrealized gain / (loss) on investments at FVPL		(229)	10,255
<b>Net deficit before changes in operating assets and liabilities</b>		<b>(102,901)</b>	<b>(78,934)</b>
<i>Changes in operating assets and liabilities:</i>			
Advances paid to suppliers		(3,222)	(5,868)
Other assets		(683)	(667)
Payables, accruals and others liabilities		6,073	354
Due to takaful operations		-	(4,488)
Statutory deposit investment returns		682	667
		<b>(100,051)</b>	<b>(88,936)</b>
Management fee received		169,553	90,923
Zakat paid		(7,401)	(1,377)
Employees’ end of service benefits paid		(880)	(1,409)
<b>Net cash from operating activities</b>		<b>61,221</b>	<b>(799)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(4,873)	(1,772)
Purchase of intangible asset		-	(1,881)
Purchase of financial assets at amortised cost (held-to-maturity investments)	10(ii)(a)	(265,109)	(520,000)
Redemption of financial assets at amortised cost (held-to-maturity investments)	10(ii)(a)	425,000	405,000
Purchase of financial assets measured at FVPL	10(ii)(b)	(212,500)	(75,008)
Sale of financial assets measured at FVPL	10(ii)(b)	215,270	75,009
Purchase of equity investments designated at FVOCI	10(ii)(c)	(53,650)	(45,000)
Sale of equity investments designated at FVOCI	10(ii)(c)	52,690	102,386
Movement in cash balance in equity share portfolio		1,068	-
Matured Murabaha deposit receivable		-	39,038
<b>Net cash from / (used in) investing activities</b>		<b>157,896</b>	<b>(22,228)</b>
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>219,117</b>	<b>(23,027)</b>
Cash and cash equivalents at beginning of the period		84,340	75,707
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>303,457</b>	<b>52,680</b>

  
Ahmed Sulaiman Al Rajhi

  
Abdulaziz Mohammed Al Sedeas

  
Robert Pereira

Member-Board  
The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

Chief Executive Officer

Chief Financial Officer

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

### 1 ORGANISATION AND PRINCIPAL ACTIVITIES

Al Rajhi Company for Cooperative Insurance (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010270371 dated 5 Rajab 1430 corresponding to 28 June 2009. The address of the registered office of the Company is as follows:

Al Rajhi Company for Cooperative Insurance  
P.O. Box 67791  
Riyadh 11517  
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance business and carry out related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 29 Dhul-Qi'dah 1430H (corresponding to 17 November 2009), the Company received its license from the Saudi Arabian Monetary Agency (SAMA) to transact cooperative insurance business in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Arabian Stock Exchange ("Tadawul") on 13 July 2009. The Company received product approvals from SAMA on 17 January 2010.

### 2 BASIS OF PREPARATION

#### a) Basis of measurement

These interim condensed financial statements have been prepared on the historical cost basis except for the following material items

- i. Financial assets measured at FVPL
- ii. Financial assets measured at FVOCI
- iii. Financial liabilities measured at FVPL

#### b) Statement of compliance

During 2017, SAMA issued a circular number 381000074519 dated 14 Rajab 1438H (April 11, 2017) ("Circular") and subsequent amendments through certain clarifications relating to the accounting for zakat and tax. The impact of these amendments is that zakat and tax will be recognized in the interim statement of shareholders' equity with a corresponding liability in the interim statement of financial position.

Applying the above framework, the interim condensed financial information of the Company as at and for the three month and nine month periods ended September 30, 2017 have been prepared using the International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") and SAMA guidance for the accounting of zakat and income tax.

Until 2016, the interim condensed financial information of the Company were prepared in accordance with the IAS 34. This change in framework resulted in a change in accounting policy for zakat and income tax and the effects of this change are disclosed in note 4.4 to the interim condensed financial information.

As required by Saudi Arabian insurance regulations, the Company maintains separate books of accounts for Takaful Operations and Shareholders' Operations and present the financial statements accordingly. The physical custody of all assets related to the Takaful Operations and Shareholders' Operations are held by the Company. Assets, liabilities, revenues and expenses clearly attributable to each operation are recorded in their respective books. As per the Company's policy, all general and administrative expenses of Takaful operations are charged to Shareholders' operations. The basis of allocation of other revenue and expenses from joint operations is as determined by the management and Board of Directors.

These 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 31 December 2016.

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

**2 BASIS OF PREPARATION (continued)**

*c) Functional and presentation currency*

The functional and presentational currency of the Company is Saudi Riyals. The financial statements values are presented in Saudi Arabian Riyals rounded off to the nearest thousand (SR'000), unless otherwise indicated.

**3 BASIS OF PRESENTATION**

The Company's by-laws require separate books to be maintained for Takaful and Shareholders' operations. As per the Company's policy, all general and administrative expenses of Takaful operations are charged to Shareholders' operations. The Company in accordance with the Islamic Shariah provisions managing the co-operative insurance operations and calculates the management fee in the below manner and pays it in full shortly after at the end of the fiscal year.

- The first component of the management fee is calculated based on the net contributions written for the period after adjusting commission income and cost of production for motor and general at 40% and for health at 30% and is limited to the extent of general and administrative expenses charged in the interim statement of income – shareholders' operations; and
- The other component of the management fee is determined up to 90% of the net surplus, if any, for the period from takaful operations remaining after computing the first component of management fee. The Company is required to distribute the remaining 10% of the net surplus from Takaful operations to policyholders in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Agency ("SAMA"). However, the Company has a surplus distribution policy recommended by its sharia council that prescribes a slightly different calculation for surplus distribution. Management already approached SAMA to conclude this matter.
- The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as current: cash and bank balances, contributions and re-takaful receivables, financial assets at fair value through profit or loss, financial assets at amortised cost, advances prepayments and other assets, gross outstanding claims, gross unearned contributions, unearned re-takaful commission income, payables, accruals and other liabilities, management fees payable, re-takaful balances payable, financial liabilities at fair value through profit or loss and other reserves and other payables and accruals. The following balances would generally be classified as non-current : financial assets at fair value through other comprehensive income and employees' end of service benefits.

**4 SIGNIFICANT ACCOUNTING POLICIES**

**4.1 Interim Reporting**

The accounting policies adopted in the preparation of these 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, 2016 except for the new and amended standards and interpretations which are effective for annual periods beginning on or after 1 January 2017, early adoption of IFRS 9 "Financial Instruments" effective from 1 January 2017 (refer Note 4.3) and change in the accounting policy in relation to accounting for Zakat and income tax as a result of SAMA circular (refer Note 4.4).

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

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

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Change in accounting policy

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

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

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments: Disclosures".

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in section 4.3 below.

a) Classification and measurement of financial instruments

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

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATIONS (UNAUDITED)  
(CONTINUED)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Classification and measurement of financial instruments (continued)

	IAS 39		IFRS 9	
	Measurement category	Carrying amount SR'000	Measurement category	Carrying amount SR'000
<b>Financial assets - Shareholders' operations</b>				
Cash and cash equivalents	Amortised cost (Loans and receivables)	85,248	Amortised cost	85,179
Investments at fair value through income statement	FVPL (Held for trading)	82,047	FVOCI (Designated)	83,970
Available-for-sale investments	FVOCI (Available-for-sale)	86,303	FVPL (Mandatory)	84,380
Management fee receivable	Amortised cost (Loans and receivables)	169,533	Amortised cost	169,533
Held-to-maturity investments	Amortised cost (Held-to-maturity)	180,000	Amortised cost	179,854
Statutory deposit	Amortised cost (Held-to-maturity)	40,000	Amortised cost	39,990
Other assets	Amortised cost (Loans and receivables)	1,655	Amortised cost	1,655
<b>Total financial assets</b>		<b>644,786</b>		<b>644,561</b>

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

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

The Company performed a detailed analysis of its business models for managing financial assets particularly considering the cash flow characteristics of its debt instruments. Please refer to Note 4.3 for more detailed information regarding the new classification requirements of IFRS 9.

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

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



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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

		IAS 39 carrying amount 31 December 2016	Reclassifi- cations	Remeasure- ments	IFRS 9 carrying amount 1 January 2017
<b>Takaful operations</b>					
<i>Amortised cost</i>					
Opening balance		-	-	-	
From: Held to maturity		-	705,000	-	
Remeasurement: ECL allowance		-	-	(585)	
Closing balance		-	705,000	(585)	704,415
		IAS 39 carrying amount 31 December 2016	Reclassifi- cations	Remeasure- ments	IFRS 9 carrying amount 1 January 2017
	<i>Notes</i>	SR'000	SR'000	SR'000	SR'000
<b>Shareholders' operations</b>					
<i>Available-for-sale investments</i>					
Opening balance	<b>B</b>	86,303	-	-	
To: Investments measured at FVPL		-	(84,380)	-	
To: Investments measured at FVOCI		-	(1,923)	-	
Closing balance		86,303	(86,303)	-	-
<i>Investments measured at FVPL</i>					
Opening balance	<b>C</b>	82,047	-	-	
To: Investments measured at FVOCI		-	(82,047)	-	
From: Available-for-sale investments		-	84,380	-	
Closing balance		82,047	2,333	-	84,380
<i>Investments measured at FVOCI</i>					
Opening balance	<b>C</b>	-	-	-	
From: Available-for-sale investments		-	1,923	-	
From: Investments measured at FVPL		-	82,047	-	
Closing balance		-	83,790	-	83,970
<i>Financial assets at amortised cost</i>					
<i>Cash and cash equivalents</i>					
Opening balance		85,248	-	-	
Remeasurement: ECL allowance		-	-	(69)	
Closing balance		85,248	-	(69)	85,179
<i>Financial assets at amortised cost</i>					
<i>Financial assets at amortised cost</i>					
Opening balance		-	-	-	
From: Held to maturity		-	180,000	-	
Remeasurement: ECL allowance		-	-	(146)	
Closing balance		-	180,000	(146)	179,854

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

*Statutory deposits - Financial assets at amortised cost*

Financial assets at amortised cost

Opening balance	-	-	-
From: Held to maturity	-	40,000	-
Remeasurement: ECL allowance	-	-	(10)
Closing balance	-	40,000	(10)
			39,990

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

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

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

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

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

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

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

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

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

**E Financial assets measured at amortised cost**

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**4.3.1 Financial assets and liabilities**

**Measurement methods**

*Amortised cost and effective profit rate*

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

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

*Profit income*

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

*Initial recognition and measurement*

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

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

**4.3.2 Classification and subsequent measurement of financial assets**

From 1 January 2017, the Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

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

AL RAJHI COMPANY FOR COOPERATIVE INSURANCE  
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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

*Debt instruments*

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

Classification and subsequent measurement of debt instruments depend on:

- (i) the Company's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 6.1. Profit income from these financial assets is included in 'Special commission income' using the effective profit method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, special commission income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in the statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of income. Profit income from these financial assets is included in 'Special commission income' using the effective profit rate method.
- **Fair value through profit or loss (FVPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss presented in the statement of income in the period in which it arises. Profit income from these financial assets is included in 'Special commission income' using the effective profit rate method.

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*Business model:*

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

*Solely payments of principal and profit:*

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

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

*Equity instruments*

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

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

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

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## NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

### 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 4.3.3 Impairment

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

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

Note 6.1 provides more detail of how the expected credit loss allowance is measured.

#### 4.3.4 Derecognition of financial assets

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

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

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

#### 4.3.5 Classification and subsequent measurement of financial liabilities

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

#### 4.3.6 Derecognition of financial liabilities

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
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4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Zakat and income tax

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

The change in the accounting policy has the following impacts:

For the nine-month ended 30 September 2016:

	Balance as previously reported at 30 Sep 2016 SR'000	Effect of restatement relating to zakat SR'000	Balance as restated at 30 Sep 2016 SR'000
Income from operations within interim statement of comprehensive income - shareholders operations	56,361	6,400	62,761
Total comprehensive income within interim statement of comprehensive income - shareholders operations	56,306	6,400	62,706

The above change in accounting policy did not have an impact on interim statements of financial position and cash flows for any of the year / period presented. The basic and diluted earnings per share have been restated as at 30 September 2016 for the effects of the above change in accounting policy as follows;

	EPS as previously reported at 30 Sep 2016 SR'000	Effect of restatement relating to zakat	EPS as restated at 30 Sep 2016 SR'000
Basis and diluted earnings per share	1.41	0.16	1.57

For the three-month ended 30 September 2016:

	Balance as previously reported at 30 Sep 2016 SR'000	Effect of restatement relating to zakat SR'000	Balance as restated at 31 Sep 2016 SR'000
Income from operations within interim statement of comprehensive income - shareholders operations	26,471	3,100	29,571
Total comprehensive income within interim statement of comprehensive income - shareholders operations	26,488	3,100	29,588

The above change in accounting policy did not have an impact on interim statements of financial position and cash flows for any of the year / period presented. The basic and diluted earnings per share have been restated as at 30 September 2016 for the effects of the above change in accounting policy as follows;

	EPS as previously reported at 30 Sep 2016 SR'000	Effect of restatement relating to zakat	EPS as restated at 30 Sep 2016 SR'000
Basis and diluted earnings per share	0.66	0.08	0.74



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## NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

### 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 4.5 Segmental reporting

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

- General
- Motor
- Health
- Protection and savings

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

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

#### 4.6 Seasonality of operations

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

### 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

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

#### *a) Estimation of incurred but not reported 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.

#### *b) Measurement of the expected credit loss allowance*

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
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**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

b) *Measurement of the expected credit loss allowance (continued)*

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 6.1, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

c) *Fair value of unlisted equity investments*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of such securities not quoted in an active market may be determined by the Company using latest available audited net assets value of the investee. The Company would exercise judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Company may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the market practice. As of 30 September 2017, the Company has unlisted equity investments of SR 6.05 million.

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**6 FINANCIAL RISK MANAGEMENT**

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

**Credit risk**

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

**6.1 Credit risk measurement**

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

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

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

*Significant increase in credit risk*

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

Quantitative criteria:

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

Qualitative criteria:

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
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**6 FINANCIAL RISK MANAGEMENT (continued)**

*Definition of default and credit-impaired assets*

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

Quantitative criteria:

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

Qualitative criteria:

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

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

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

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

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

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

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**6 FINANCIAL RISK MANAGEMENT (continued)**

*Measuring expected credit losses*

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

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

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

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

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6 FINANCIAL RISK MANAGEMENT (continued)

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

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

i) TAKAFUL OPERATIONS

Financial statement line item	30 September 2017			Total	31 December
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		2016 Total
Cash and cash equivalents	808,109	-	-	808,109	388,772
Held-to-maturity investments/financial assets at amortised cost	950,000	-	-	950,000	705,000
Due from shareholders' operations	196,822	-	-	196,822	196,822
<b>Gross carrying amount</b>	<b>1,954,931</b>	<b>-</b>	<b>-</b>	<b>1,954,931</b>	<b>1,290,594</b>
Loss allowance	(824)	-	-	(824)	-
<b>Carrying amount</b>	<b>1,954,107</b>	<b>-</b>	<b>-</b>	<b>1,954,107</b>	<b>1,290,594</b>

Credit grade	30 September 2017			Total	31 December
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		2016 Total
Investment grade	1,758,109	-	-	1,758,109	1,093,772
Standard monitoring	196,822	-	-	196,822	196,822
Special monitoring	-	-	-	-	-
Default	-	-	-	-	-
<b>Gross carrying amount</b>	<b>1,954,931</b>	<b>-</b>	<b>-</b>	<b>1,954,931</b>	<b>1,290,594</b>
Loss allowance	(824)	-	-	(824)	-
<b>Carrying amount</b>	<b>1,954,107</b>	<b>-</b>	<b>-</b>	<b>1,954,107</b>	<b>1,290,594</b>

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6 FINANCIAL RISK MANAGEMENT (continued)

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

ii) SHAREHOLDERS' OPERATIONS

Financial statement line item	30 September 2017			Total	31 December
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		2016 Total
Cash and cash equivalents	304,365	-	-	304,365	85,248
Held-to-maturity investments/financial assets at amortised cost	20,109	-	-	20,109	180,000
Statutory deposits	40,000	-	-	40,000	40,000
<b>Gross carrying amount</b>	<b>364,474</b>	<b>-</b>	<b>-</b>	<b>364,474</b>	<b>305,248</b>
Loss allowance	(205)	-	-	(205)	-
<b>Carrying amount</b>	<b>364,269</b>	<b>-</b>	<b>-</b>	<b>364,269</b>	<b>305,248</b>

Credit grade	30 September 2017			Total	31 December
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		2016 Total
Investment grade	364,474	-	-	364,474	305,248
Standard monitoring	-	-	-	-	-
Special monitoring	-	-	-	-	-
Default	-	-	-	-	-
<b>Gross carrying amount</b>	<b>364,474</b>	<b>-</b>	<b>-</b>	<b>364,474</b>	<b>305,248</b>
Loss allowance	(205)	-	-	(205)	-
<b>Carrying amount</b>	<b>364,269</b>	<b>-</b>	<b>-</b>	<b>364,269</b>	<b>305,248</b>

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

b) Loss allowance

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

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

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6 FINANCIAL RISK MANAGEMENT (continued)

b) Loss allowance (continued)

a) Takaful operations:

	Stage 1 12-month ECL SR'000	Stage 2 Lifetime ECL SR'000	Stage 3 Lifetime ECL SR'000	Total SR'000
<b>Loss allowance as at 1 January 2017</b>	666	-	-	<b>666</b>
<b>Movements with the statement of income impact</b>				
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
New financial assets originated or purchased	1,798	-	-	<b>1,798</b>
Net remeasurement of loss allowance	-	-	-	-
Financial assets derecognised during the period	(1,640)	-	-	<b>(1,640)</b>
Write-offs	-	-	-	-
Total loss allowance for the period	158	-	-	<b>158</b>
<b>Loss allowance as at 30 September 2017</b>	<b>824</b>	-	-	<b>824</b>

a) Shareholders' operations:

	Stage 1 12-month ECL SR'000	Stage 2 Lifetime ECL SR'000	Stage 3 Lifetime ECL SR'000	Total SR'000
<b>Loss allowance as at 1 January 2017</b>	225	-	-	<b>225</b>
<b>Movements with the statement of income impact</b>				
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
New financial assets originated or purchased	359	-	-	<b>359</b>
Net remeasurement of loss allowance	22	-	-	<b>22</b>
Financial assets derecognised during the year	(401)	-	-	<b>(401)</b>
Write-offs	-	-	-	-
Total loss allowance for the period	(20)	-	-	<b>(20)</b>
<b>Loss allowance as at 30 September 2017</b>	<b>205</b>	-	-	<b>205</b>



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(CONTINUED)

7 BANK BALANCES AND CASH

	30 September 2017 (Unaudited)		31 December 2016 (Audited)	
	Takaful operations (SR'000)	Shareholders' operations (SR'000)	Takaful operations (SR'000)	Shareholders' operations (SR'000)
Cash in hand and at banks	494,553	63,457	226,925	(660)
Murabaha deposits	300,000	240,000	150,000	85,000
Cash and cash equivalents in the statements of cash flows	794,553	303,457	376,925	84,340
Less: Impairment loss	(81)	(167)	-	-
Cash and cash equivalents, net	794,472	303,290	376,925	84,340
Deposits against letters of guarantee (7.2)	13,556	-	11,847	-
Cash at banks (statutory deposit income) (7.3)	-	908	-	908
	<b>808,028</b>	<b>304,198</b>	<b>388,772</b>	<b>85,248</b>

7.1 Murabaha deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. The average variable commission rate on Murabaha deposits at 30 September 2017 is 2.98% per annum (31 December 2016: 3.14%). Bank balances and Murabaha deposits are placed with counterparties with investment grade credit ratings, as rated by international rating agencies. The carrying values of Murabaha deposits and bank balances approximate their fair value at the reporting date.

7.2 Deposits against letters of guarantee comprises amounts placed with a local bank against issuance of payment guarantees in favour of the Company's service providers (Note 16). As these cannot be withdrawn before the end of the guarantee period, these are restricted in nature.

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

8 CONTRIBUTIONS AND RE-TAKAFUL BALANCES RECEIVABLE, NET

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

	30- September 2017 (Unaudited) SR'000	31-December 2016 (Audited) SR'000
Due from policyholders		
- External policyholders	155,171	99,868
- Related parties (note 13 (a))	303,151	235,942
<b>Gross contributions receivable</b>	<b>458,322</b>	<b>335,810</b>
Re-takaful balances receivable	3,661	8,161
	<b>461,983</b>	<b>343,971</b>
Allowance for doubtful receivables	(36,617)	(33,169)
	<b>425,366</b>	<b>310,802</b>

Allowance for doubtful receivables includes provision of SR 2,391 thousands (2016: SR 3,996 thousands) against receivables from related parties.

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

The loss allowance provision for receivables as at 30 September 2017 reconciles to the opening loss allowance and the movement for that provision is as follows:

	<i>30- Sep 2017 (Unaudited) SR'000</i>	<i>31-December 2016 (Audited) SR'000</i>
<b>Closing loss allowance as at 31 December 2016</b>	<b>33,169</b>	<b>28,332</b>
Increase in loss allowance recognised in profit or loss during the period	3,448	4,837
Bad debts written off during the period	-	-
Recoveries / reversals of amounts previously provided	-	-
<b>Balance loss allowance as at 30 September 2017</b>	<b>36,617</b>	<b>33,169</b>

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

**9 STATUTORY DEPOSIT**

Statutory deposit amounting to SR 40 million (31 December 2016: SR 40 million) represents 10% of the paid up share capital of the Company which is maintained in accordance with the Cooperative Insurance Companies Control Law issued by the Saudi Arabian Monetary Agency ("SAMA"). This statutory deposit cannot be withdrawn without the consent of SAMA. Under ECL method the Company charged an impairment loss amounting to SR 0.03 million.

**10 INVESTMENTS**

*i) TAKAFUL OPERATIONS*

*a) Financial assets measured at amortised cost*

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

The investments amounting to SR 949 million (31 December 2016: SR 705 million) comprise Murabaha deposits and investment in Sukuks with original maturities of more than three months. The fair value of these investments are not materially different from their carrying values.

The movement during the period/year is set out below:

	<i>30-Sep-17 (Unaudited) SR'000</i>	<i>31-Dec-16 (Audited) SR'000</i>
At the beginning of the period/ year:		
Murabaha deposits	655,000	280,000
Sukuk	50,000	50,000
Purchased during the period/year	1,100,000	1,180,000
Maturities during the period/year	(855,000)	(805,000)
At the end of the period/year, gross	950,000	705,000
Less: Impairment loss	(743)	-
At the end of the period/year, net	949,257	705,000

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10 INVESTMENTS (continued)

i) TAKAFUL OPERATIONS

b) Financial assets mandatorily measured at FVPL

The movement during the period/ year is set out below:

	30-Sep-17 (Unaudited) SR'000	31-Dec-16 (Audited) SR'000
At the beginning of the period/ year	13,101	4,978
Reclassification of investment from AFS to FVPL	15,096	-
Purchased during the period/year	1,555,207	7,695
Sold during the period/year	(1,515,721)	-
Net change in fair values during the period/year	875	428
At the end of the period/year	<u>68,558</u>	<u>13,101</u>

The closing balance as at 30 September 2016 contains SR 24.18 million representing unit linked investments.

ii) SHAREHOLDERS' OPERATIONS

a) Financial assets measured at amortised cost

Financial assets of Shareholders' operations measured at amortised cost comprise of investments in Murabaha deposits amounting to SR 20 million (31 December 2016: SR 180 million) with original maturities of more than three months. The fair value of these investments are not materially different from their carrying values.

The movement during the period/year is set out below:

	30-Sep-17 (Unaudited) SR'000	31-Dec-16 (Audited) SR'000
At the beginning of the period/ year	180,000	190,000
Purchased during the period/year	265,109	700,000
Maturities during the period/year	(425,000)	(710,000)
At the end of the period/year, gross	20,109	180,000
Less: Impairment loss	(6)	-
At the end of the period/year, net	<u>20,103</u>	<u>180,000</u>

b) Financial assets mandatorily measured at FVPL

The movement during the period/year is set out below:

	30-Sep-17 (Unaudited) SR'000	31-Dec-16 (Audited) SR'000
At the beginning of the period/year	82,047	77,314
Reclassification of equity investments from FVPL to FVOCI	(82,047)	-
Reclassification of investment from AFS to FVPL	84,380	-
Purchased during the period/year	212,500	99,590
Sold during the period/year	(215,270)	(99,590)
Net change in fair values during the period/year	229	4,733
At the end of the period / year	<u>81,839</u>	<u>82,047</u>

AL RAJHI COMPANY FOR COOPERATIVE INSURANCE  
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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

10 INVESTMENTS (continued)

ii) *SHAREHOLDERS' OPERATIONS* (continued)

c) *Financial assets designated at FVOCI*

The movement during the period is set out below:

	<b>30-Sep-17</b> <b>(Unaudited)</b> <b>SR'000</b>
At the beginning of the period	-
Re-classified from FVPL	<b>82,047</b>
Balance of equity shares portfolio with Al Rajhi Capital	79,648
Cash balance with Al Rajhi Capital	2,399
Re-classified from Available-for-sale investments	<b>1,923</b>
Total at the beginning of the period	<b>83,970</b>
<b>Movement during the period</b>	
Purchased during the period	<b>53,650</b>
Sold during the period	<b>(52,690)</b>
Net change in fair values during the period	<b>2,223</b>
Net change in cash balance with Al Rajhi Capital	<b>(1,068)</b>
Closing balance of equity shares portfolio	<b>86,085</b>
Portfolio balance with Al Rajhi Capital at the end of the period	<b>78,704</b>
Cash balance with Al Rajhi Capital	<b>1,331</b>
Equity - unlisted shares	<b>6,050</b>
At the end of the period	<b>86,085</b>

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

	<b>31-Dec-2016</b> <b>(Audited)</b> <b>SR'000</b>
Equity - listed shares	-
Fund with Al Rajhi Capital	<b>84,380</b>
<i>Sub total</i>	<b>84,380</b>
Equity - unlisted shares	<b>1,923</b>
At the end of the period/year	<b>86,303</b>

Equity investments under listed shares comprise a portfolio of equities listed on the Saudi Arabian Stock Exchange ("Tadawul"). Unlisted equity investments includes an investment amounting to SR 6.05 million (31 December 2016: SR 1.9 million) in an unlisted company, registered in the Kingdom of Saudi Arabia.

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11 ZAKAT AND INCOME TAX

**Restatement of changes in Shareholders' Equity**

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

The impact of change in the accounting policy has been disclosed in note 4.4

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

Movements in the Zakat and income tax accrued during the nine month period ended 30 September 2017 and the year ended 31 December 2016 are as follows:

	<b>Zakat payable</b>	
	<b>30-Sep-17 (Unaudited) SR '000</b>	<b>31-Dec-16 (Audited) SR '000</b>
Balance at beginning of the period/ year	18,391	9,368
Provided during the period / year	10,500	10,400
Payments during the period / year	(7,401)	(1,377)
	<u>21,490</u>	<u>18,391</u>
Balance at end of the period / year	<u><u>21,490</u></u>	<u><u>18,391</u></u>

**Shareholdings**

Following are the shareholding structure of the Company as on:

	<b>30-Sep-17</b>	<b>31-Dec-16</b>
Shareholding subject to Zakat	<b>100.00%</b>	<b>100.00%</b>

**Status of assessments**

The Company has filed Zakat and income tax returns for the financial years up to and including the year 2016 with the General Authority of Zakat and Tax (the "GAZT"). The assessments for the years 2010 to 2015 are under review by GAZT.

12 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	<b>30-Sep-17 (Unaudited) SR'000</b>	<b>31-Dec-16 (Audited) SR'000</b>
At the beginning of the period/ year	14,196	5,712
Net changes in reserve during the period/ year	10,289	8,056
Net change in fair values during the period / year	875	428
	<u>25,360</u>	<u>14,196</u>
At the end of the period / year	<u><u>25,360</u></u>	<u><u>14,196</u></u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

13 RELATED PARTY TRANSACTIONS AND BALANCES

a) Transactions and balances with related parties:

Related parties represent major shareholders, directors and key management personnel of the Company, and companies which are principally owned by the shareholders and any other entities controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management.

Following are the details of significant related party transactions during the nine months period ended 30 September 2017 and 2016 and balances as at 30 September 2017 and 31 December 2016:

Related party	Nature of transaction	Amount of transactions for the nine month period ended		Balance as at	
		30-Sep-17 (Unaudited) SR'000	30-Sep-16 (Unaudited) SR'000	30-Sep-17 (Unaudited) SR'000	31-Dec-16 (Audited) SR'000
Al Rajhi Insurance Company B.S.C.(c) (shareholder)	Reimbursement from / (expenses paid) on behalf of related party				
	a) takaful operations	239	1,867	352	591
	b) shareholders' operations	-	-	(13)	(13)
Al Rajhi Bank (shareholder)	Contribution - policies written	1,009,486	861,659	270,082	201,912
Affiliates	Contribution - policies written	24,501	47,953	33,069	34,030
	<b>Contributions receivable (note 8)</b>			<b>303,151</b>	<b>235,942</b>
Al Rajhi Bank (shareholder)	Claims incurred and notified during the period	746,615	659,611	312,453	206,592
Al Rajhi Bank (shareholder)	Bank balance (Takaful operations)			472,092	237,434
	Bank balance (Shareholders' operations)			63,332	2,192
	<b>Bank balances</b>			<b>535,424</b>	<b>239,626</b>

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

13 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Related party	Nature of transaction	Amount of transactions for the nine month period ended		Balance as at	
		30-Sep-17 (Unaudited) SR'000	30-Sep-16 (Unaudited ) SR'000	30-Sep-17 (Unaudited) SR'000	31-Dec-16 (Audited) SR'000
Al Rajhi Capital (Affiliate)	Investments managed by the affiliate				
	a) Takaful operations – purchase/ (sold)	39,486	7,695	68,558	28,197
	b) Shareholders' operations – purchased/ (sold)	(2,770)	-	81,839	84,380
		<u>39,716</u>	<u>7,695</u>	<u>150,397</u>	<u>112,577</u>
Al Rajhi Capital (Affiliate)	Income received from sale of investment in Al Rajhi Capital commodity fund				
	a) Takaful operations	3,779	1,686	-	-
	b) Shareholders' operations	1,948	614	-	-
		<u>5,727</u>	<u>2,300</u>	<u>-</u>	<u>-</u>
Al Rajhi Capital (Affiliate)	Investment management fee paid to Al Rajhi Capital				
	a) Takaful operations	787	1,131	-	-
	b) Shareholders' operations	673	752	-	-
		<u>1,460</u>	<u>1,883</u>	<u>-</u>	<u>-</u>
Al Rajhi Bank (shareholder)	Investment in shares of Al Rajhi Bank	(3,949)	812	12,494	9,919
Al Rajhi Takaful Agency (Subsidiary of shareholders)	Commissions	1,807	(4,124)	2,623	1,039

The investment portfolio designated as fair value through other comprehensive income is managed by Al Rajhi Capital (Affiliate). The total value of the portfolio as at 30 September 2017 is SR 86.085 million (31 December 2016 SR 82.047 million).

**b) Compensation of key management personnel:**

Key management personnel of the Company include all directors, executive and non-executive, and senior management. The summary of compensation of key management personnel for the period is as follows:

	For the nine month period ended	
	30-Sep-17 (Unaudited) SR'000	30-Sep-16 (Unaudited ) SR'000
Salaries and benefits of key management personnel	4,470	4,005
Shariah committee remuneration	195	181
	<u>4,665</u>	<u>4,186</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

14 SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed below is based on current reporting to the Chief Operating Decision Maker, the CEO. Operating segments do not include shareholders' operations of the Company.

Segment assets do not include takaful operations' bank balances and cash, due from shareholders' operations, net contributions receivable and available for sale investments. Accordingly, they are included in unallocated assets.

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

These unallocated assets and liabilities are not reported to the CEO under the related segments and are monitored on a centralized basis.

For the three month period ended 30 September 2017  
(Unaudited)

<i>Operating segments</i>	<i>General</i>	<i>Motor</i>	<i>Health SR'000</i>	<i>Protection &amp; Saving</i>	<i>Total</i>
<b>Gross contributions written</b>	<b>32,229</b>	<b>604,476</b>	<b>91,333</b>	<b>14,291</b>	<b>742,329</b>
<b>Net contributions written</b>	<b>5,905</b>	<b>601,756</b>	<b>91,333</b>	<b>11,748</b>	<b>710,742</b>
Net contributions earned	1,687	610,414	95,176	11,638	718,915
Policy fee and other income	39	1,862	-	180	2,081
Re-takaful commission income	2,702	76	-	-	2,778
<b>Total underwriting revenue</b>	<b>4,428</b>	<b>612,352</b>	<b>95,176</b>	<b>11,818</b>	<b>723,774</b>
Net claims incurred	(449)	(515,899)	(74,964)	(734)	(592,047)
Inspection and supervision fees	(81)	(2,998)	(1,370)	(71)	(4,520)
Policy acquisition costs	(1,777)	(14,651)	(6,644)	(1,488)	(24,560)
Other expenses	(80)	(1,532)	(232)	(576)	(2,420)
Change in mathematical reserve	-	-	-	(3,850)	(3,850)
Other income	-	925	-	-	925
<b>Total claims and other expenses</b>	<b>(2,387)</b>	<b>(534,155)</b>	<b>(83,210)</b>	<b>(6,720)</b>	<b>(626,472)</b>
<b>Net underwriting surplus</b>	<b>2,041</b>	<b>78,197</b>	<b>11,966</b>	<b>5,098</b>	<b>97,302</b>
Special commission income					8,218
Net gains on investments mandatorily measured at fair value through profit or loss					966
Reversal of impairment loss					259
Management fee for administration of takaful operations					(44,821)
<b>Net surplus for the period</b>					<b>61,924</b>



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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

14 SEGMENTAL INFORMATION (continued)

<i>Operating segments</i>	<i>For the three month period ended 30 September 2016</i>				
	<i>General</i>	<i>Motor</i>	<i>Health</i>	<i>Protection &amp; Saving</i>	<i>Total</i>
			<i>SR'000</i>		
Gross contributions written	30,539	361,499	34,485	7,135	433,658
Net contributions written	11,515	358,413	35,820	4,722	410,470
Net contributions earned	3,310	347,687	51,521	4,719	407,237
Policy fee and other income	23	1,535	-	82	1,640
Re-takaful commission income	2,498	402	-	-	2,900
Total underwriting revenue	5,831	349,624	51,521	4,801	411,777
Net claims incurred	(949)	(286,528)	(40,864)	(730)	(329,071)
Inspection and supervision fees	(107)	(1,791)	(517)	(36)	(2,451)
Policy acquisition costs	(1,792)	(5,648)	(3,232)	(795)	(11,467)
Other expenses	(915)	(1,886)	(138)	(437)	(3,376)
Change in mathematical reserve	-	-	-	(1,691)	(1,691)
Other income	-	914	-	-	914
Total claims and other expenses	(3,763)	(294,939)	(44,751)	(3,689)	(347,142)
Net underwriting surplus	2,068	54,685	6,770	1,112	64,635
Investment Income					6,212
Management fee for administration of takaful operations					(33,459)
Net surplus for the period					37,388

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

14 SEGMENTAL INFORMATION (continued)

SR '000	For the nine month period ended 30 September 2017 (Unaudited)				
<u>Operating segments</u>	<u>General</u>	<u>Motor</u>	<u>Health</u>	<u>Protection &amp; Saving</u>	<u>Total</u>
<b>Gross contributions written</b>	<b>99,616</b>	<b>2,073,009</b>	<b>320,165</b>	<b>36,831</b>	<b>2,529,621</b>
<b>Net contributions written</b>	<b>24,552</b>	<b>2,060,845</b>	<b>319,915</b>	<b>30,140</b>	<b>2,435,452</b>
Net contributions earned	9,975	1,772,556	219,976	29,753	2,032,260
Policy fee and other income	101	6,567	-	502	7,170
Re-takaful commission income	8,327	471	-	-	8,798
<b>Total underwriting revenue</b>	<b>18,403</b>	<b>1,779,594</b>	<b>219,976</b>	<b>30,255</b>	<b>2,048,228</b>
Net claims incurred	(3,261)	(1,534,506)	(176,126)	(1,239)	(1,715,132)
Inspection and supervision fees	(347)	(10,299)	(4,802)	(184)	(15,632)
Policy acquisition costs	(5,043)	(44,490)	(12,243)	(3,610)	(65,386)
Other expenses	(225)	(4,708)	(725)	(1,198)	(6,856)
Change in mathematical reserve	-	-	-	(10,243)	(10,243)
Other income	-	3,048	-	-	3,048
<b>Total claims and other expenses</b>	<b>(8,876)</b>	<b>(1,590,955)</b>	<b>(193,896)</b>	<b>(16,474)</b>	<b>(1,810,201)</b>
<b>Net underwriting surplus</b>	<b>9,527</b>	<b>188,639</b>	<b>26,080</b>	<b>13,781</b>	<b>238,027</b>
Special commission income					15,793
Net gains on investments mandatorily measured at fair value through profit or loss					3,779
Impairment loss					(158)
Management fee for administration of takaful operations					(120,227)
<b>Net surplus for the period</b>					<b>137,214</b>

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

14 SEGMENTAL INFORMATION (continued)

For the nine month period ended 30 September 2016  
(Unaudited)

<i>Operating segments</i>	<i>General</i>	<i>Motor</i>	<i>Health</i>	<i>Protection &amp; Saving</i>	<i>Total</i>
	<i>SR'000</i>				
Gross contributions written	103,006	1,188,695	162,251	18,984	1,472,936
Net contributions written	41,779	1,177,653	163,186	14,430	1,397,048
Net contributions earned	10,915	910,562	157,404	15,072	1,093,953
Policy fee and other income	82	4,586	-	165	4,833
Re-takaful commission income	8,062	1,812	-	-	9,874
Total underwriting revenue	19,059	916,960	157,404	15,237	1,108,660
Net claims incurred	(3,158)	(775,012)	(125,624)	20	(903,774)
Inspection and supervision fees	(371)	(5,872)	(2,434)	(95)	(8,772)
Policy acquisition costs	(5,138)	(15,317)	(8,291)	(2,411)	(31,157)
Other expenses	(1,153)	(4,696)	(557)	(813)	(7,219)
Change in mathematical reserve	-	-	-	(5,031)	(5,031)
Other income	-	2,620	-	-	2,620
Total claims and other expenses	(9,820)	(798,277)	(136,906)	(8,330)	(953,333)
Net underwriting surplus	9,239	118,683	20,498	6,907	155,327
Investment income					12,627
Management fee for administration of takaful operations					(99,127)
Net result for the period					68,827

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

14 SEGMENTAL INFORMATION (continued)

<i>Takaful operations' assets</i>	<i>As at 30 September 2017 (Unaudited)</i>				<i>Total</i>
	<i>General</i>	<i>Motor</i>	<i>Health</i> <i>SR'000</i>	<i>Protection &amp; Saving</i>	
Re-takaful share of outstanding claims	150,113	20,114	-	8,689	178,916
Re-takaful share of unearned contributions	82,777	1,150	-	2,558	86,485
Deferred policy acquisition costs	11,064	22,483	11,069	350	44,966
Deposit against letters of guarantee (note 7)	51	11,351	2,148	6	13,556
	<u>244,005</u>	<u>55,098</u>	<u>13,217</u>	<u>11,603</u>	<u>323,923</u>
Unallocated assets					2,451,706
<b>Total takaful operations' assets</b>					<b>2,775,629</b>
<b>Total shareholders' operations' assets</b>					<b>813,683</b>
<b>Total assets</b>					<b>3,589,312</b>
<b>Takaful operations' liabilities</b>					
Gross outstanding claims	157,319	655,072	75,348	11,106	898,845
Gross unearned contributions	157,483	1,069,676	185,977	3,261	1,416,397
Unearned re-takaful commission income	7,287	-	-	-	7,287
	<u>322,089</u>	<u>1,724,748</u>	<u>261,325</u>	<u>14,367</u>	<u>2,322,529</u>
Unallocated liabilities and surplus					453,100
<b>Total takaful operations' liabilities and surplus</b>					<b>2,775,629</b>
<b>Total shareholders' operations' liabilities and equity</b>					<b>813,683</b>
<b>Total liabilities and equity</b>					<b>3,589,312</b>

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(CONTINUED)

14 SEGMENTAL INFORMATION (continued)

<i>Takaful operations' assets</i>	<i>As at 31 December 2016 (Audited)</i>				<i>Total</i>
	<i>General</i>	<i>Motor</i>	<i>Health</i> <i>SR'000</i>	<i>Protection &amp; Saving</i>	
Re-takaful share of outstanding claims	82,606	7,411	-	5,692	95,709
Re-takaful share of unearned contributions	66,287	2,000	-	1,379	69,666
Deferred policy acquisition costs	9,415	15,433	5,296	222	30,366
Deposit against letters of guarantee (note 7)	18	10,692	1,133	4	11,847
	<u>158,326</u>	<u>35,536</u>	<u>6,429</u>	<u>7,297</u>	<u>207,588</u>
Unallocated assets					1,640,796
Total takaful operations' assets					<u>1,848,384</u>
Total shareholders' operations' assets					<u>678,144</u>
Total assets					<u><u>2,526,528</u></u>
Takaful operations' liabilities					
Gross outstanding claims	87,754	409,854	37,550	7,452	542,610
Gross unearned contributions	126,417	782,236	86,038	1,695	996,386
Unearned re-takaful commission income	6,728	-	-	-	6,728
	<u>220,899</u>	<u>1,192,090</u>	<u>123,588</u>	<u>9,147</u>	<u>1,545,724</u>
Unallocated liabilities and surplus					302,660
Total takaful operations' liabilities and surplus					<u>1,848,384</u>
Total shareholders' operations' liabilities and equity					<u>678,114</u>
Total liabilities and equity					<u><u>2,526,528</u></u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

**15 BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share for the nine month period ended 30 September 2017 and 2016 has been calculated by dividing the net profit for the period by the weighted average number of issued shares (40 million shares) for the nine month period ended 30 September 2017 and 2016, respectively.

**16 CONTINGENT LIABILITIES**

As at 30 September 2017, the Company's bankers have issued letters of guarantee of SR 12.9 million (2016: SR 11.9 million) to various motor agencies, workshops and health service providers as per the terms of the agreements with them (note 5.1).

**17 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

*Determination of fair value and fair value hierarchy*

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

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

**TAKAFUL OPERATIONS**

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i>As at 30 September 2017</i>	<i>SR' 000</i>	<i>SR' 000</i>	<i>SR' 000</i>	<i>SR' 000</i>
Financial assets measured at fair value through profit or loss	-	68,558	-	68,558
<b>Total</b>	-	68,558	-	68,558
<i>As at 31 December 2016</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>SR' 000</i>	<i>SR' 000</i>	<i>SR' 000</i>	<i>SR' 000</i>
Available for sale financial assets	-	15,096	-	15,096
Financial assets measured at fair value through profit or loss	-	13,101	-	13,101
<b>Total</b>	-	28,197	-	28,197

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)  
(CONTINUED)

17 FAIR VALUE OF FINANCIAL INSTRUMENTS

**SHAREHOLDERS' OPERATIONS**

	<i>Level 1</i> <i>SR' 000</i>	<i>Level 2</i> <i>SR' 000</i>	<i>Level 3</i> <i>SR' 000</i>	<i>Total</i> <i>SR' 000</i>
<i>As at 30 September 2017</i>				
Financial assets measured at fair value through profit or loss	-	81,839	-	81,839
Financial assets at fair value through other comprehensive income	80,035	-	6,050	86,085
<b>Total</b>	<b>80,035</b>	<b>81,839</b>	<b>6,050</b>	<b>167,924</b>
	<i>Level 1</i> <i>SR' 000</i>	<i>Level 2</i> <i>SR' 000</i>	<i>Level 3</i> <i>SR' 000</i>	<i>Total</i> <i>SR' 000</i>
<i>As at 31 December 2016</i>				
Available for sale financial assets	-	84,380	1,923	86,303
Financial assets measured at fair value through profit or loss	82,047	-	-	82,047
<b>Total</b>	<b>82,047</b>	<b>84,380</b>	<b>1,923</b>	<b>168,350</b>

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

During the nine-month period ended 30 September 2017, there were no transfers between the levels of fair value hierarchies during the period.

The fair value increase of SR 2,223 thousand (30 September 2016: SR 2,176 thousand decrease) in respect of FVOCI equity investments was recorded in interim statement of other comprehensive income – shareholders' operations

18 COMPARATIVE FIGURES

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

19 APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed financial statements have been approved by the Board of Directors on 30 Safar 1439H, corresponding to 19<sup>th</sup> October 2017.