



Saudi United Cooperative Insurance Co.

Al-Khobar

**REPORT OF THE BOARD OF
DIRECTORS
FOR THE YEAR ENDED
31.DECEMBER.2016**



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Message from the Chairman of the Board of Directors

Dear Shareholders,

I am delighted to present the report of the Board of Directors of your Company for the year 2016. Wala'a now has the privilege of entering in to a group of being a 'Billion Riyal Company' – with Gross Written Premiums (GWP) for the year 2016 touching SAR 1.017 billion. This is a remarkable milestone that the Company has achieved as compared to a modest GWP of SAR 142m written in the year 2009. Since then, Wala'a has successfully faced several challenges and today stands in the league of being one of the top-10 Insurance companies in the Kingdom in terms of GWP. The report submitted by the CEO of the Company provides more details of the operational aspects of your Company's performance which is now in its ninth-year of growth and progress.

A significant aspect to be highlighted in current year's performance is that Wala'a has now turned around in its operating performance reporting a surplus of SR 117.32m as compared to a deficit of SR 56.26m in 2015. At the beginning of the year the Management team had committed itself to work for a turn-around performance during the year 2016 – and we are glad to see it being achieved. The Company's performance and Shareholders' Equity is now well-positioned and is set to grow stronger in the years to come. With its improved performance, Wala'a has now been able to secure a better financial strength rating from an internationally reputed Rating Agency. The Company has now been assigned 'BBB+' by Standard & Poors' with 'Stable outlook'.

The Kingdom of Saudi Arabia has been on the forefront of an economic drive in the region with an ambitious plan known as '**Saudi Vision 2030**' launched by the wise leadership. This broad-based development program covers vital segments of economy, governance, human resource capital, fiscal balances among others. Wala'a intends to dovetail itself into this country-wide project by presenting itself as a responsible insurer of choice and provide risk-management opportunities to its existing and prospective partners. Wala'a's corporate identity in the Kingdom is now more firmly established with its strong performance and we are now seeking to work with prestigious clientele who prefer to work with reputed insurers who can provide a robust and well-devised risk-management program.

The Saudi Insurance industry which operates under a very close scrutiny of the regulators in the Kingdom has recently witnessed excellent transformation in terms of comprehensive corporate governance regulations being introduced. Wala'a has updated its own internal corporate governance regulations and codes in line with these changes and has now set itself on par with best industry standards. Now into second year after increase of its paid-up capital in 2015, Wala'a has continuously maintained its capital adequacy and solvency well above the required and recommended levels.

Similar to 2015, the year 2016 also witnessed a more-than average growth in the aggregate market premiums. Wala'a recorded a top-line of SR 1.016 billion for 2016 as compared to SR 753m in 2015. Wala'a intends to pursue additional segments in the market to increase its presence and thereby achieve further growth in the years to come. As per (estimated) available market figures the aggregate gross premiums for the year 2016 is expected to reach SR 36.7b – as compared to SR 36.8b in 2015. While top-five players wrote more than 60% of this figure, in due course, this concentration is expected to come down with medium sized

players securing opportunities to increase their business books. **Wala'a's share of GWP in KSA's market has doubled in 2016 over the last four years.**

The management team is working with a committed plan to enhance the profitability of the Company by taking necessary measure to improvise on its operating efficiency. The Company is now guided by a comprehensive 3-Year Business Plan which encompasses core issues such as sales strategy, market expansion, sales-channel development, solvency, IT, Saudization, human resources and training. This Plan is set to serve as a guideline of success and growth towards which the Company intends to march.

The Company is also completing a major re-branding exercise which includes launching of a new corporate identity, along with shifting of its head-office to a new premises in Al-Khobar. Management team has already put in place several strands of strategies to increase its client-base and also provide state of the art services to its clients. The new location is set to yield several distinct advantages to the Company and its business partners in terms of ease of approach, broad-based service in one location to name a few.

The Board of Directors likes to thank its shareholders for their trust and confidence and also the work-force of the Company for their dedicated efforts and hard-work in the year and hope that this will continue in the future. Encouraging national employees to grow within the entity and eventually assume bigger roles of leadership and responsibility continues to be a focused area at Wala'a. Employees are urged to pursue vigorously locally available training facilities as well as enroll with professional courses abroad. Wala'a is proud that as at end of 2016, 62.5% of its work-force were national employees with several of them occupying senior executive and managerial roles. The Board and the Management are actively working together to accomplish the Corporate Vision and Mission statements of the Company, which serve as beacons for its charted growth.

The Company also appreciates the trust and faith placed by its business partners in the course of its progress and heartily acknowledges their support. The Board looks forward to Company's growth and progress for the benefit of all stakeholders involved. On behalf of the Company's shareholders and fellow members of the Board, I wish to seize the privilege to convey our hearty gratitude and appreciation to Regulators, various officials at Ministries and governmental agencies who have kindly extended their support to Wala'a at various stages of our operations.

Thank you,

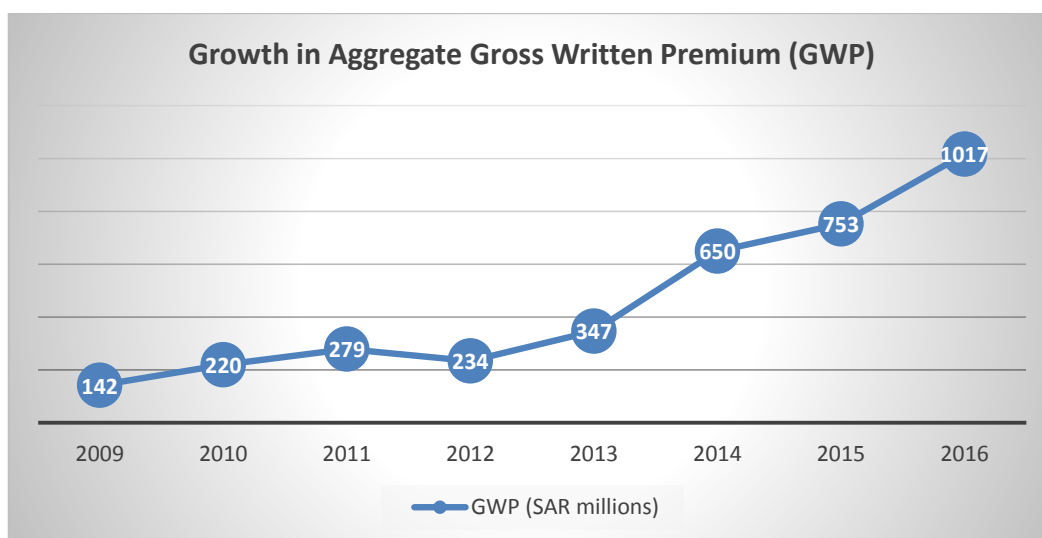
Sincerely

Sulaiman Abdullah Al-Kadi
xx.February.2017

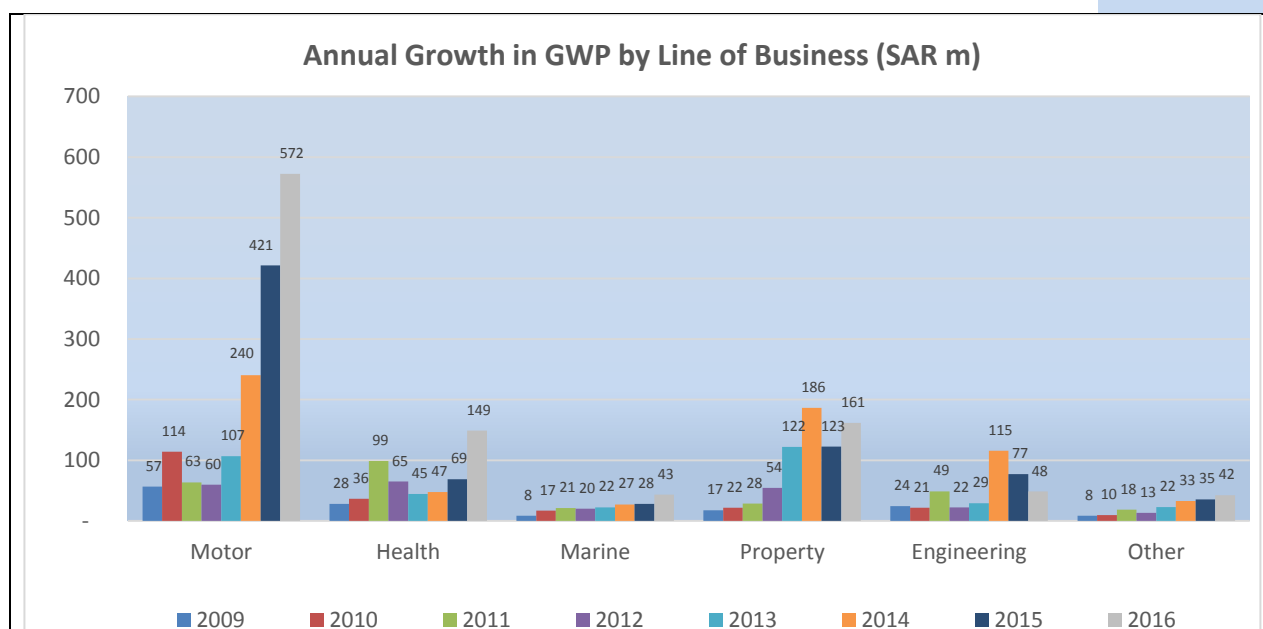
Message from the Chief Executive Officer

Dear Shareholders,

It is a matter of pride and privilege that the 9th Annual Report of Wala'a is presented to you with satisfying results, and with a prospect of sustained growth expected in the forthcoming years. As the Company is in the threshold of stepping into the next decade of progress, Wala'a is pleased to announce its entry into the prestigious league of '**Billion-Riyal**' insurer. The Company's progress in Gross Written Premiums (GWPs) is captured in the following chart:



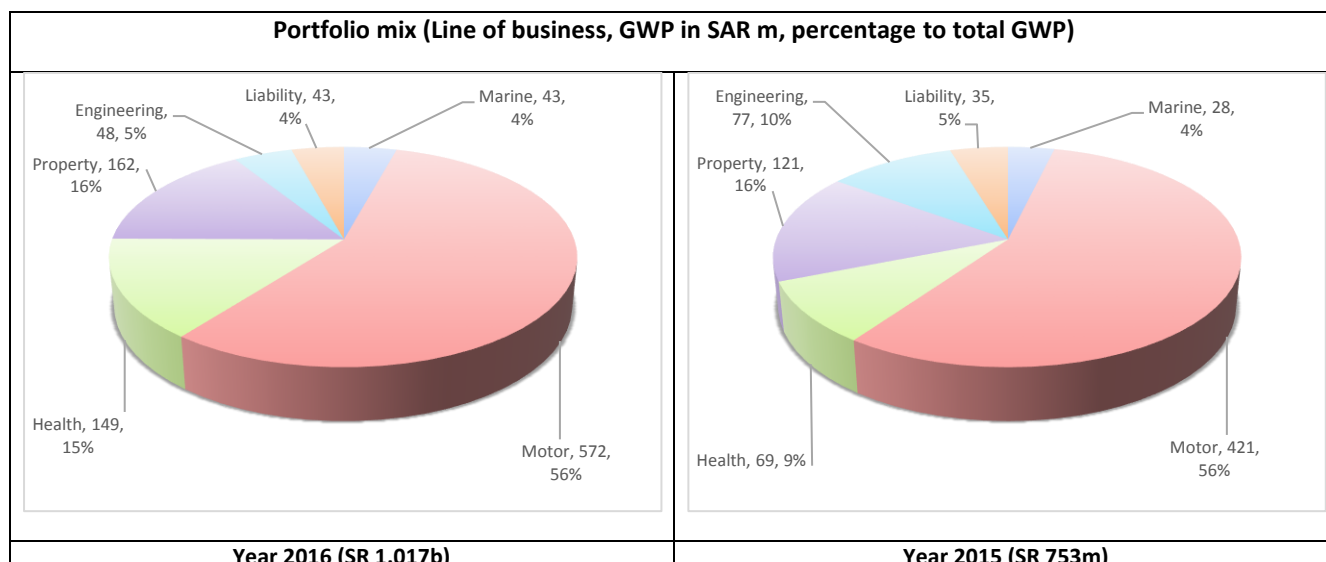
*From a modest GWP of SAR 142m in its first year of reported operation, Wala'a has grown and consolidated its position as a responsible insurer in the Kingdom with a carefully designed plan for sustained growth. Wala'a has reached the mark of **SAR 1-billion** in the year 2016.*



Wala'a being a non-life insurer in the Kingdom's insurance market, writes major lines and growth that has been achieved over the years across these lines as shown in the above chart. While it is quite natural that compulsory lines – Motor and Health – occupy higher focus, other lines are also showing satisfying progress over these years.

Line of Business Portfolio mix

Wala'a has been consciously maintaining a mix between compulsory lines (motor and health) and other lines over the years. The plans conceived by the Management recognizes the importance of maintaining this mix for a wholesome growth of the premium book as also profitability. The portfolio mix for the past two years is demonstrated in the following diagram:



The year under review started off with a challenging situation of having to overcome the accumulated deficits from prior years. The Management has worked with a committed objective of not only addressing the situation but, also turn-around the performance. It is therefore with a hearty feeling we report that compared to a deficit of SR 59.27m from insurance operations, Wala'a reported a healthy surplus of SR 124m and a total profit of SR 117.32m before Zakat and Income Tax, for the year 2016 (2015 : (deficit of SR 56.26m)). **This reported results have not only resulted in clearing off all the accumulated deficits from prior years, but also in reporting a moderate growth in the aggregate Shareholders' Equity.** The attached Financial Statements provide more details in this regard.

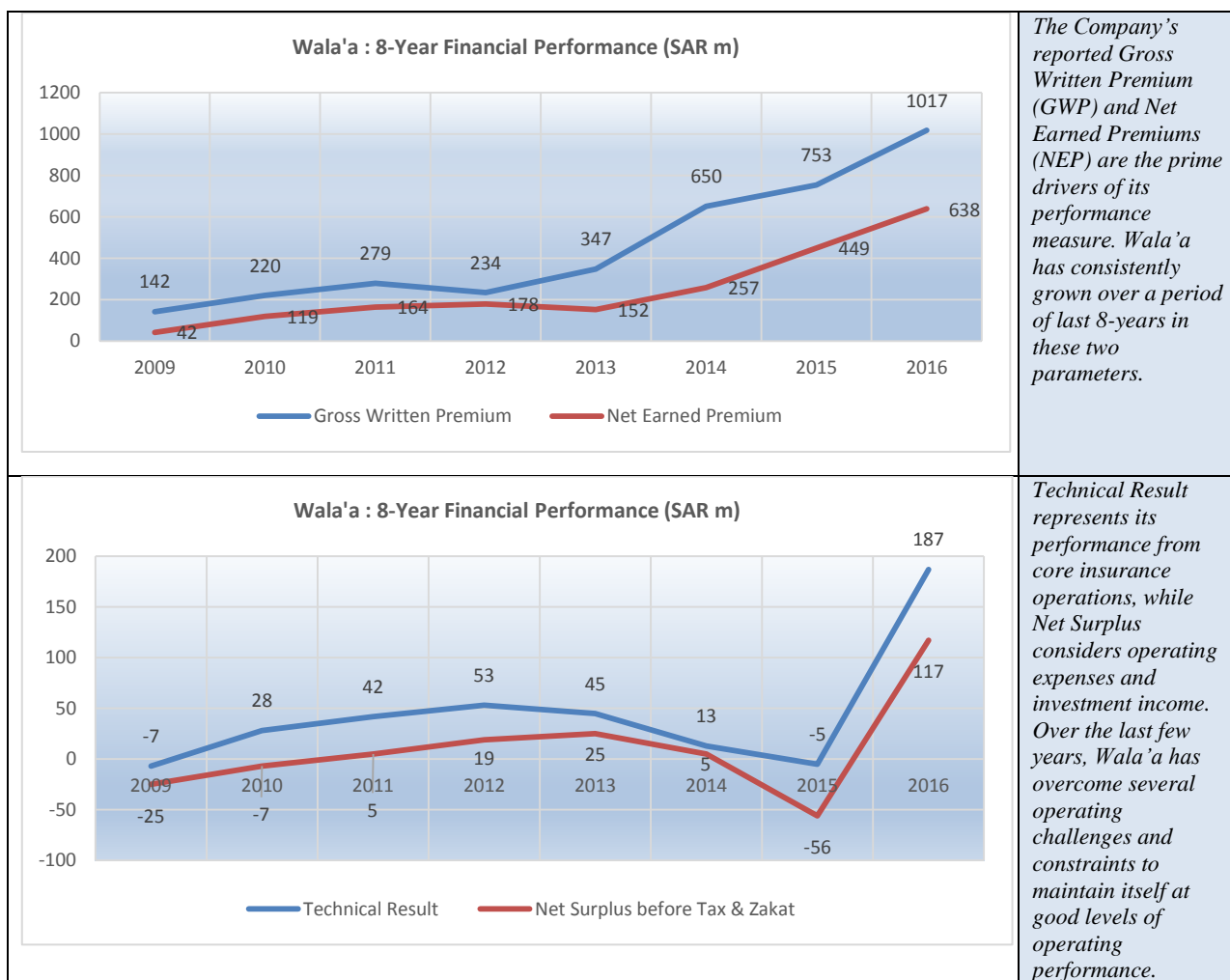
Continuing from previous years, the Kingdom's insurance industry in general is facing a situation of pricing issues, unbalanced concentration of premiums and issues relating to economies of scale when it comes to medium to smaller sized players. The need to carry additional technical reserves based on actuarial analysis continues and Wala'a has adhered to the recommendations of the Reporting Actuary in this regard.

Following sections of the report summarize various performance and other aspects of the Company's operations for the twelve-month period ending 31 December 2016.

Financial

For the year 2016, the net Surplus from Shareholders' operations before zakat and unrealized changes in fair-value of investments is SR 117.32m, compared to a deficit of SR 56.26m for the year 2015. This progress is predominantly on account of increase in net earned premiums, increase in underwriting revenues, controlling of losses incurred under motor line of business and optimizing returns on investments.

The following charts summarize the 8-years' growth achieved by Wala'a under various operating parameters:



GWP for an insurance company is an important measure based on which rest of the growth parameters tend to develop. Wala'a has achieved a fairly balanced growth across the regions in terms of GWP, and efforts continue to attain sustained growth in this regard.

The following combination diagrams illustrate the commendable growth in GWP across the regions and sources that we have been operating since inception.

	<h3>GWP Growth in Eastern region (SAR m)</h3> <table border="1"> <thead> <tr> <th>Year</th> <th>GWP (SAR m)</th> </tr> </thead> <tbody> <tr><td>2009</td><td>76</td></tr> <tr><td>2010</td><td>81</td></tr> <tr><td>2011</td><td>134</td></tr> <tr><td>2012</td><td>127</td></tr> <tr><td>2013</td><td>235</td></tr> <tr><td>2014</td><td>413</td></tr> <tr><td>2015</td><td>334</td></tr> <tr><td>2016</td><td>417</td></tr> </tbody> </table>	Year	GWP (SAR m)	2009	76	2010	81	2011	134	2012	127	2013	235	2014	413	2015	334	2016	417	<p>The Eastern region is one of the prominent areas in the insurance market of KSA with several petro-chemical plants, mining industries and power-sector plants located. The Company is head-quartered in Khobar city, thus giving the benefit of exploring several growth opportunities in this region. Eastern region has been a significant geographical growth segment for Wala'a since its inception.</p>																			
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<h3>GWP Growth in Western region (SAR m)</h3> <table border="1"> <thead> <tr> <th>Year</th> <th>GWP (SAR m)</th> </tr> </thead> <tbody> <tr><td>2009</td><td>27</td></tr> <tr><td>2010</td><td>44</td></tr> <tr><td>2011</td><td>66</td></tr> <tr><td>2012</td><td>78</td></tr> <tr><td>2013</td><td>57</td></tr> <tr><td>2014</td><td>76</td></tr> <tr><td>2015</td><td>175</td></tr> <tr><td>2016</td><td>315</td></tr> </tbody> </table>	Year	GWP (SAR m)	2009	27	2010	44	2011	66	2012	78	2013	57	2014	76	2015	175	2016	315	<h3>GWP Growth in Central region (SAR m)</h3> <table border="1"> <thead> <tr> <th>Year</th> <th>GWP (SAR m)</th> </tr> </thead> <tbody> <tr><td>2009</td><td>37</td></tr> <tr><td>2010</td><td>95</td></tr> <tr><td>2011</td><td>79</td></tr> <tr><td>2012</td><td>29</td></tr> <tr><td>2013</td><td>54</td></tr> <tr><td>2014</td><td>114</td></tr> <tr><td>2015</td><td>85</td></tr> <tr><td>2016</td><td>75</td></tr> </tbody> </table>	Year	GWP (SAR m)	2009	37	2010	95	2011	79	2012	29	2013	54	2014	114	2015	85	2016	75	<p>The Western region is very strategic and a prominent area in the insurance market of KSA with a huge population belt covered in this geographical segment. With places like Mecca, Medina, Abha and Yanbu located in this belt, several infra-structure, hospitality, transportation, growth and development projects are concentrated in this area. Wala'a continues to explore opportunities to further its business growth in this geographical area.</p>	<p>The Central region is also a very prominent area in the insurance market of KSA with several key industrial, infra-structure, energy, petro-chemical, public sector, transport, residential, health-care and other projects in progress. Wala'a continues to explore opportunities to further its business growth in this geographical area. Wala'a is investing additional resources and efforts in this region to secure further growth in the forthcoming years.</p>
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<h3>GWP Growth in Northern region (SAR m)</h3> <table border="1"> <thead> <tr> <th>Year</th> <th>GWP (SAR m)</th> </tr> </thead> <tbody> <tr><td>2009</td><td>0</td></tr> <tr><td>2010</td><td>0</td></tr> <tr><td>2011</td><td>0</td></tr> <tr><td>2012</td><td>0</td></tr> <tr><td>2013</td><td>1</td></tr> <tr><td>2014</td><td>34</td></tr> <tr><td>2015</td><td>123</td></tr> <tr><td>2016</td><td>173</td></tr> </tbody> </table>	Year	GWP (SAR m)	2009	0	2010	0	2011	0	2012	0	2013	1	2014	34	2015	123	2016	173	<h3>GWP Growth in Southern region (SAR m)</h3> <table border="1"> <thead> <tr> <th>Year</th> <th>GWP (SAR m)</th> </tr> </thead> <tbody> <tr><td>2009</td><td>0</td></tr> <tr><td>2010</td><td>0</td></tr> <tr><td>2011</td><td>0</td></tr> <tr><td>2012</td><td>0</td></tr> <tr><td>2013</td><td>0</td></tr> <tr><td>2014</td><td>13</td></tr> <tr><td>2015</td><td>36</td></tr> <tr><td>2016</td><td>37</td></tr> </tbody> </table>	Year	GWP (SAR m)	2009	0	2010	0	2011	0	2012	0	2013	0	2014	13	2015	36	2016	37	<p>With the development of a strong Agency relationship, the business has expanded selectively into Northern region and within the last two-years, the growth has been impressive. The Agency network has played a significant role not only in policy issuance, but also in prompt service provided to claimants to attend to their business needs. Wala'a continues to expand its presence in this geographical segment.</p>	<p>Similar to Northern region, the growth and expansion in Southern region has been achieved with the development of Agency relationship which has a strong country-wide presence covering even remote locations. Wala'a continues its efforts to grow in this region which is fairly significant in its size and population support. Wala'a looks to expand its other lines in addition to motor and health in both Northern and Southern regions.</p>
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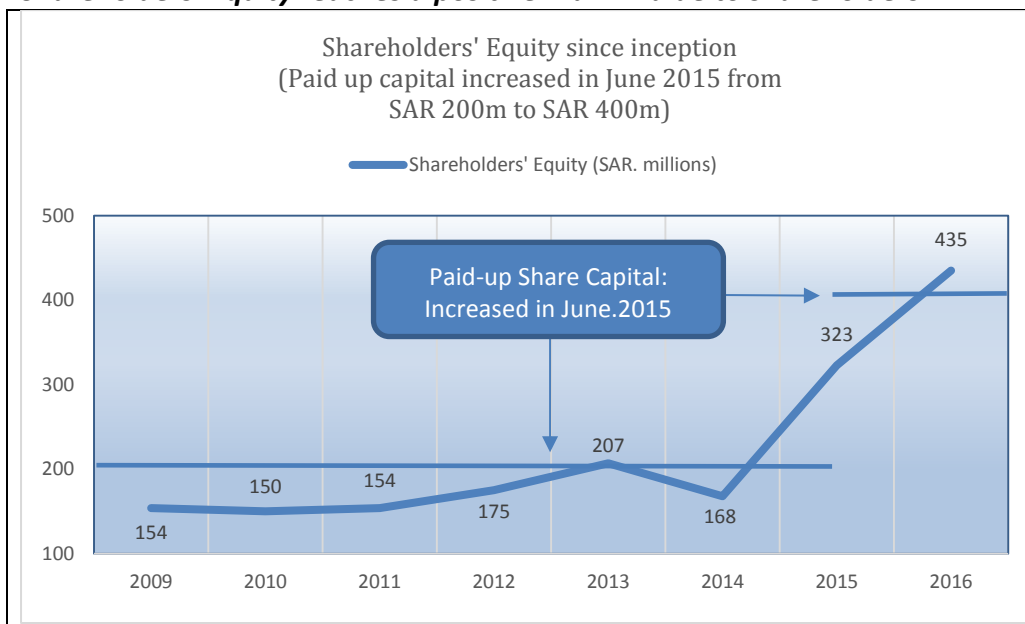
Retail business is a vital component in the insurance market of KSA. Wala'a has been focussing on this line and intends to make further inroads into this segment in a significant way going forward. The Company also has very active plans to cover niche segments of clientele within the retail segment by offering friendly facilities and features which will provide increased value and service benefits as compared to a standard insurance product. Wala'a considers this segment as one of the prime areas of growth in its Business Plan.

In continuation of our discussion on growth achieved during the year 2016, the Company could also achieve excellent growth in its Net Earned Premiums and exercise control over its claims incurred and operating expenses that are necessary to run its operations in a profitable manner. The Company could also ensure optimal returns from its investments made and held during the year which all have added to reporting an aggregate of surplus of SR 117.32m before Zakat and Income Tax. The financial statements which have been audited by external audit teams provide detailed information of various elements of financial performance of the Company during the year under review.

Financial Strength Rating

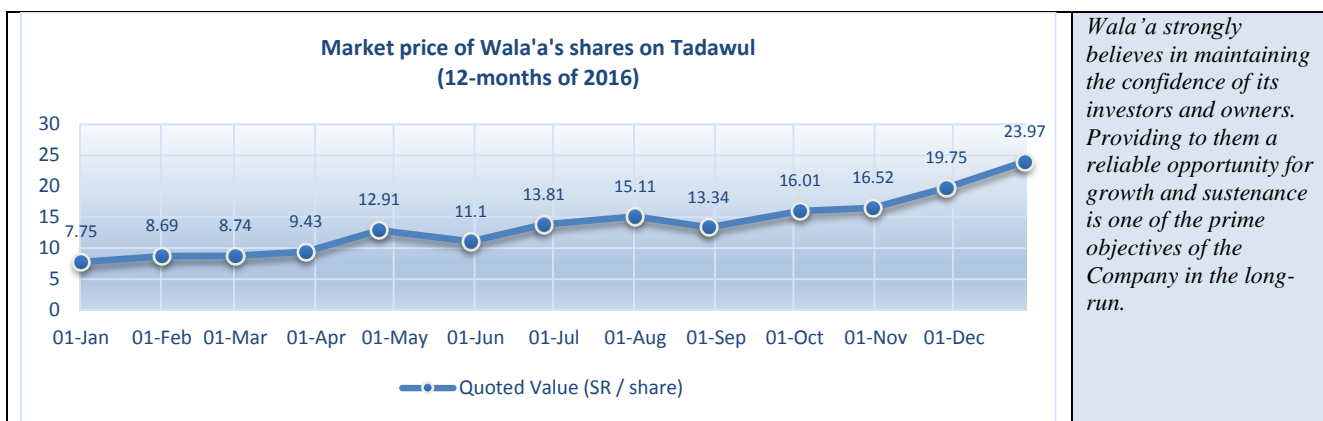
We are particularly happy to inform you that internationally reputed Rating Agency Standard & Poors has assigned a Financial Strength Rating (FSR) of **BBB+** with '**Stable outlook**' to Wala'a. The rating indicates very strong risk-based capital adequacy, a satisfactory business risk profile and an overall upper adequate financial risk profile.

Shareholders' Equity reaches a positive mark: Value to shareholders



As mentioned in the opening remarks, Wala'a has been able to achieve a positive mark in its Shareholders' Equity thereby demonstrating our commitment to the valued Shareholders. All accumulated losses from prior years have now been fully absorbed and the equity is heading into a surplus zone. Adjacent diagram illustrates the growth in shareholders' equity since inception:

Another important commitment that the Company recognizes is to the investors who have constantly and consistently supported us in all stages of growth and development – which included the increase in Paid-up Capital in the year 2015. The quoted prices of Company’s shares have also shown a consistent and stable growth during the year 2016 – as can be seen from the following illustration.



Growth strategy and marketing initiatives

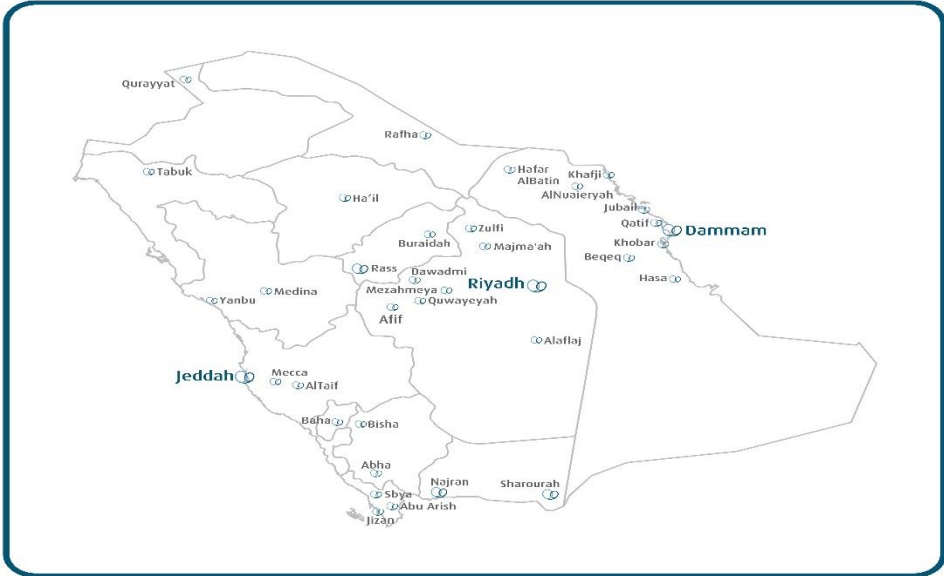
The Company has prepared a comprehensive 3-year Business Plan and submitted this as part of our application to SAMA seeking renewal of our operating license. This Plan encompasses various aspects such as 3-year financial forecasts, marketing and sales plans, developing sales channels, improving solvency, providing high-level training to employees, Saudization, succession planning and IT development. As before, our aim to achieve a balanced mix of portfolio is given prime importance even as we look at growth over the next five-year period. Developing both retail and corporate segments are given high priority in our growth matrix. The compulsory lines of motor and health are still going through tremendous pressures in terms of pricing. A deserved increase in motor insurance premium rate is expected to result in improved performance going forward.

Readers of this report are kindly requested to note that references made in this message and/or other sections of this report may contain forward looking statements which are based on current plans and assumptions, and the actual position might differ from those statements.

Our on-line sales campaign is expected to go in full-swing during 2017, and through this we expect our valued clients to choose and purchase an insurance policy right from the convenience of their desks.

During 2016, Wala’a has introduced certain niche products such as a) Security and Privacy Policy b) Directors and Officers Liability and c) Professional Indemnity Miscellaneous. The Cyber-Crime cover has evinced high interest among corporate entities and leaders who have realized the importance of having such an important and value-added cover as part of their risk-management process.

Geographical spread and Country-wide presence

	<p>Ever since Wala'a commenced its operations during 2007-08, with headquarters at Al-Khobar City in the Eastern province, the Company has taken up its commitment to achieve wide geographical presence in a vast country such as Kingdom of Saudi Arabia. In addition to Central regional office at Riyadh and Western regional office at Jeddah, Wala'a has maintained its expansion plans in a steady manner backed up by a careful study of importance of various locations at which it could cater to insurance needs of our valued customer. The adjacent map illustrates various locations at which Wala'a has its presence.</p>
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Business Process and IT improvements

In the current environment where reliance on IT is very critical, Wala'a has put in place an ERP framework that is constantly kept up to date in line with technological developments. The core working modules are in the process of getting integrated with other back-end support modules, after exhaustive and extensive testing by the users with live-data. We already have in place an advanced 'claim-tracking system' whereby a claimant can enter a few levels of details relating to a claim, and immediately obtain an update on the status of his claim settlement. This service is expected to be extended even to brokers and customers, who can get a summary of their account status and claims experience through a secured enquiry module. Our Customer Service team is ready to serve current and potential clients with any of their inquiries through a dedicated portal.

Corporate Re-branding and moving to a new location

A major corporate Re-branding exercise has been completed during the year 2016. The Company now has new corporate livery and a logo reflecting vibrancy, continuing loyalty, commitment and dedication to its valued clients, business associates and all other stakeholders. The Current year's report has been issued under this newly launched theme and livery. Wala'a has also moved to a new prestigious location in downtown Al-Khobar. The new location is spacious, prestigious, has great appearance and ambience and is equipped with top-class facilities for both employees and clients.



Human Resources and Saudization

We at Wala'a place a high-level of importance towards developing the important asset of human resource team. Our investment in developing and training the national employees has been

appreciated by team members and all employees are urged to benefit from the training program that has been structured to nurture their overall working skills. While most employees have completed the IFCE accreditation as per specified guidelines, the newly joined work force is in the process of completing initial training before appearing for examination. The Management has put in place a comprehensive Training Program with a regionally well recognized partner to provide subject-specific areas of training which will also act as a springboard for aspiring staff to progress into professional insurance qualifications. As at end of December 2016, at a Saudization level of 62.5% the Company continues to retain the '**Platinum**' status with Ministry of Labour program. It is a matter of satisfaction to note that Saudi nationals now occupy top executive positions and the Company is keen to pursue various training opportunities to deserving staff who have demonstrated a strong will and commitment to grow with the organization. The Management team works very closely to identify and encourage in-house talents to take up more responsible and senior positions to lead the team. At Wala'a we deeply value the organizational experience and awareness which is utilized in a positive and constructive manner.

Corporate governance and risk management

Wala'a has a robust corporate governance framework that covers all areas of operation. Wherever found necessary, improvements have been introduced to keep in line with the best practices adopted in the industry. The Company's risk-appetite framework has been clearly identified, defined and well-documented in a manner which can be appreciated and understood by employees thus making it easy and friendly to follow these guidelines in an efficient manner. The risk-management framework has been further strengthened in the year 2016 with contributions from specialized member who joined the team in 2015. Wala'a's Corporate Governance documents are regularly reviewed and updated to be in line with revisions issued by the Regulator. A qualified Risk Engineer has joined the team as part of risk-management and evaluation process whose contributions largely enhance the effectiveness of this function.

Changes in Board Structure

During the year at the Annual General Meeting held during May.2016, the composition of Board of Directors went through a change with two new members coming in and two members leaving the membership upon completion of their terms. The Company has always had the privilege of having a group of very pro-active and eminent board members and it looks forward to working closely with them and benefiting from their experience and expertise. Credentials of the newly joined members are provided in the relevant sections of the report in later sections.

Industry challenges and opportunities

The Saudi insurance industry is in a stage of continuing development and hence, has its own share of challenges. The Kingdom's insurance penetration rate is very low compared to other markets of the region, and also compared to the quantum of its own GDP. The recent infusion of funds into the economy by a Royal decree is also expected to act as a catalyst in providing growth opportunities. Wala'a continues to seek opportunities and avenues to expand into this market through its well-designed and planned initiatives. The entire insurance industry and especially the medium to small-sized operators have a common issue of choosing an optimal operating model, and ensure that shareholders' equity is maintained at positive levels. The 2nd Half of 2016 witnessed a downturn of

prices on the Saudi equity market primarily triggered by a sharp fall in global oil prices. This has resulted in significant extent of unrealized losses on fair-values of equity investments made by the Company as at 31 December 2016. Industry experts believe that this period of correction is expected to last for anything between 24 to 30-months. The shareholders' equity for most companies is therefore expected to regain its original levels in due course of time. Notwithstanding this, Wala'a still maintained a healthy progress in its Shareholders' Equity as reported at end of the reporting year.

Looking ahead

As outlined in our 3-year Business Plan, Wala'a intends to attain a holistic growth in the next few years of its progress. With the availability of additional capital (available since the first half of 2015), the Company's growth and investment plans have been successfully implemented subject to availability of conducive financial market conditions. Taking a cautious and prudent view, Wala'a has limited its investment to short-term deposits only and has been able to secure commendable returns on these murabaha deposits. With improved solvency, the Company expects to achieve its business objectives as planned, despite challenging market situations. The Management has faith in the capabilities of its various functional teams in successfully attaining its perceived growth parameters.

Wala'a is firmly committed to be a key 'partner in progress' in the ambitious plan '**Saudi Vision 2030**' – a broad-based initiative and plan perceived by the Kingdom's wise leadership which is poised to take the Kingdom towards strong overall growth, sustenance and development in all segments – and lead the Kingdom as an illustrious example of harmonious and holistic collective achievement. Wala'a strongly believes in complete transparency, fair and honest dealing with its valued clients by providing excellent value in terms of services, quality of risk-coverage provided to its diversified client-base and at the same time, provide a feeling of pride and satisfaction to its clients and business associates for being a part of its success story. In the years to come, Wala'a will explore every possible opportunity to take part in projects and programs intended to benefit the society as a whole, as part of recognizing its social responsibility.

Acknowledgements

As always, I am grateful to the stakeholders and business partners and associates for the continuing support and contribution extended to our Company. I take this opportunity to congratulate and thank our staff members for their dedication, hard work and sincere efforts that are the cornerstones for Wala'a's success as a strong and responsible business entity. It is also a privilege for me and my colleagues to thank the Chairman and members of the Board for their continuing guidance and support. We also sincerely acknowledge and appreciate the support and guidance provided by SAMA, CCHI and governmental entities in the Kingdom in achieving our objectives.

Thank you,

Sincerely,



Johnson Varughese
xx.February.2017

Notes to the Report of the Board of Directors

1. Principal activities

The Company is involved in cooperative insurance and reinsurance in the general and health lines of business and related investment activities. Though the company is engaged in reinsurance inward business, it does not contribute materially to the turnover and the reported surplus of the company.

The composition of activities between major lines of business is as follows:

(SAR m)

	2016				2015			
	Motor	Health	General	Total	Motor	Health	General	Total
Gross written premium	572.27	148.90	295.44	1,016.61	421.25	68.81	262.93	752.99
Net earned premium	465.40	126.09	46.48	637.97	347.66	53.91	47.09	448.66
Net technical result				186.51				(5.06)
Less: Operating expenses (unallocated)				(62.52)				(54.21)
Surplus / (deficit) from Underwriting operations				123.99				(59.27)

2. Financial performance

Income and Expenditure Statement for the year ended 31 December

(SAR m)

	2016	2015	2014	2013	2012	2011
Insurance operations:						
Gross premiums written	1,016.61	752.99	649.61	347.19	234.09	278.56
Net earned premium	637.97	448.67	269.59	152.33	177.86	164.43
Reinsurance commission	20.35	18.12	19.25	21.22	10.45	15.20
Other underwriting income	5.00	2.61	0.65	0.10	0.16	0.31
Total underwriting revenues	663.31	469.39	289.49	173.65	188.48	179.94
Net incurred claims including reserves	(405.96)	(382.97)	(206.34)	(97.43)	(101.35)	(101.28)
Policy acquisition costs	(62.38)	(45.27)	(36.00)	(20.59)	(23.16)	(27.04)
Excess of Loss protection cost	(10.88)	(12.97)	(9.37)	(6.72)	(5.64)	(5.99)
Other underwriting expenses	(28.77)	(18.59)	(10.59)	(3.95)	(5.10)	(3.77)
Additional Premium Reserves	36.11	(9.50)	(14.39)			
Other Technical Reserves	(4.92)	(5.15)	0.10			
Total underwriting expenses	(476.80)	(474.44)	(276.59)	(128.69)	(135.25)	(138.08)
Net underwriting surplus / (deficit)	186.51	(5.06)	12.90	44.96	53.23	41.86
Employee cost and operating expenses	(62.52)	(54.21)	(48.82)	(44.70)	(38.03)	(35.85)
Surplus / (deficit) from insurance operations	123.99	(59.27)	(35.92)	0.26	15.20	6.01
Shareholders' appropriation of surplus	(12.40)	-	-	(0.00)	(1.52)	(0.60)
Net result for the period	111.59	(59.27)	(35.92)	0.26	13.68	5.41
Net Surplus from insurance operations transferred to shareholders	111.59	(59.27)	(35.92)	0.26	13.68	5.41
Commission income from bank deposits	6.23	1.31	0.82	0.79	0.87	0.79
Realized gains on available for sale investments	2.72	2.32	41.92	25.66	7.21	-
General and administrative expenses	(3.22)	(0.62)	(1.99)	(2.04)	(3.00)	(1.62)
Net surplus / (deficit) for the period	117.32	(56.26)	4.84	24.67	18.76	4.58
Unrealized gain / (loss) from investment in shares	4.50	(15.56)	(34.70)	9.99	4.64	1.65
Zakat and income tax	(9.00)	(4.00)	(8.53)	(3.00)	(2.75)	(1.88)
Comprehensive surplus / (deficit) for the period	112.81	(75.82)	(38.39)	31.66	20.65	4.35

Statement of Financial Position

As at 31 December

(SAR m)

Description	2016	2015	2014	2013	2012	2011
Assets						
Insurance operations:						
Property and equipment	9.70	4.83	5.57	4.53	3.21	2.32
Insurance receivable	108.62	112.80	102.90	79.11	62.07	57.26
Reinsurer's share of unearned premium	136.57	118.44	118.96	57.44	44.28	74.89
Reinsurer's share of outstanding claims	150.77	176.95	239.78	105.12	46.15	45.36
Deferred policy acquisition costs	32.54	22.81	15.54	12.05	9.72	13.76
Due from shareholders operations	-	1.25	1.24			
Prepaid expenses and other assets	43.72	33.63	10.40	14.29	6.45	4.88
Accrued interest income	-	-	0.07	0.03	0.08	0.11
Short-term deposits						
Cash and cash equivalents	594.42	373.23	210.98	119.38	81.79	137.72
<i>sub-total</i>	1,076.33	843.94	705.43	391.96	253.75	336.30
Shareholders' operations:						
Property and equipment						
Statutory deposit	40.00	40.00	20.00	20.00	20.00	20.00
Other financial assets	109.62	84.73	79.29	60.94	64.80	51.40
Short term deposits	-	-	-	26.98	26.48	40.00
Prepaid expenses and other assets	-	-	1.14			
Accrued interest income on statutory deposit	2.14	1.35				
Accrued interest income	-	0.54	1.08	0.94	1.17	0.76
Due from insurance operations	19.86			19.82	10.42	20.81
Cash and cash equivalents	289.94	213.98	83.10	86.37	60.00	26.27
<i>subtotal</i>	461.56	340.59	184.60	215.05	182.87	159.24
Total Assets	1,537.89	1,184.53	890.04	607.01	436.61	495.54
Liabilities and shareholders' equity						
Insurance operations:						
Technical reserves	932.81	718.77	600.12	319.29	203.59	237.75
Additional Premium reserves	0.75	36.86	27.36	-	-	-
Other Technical reserves	10.47	5.55	0.40	-	-	-
Reinsurance balances payables	15.67	10.02	24.15	18.37	26.76	67.47
End of service benefits	7.27	5.82	4.20	3.06	2.18	1.49
Accrued expenses and other liabilities	74.96	64.77	47.05	29.28	8.68	8.18
Due to shareholders	19.86	-	-	19.82	10.42	20.81
Share of surplus	14.55	2.15	2.15	2.15	2.12	0.60
<i>subtotal</i>	1,076.33	843.94	705.43	391.97	253.75	336.30
Shareholders' operations:						
Due to insurance operations	-	1.25	1.24	-	-	-
Commission on Statutory Deposit payable	2.14	1.35	-	-	-	-
Accrued expenses and other liabilities	23.93	15.32	14.98	8.27	7.73	4.75
<i>subtotal</i>	26.07	17.92	16.22	8.27	7.73	4.75
Shareholders' Equity						
Share Capital	400.00	400.00	200.00	200.00	200.00	200.00
Share Premium	30.11	30.11	-	-	-	-
Statutory Reserve	5.98	-	-	-	-	-
Retained earnings / (Accumulated losses)	23.90	(78.44)	(18.17)	(14.48)	(36.13)	(52.14)
Fair Value Reserve	(24.50)	(29.00)	(13.44)	21.26	11.27	6.62
<i>subtotal</i>	435.49	322.67	168.39	206.78	175.14	154.49
Total Liabilities and shareholders' equity	1,537.89	1,184.53	890.04	607.01	436.61	495.54

3. Significant plans, decisions and future prospects

The year 2016 has seen a significant turn-around in our operations with wiping off all the previously accumulated deficits and also with Shareholders' Equity crossing over into a positive surplus area. With this acting as a sound foundation, Wala'a looks forward to a sustained growth and progress as we step into the next decade of our operations.

Wala'a is proud of entering into a niche league of 'Billion-Riyal' insurer in the Kingdom's insurance market. The insurance segment in KSA is highly regulated with several onerous regulatory and disciplinary requirements imposed by the Regulators. It is therefore quite a challenging task to take forward the parameters of progress and hold them steady as well.

Wala'a continues to work with Al-Mayazeen Insurance Agency - a well-reputed business set-up in the KSA – which has a very strong presence all over the Kingdom – particularly outside of dense pockets of Central, Eastern and Western regions. Through this partnership, Wala'a intends to secure business opportunities across a wide geographical spectrum in the Kingdom and also be in a position of supporting its valued clients in addressing their insurance and claim requirements. It is a well-recognized fact that an insurance cover is needed by all segments of a society – be it an individual for his motor vehicle or health up to complex industries and installations where the risk-management as a function occupies a very critical position. Wala'a through its own network and that of the Agency it works with, intends to reach out to all these segments in the society by providing top-quality risk-management products, backed up by strong technical and support teams. Wala'a is committed to build its own sales and marketing teams who are qualified to better understand the growing needs in the insurance market across the nation. The Company also seeks to further strengthen its working relationship with all insurance brokers and agencies functioning in the Kingdom, thereby consolidating its position as their reliable partner-in-progress.

During the year, Wala'a has moved over to a spacious and prestigious office location, enabling us to provide customer-friendly service to our business-partners. Wala'a has also introduced a new brand and promising logo indicating strong loyalty and committed strong relationship with our clients.

Wala'a continues to closely review the market conditions and opportunities with a view to expand its operations across the Kingdom either directly or through its appointed Agency. This is seen as an important component of Company's growth strategy and plans charted to take the Company further.

Retail business continues to remain under high focus and management is very keen to ensure that this segment is conducted in full compliance with regulatory documentation requirements. Regional sales teams are being strengthened to secure a higher share of corporate and SME sector of the market. The Company's IT and communication system is continuously reviewed and upgraded to stay in tune with business needs and growth, and to ensure prompt service to clients' requirements. Wala'a is particularly proud of its IT capabilities which include 'real-time' communication and connectivity with agencies such as Najm, Al-Elm, CCHI and Banks' portals. In addition to this, Wala'a has direct connectivity with portal of Saudi NextCare – the third party administrator for claims.

The Company also adopted a revised pricing policy for motor and health products in accordance with regulatory requirements after conducting an actuarial review of the portfolio. Wala'a is actively in the process of applying newly introduced discount structure to its motor insurance customers who form a significant portion of policy holders.

Wala'a is proud to secure a commendable level of financial strength rating from Standard & Poors – an internationally reputed Rating Agency who are specialized in rating of financial institutions at a global level.

Wala'a has now secured a rating of '**BBB+**' with '**Stable outlook**'. With this recognition and credentials backing us, we can now approach prestigious clients in specialized sectors – such as oil and gas, petroleum and power – who prefer to work with a well-rated insurer to address their risk-management requirements.

During the year, Wala'a successfully obtained permanent regulatory approvals for several products that it specializes in – and it is particularly satisfying that specialized products such as Directors' and Officers' Liability, Cyber Crime Cover have been received in the market with a high degree of appreciation.

4. Risks faced by the Company

The Company has established a risk management framework to protect the Company from events that hinder the sustainable achievement of its performance objectives, including failing to exploit opportunities.

The risks faced by the Company can be categorized as follows:

- a) **Competition risk:** The Company faces intense competition from other insurance companies, and this is commonly applicable for all companies. However, the company has taken a series of proactive actions based on competitive prices based on a statistical and an actuarial basis that ensures the safety and success of the technical capacity of insurance policies underwriting, in addition an effective prevention programs to enable the ability to grow and achieve its goals. Company is keen to have competitive advantage by offering better services to all customers and in this regard we are setting high standard for customer services. Company is also investing in technology in order to have more efficient operations and at the same time developing existing and new products to ensure the best possible service to its customers.
- b) **Strategic risk:** Strategic risk is explicitly considered through strategic review and planning process. The company closely monitors regulatory, legal and fiscal developments as well as actively engaging with external bodies to share the benefit of expertise in supporting responses to emerging risks to challenge developments that could be damaging to business and the industry as a whole.
- c) **Operational risk:** Robust system and processes are in place to ensure that Operational Risks are within our appetite. Significant resources are devoted to maintaining efficient and effective operations within company's framework of corporate responsibility, policies and business ethics code. The Company Executive Team oversees aggregate operational risk exposure and reports to the Board. The Company has a full-time in-house internal audit and risk management team that oversees various controls, ensures adherence to policies and procedures.
- d) **Human resource risk:** The insurance market needs qualified cadres familiar with insurance activity, which leads to increased demand for qualified people and the company is faced resignations risk by its competent staff, However, the company is continuing the policy of training and serious rehabilitation for existing and future employees which be varied to suit all management levels in the company. This design comes in spite of the possibility of losing some cadres to the competition organization, but in general, it remains in the interests of the country. Therefore, developing and focusing on the competencies of Saudi nationals will continue in all areas and managerial levels at the company.
- e) **Concentration risk:** Company is aware of the concentration risk since a significant portion of the business written is obtained through one agent. We are working actively to diversify our portfolio, following are the plans in this regard
 - Increase sales through our own Branch Network
 - Online sales of individual products
 - In talks with other agents
 - Focus on niche products like, D&O, PI Miscellaneous, Travel, Cyber Crime and Extended Warranty
 - Employee Insurance program for selected large groups

- f) **Regulatory risk:** The company management and compliance officer ensure compliance with all regulatory requirements and initiate timely update for regulatory changes and enable the Company to remain compliant with regulatory changes.

5. Geographical operations

Company does not have any overseas subsidiaries and operates within the Kingdom of Saudi Arabia. Geographical spread of Gross Written Premiums written during various years are given below:

(SAR m)

	Eastern	Central	Western	Northern	Southern	Total
Year 2016	416.74	74.89	314.84	172.77	37.36	1,016.60
Year 2015	334.15	84.61	174.82	123.29	36.12	752.99
Year 2014	412.54	114.49	75.78	33.52	13.28	649.61
Year 2013	235.13	54.08	57.18	0.78	-	347.17
Year 2012	126.87	29.18	78.04	-	-	234.09
Year 2011	134.02	78.64	65.89	-	-	278.55
Year 2010	81.02	95.49	43.78	-	-	220.29
Year 2009	76.44	37.44	27.34	-	-	141.22

6. Material variations from previous year

The reported operational result for the year 2016 as compared to previous year has changed positively due to a combination of various component elements summarized as follows:

	Reported Line item	2016	2015	Change over prev. year		Explanation for variance
				Amount	pct.	
1	Gross Written Premium (GWP)	1,016.61	752.99	263.62	35.01%	The major increase has come from motor and health lines which is due to focus on retail business. Correspondingly, this increase results in improvement in Net earned premiums.
2	Net Earned Premium (NEP)	637.97	448.67	189.31	42.19%	Retention under compulsory lines has helped us to achieve improvement in NEP which is in line with increase in GWP.
3	Net Claims incurred	405.96	382.97	22.99	6.00%	A relatively marginal increase in Net Claims incurred adequately supported by NEP. Has not adversely affected the overall reported results.
4	Changes in additional Premium Reserves	(36.11)	9.50	(45.60)	n.a	Based on Actuarial Computations, the changes in additional Premium Reserves have not resulted in an adverse variance.
5	Policy Acquisition Costs	62.38	45.27	17.11	37.80%	Due to increase in Agency and Retail business, the acquisition costs have considerably increased in the current year.
6	Excess of Loss Expenses	10.88	12.97	(2.08)	-16.07%	Due to changes in Premiums on which XOL cover in sought, this line item has been positively impacted.
7	Other underwriting Expenses	28.77	18.59	10.18	54.76%	Due to increase in number of claims handled in the current year, the related claim administration expense has increased.
8	Operating and general expenses	68.84	54.22	14.62	26.97%	Due to a general increase in the scale of business, related expenses have increased in the year.
9	Commission on Bank deposits	6.32	0.01	6.31	52600.00%	Due to better and more prudent use of surplus funds available which have been placed into murabaha deposits, this line item has been impacted positively.
10	Surplus / (Deficit) from insurance operations	123.99	(59.27)	183.26	n.a.	A combined resultant figure which has been positively impacted due to various line items explained above.
11	Provision for Zakat and Income Tax	9.00	4.00	5.00	125.00%	An item affecting Comprehensive Income, is based on computation as required by stipulations issued. The final amount payable is however is subject to assessment by DZIT.
12	Unrealized changes in fair value	4.50	(15.56)	20.05	n.a.	Arises mainly due to movement in quoted values of Equity investments held by the Company. It is entirely on account of market movements.

7. Accounting Standards

The company adheres to International Financial Reporting Standards (IFRS) and the relevant International Accounting Standards (IAS) in the preparation of its financial statements, as required by the Saudi Arabian Monetary Agency (SAMA). It does not follow the accounting standards generally followed in the Kingdom of Saudi Arabia. The external auditors have modified their audit report to include an emphasis of matter paragraph addressing this issue. However, steps are in progress to completely migrate from standards issued by SOCPA to IFRS. The adoption will be made during the year 2017. Based on our preliminary estimates and assessments, the impact of adoption of IFRS on a complete basis does not have a material impact on reported results and equity of the Company.

8. Dividend Policy

The company adopts the requirements to distribute dividends as and when declared, as per its Articles of Association, summarized as follows:

- (1) Zakat & Income Tax amounts shall be set aside.
- (2) 20% of net profit shall be set aside to form the Statutory Reserve and the ordinary General Assembly may hold such action when the legal reserve becomes equal to 100% of the Company's capital.
- (3) The ordinary General Assembly, based on Board's recommendation, may set aside a portion of the annual net profit to form an additional reserve for certain purpose(s) to be determined by the Assembly.
- (4) Out of the above balance, the shareholders shall receive an amount representing the first payment which shall not be less than 5% of the paid up capital.
- (5) The remaining amount shall be distributed as dividends or forwarded to the retained earnings account.
- (6) The Company may distribute, based on a Board resolution, periodic profits to be deducted from the annual profits referred to in item (4) above in accordance with the rules regulating this process to be issued by the competent authorities.
- (7) The Company shall immediately inform the Capital Market Authority of any resolutions or recommendations for distribution of profit. The profits, so proposed for the distribution shall be paid to the shareholders at the place and time specified by the Board pursuant to the instructions issued by the Ministry of Commerce & Industry and subject to SAMA written approval.

(The company is yet to declare any dividend which will be taken up at subsequent Annual General Assembly meetings as appropriate).

9. Interest, Options and Subscription rights

During the year 2016, details of interests, options and subscription rights of the issuer's directors, senior executives and their spouses and minor children in the Shares of the company or Debt Instruments are as follows:

	Board member	At beginning of the year		Change in holding		At end of the year 2016	
		No. of shares held	Pct. Of shares held	Number	% of change	No. of shares held	Pct. Of shares held
1	Sulaiman A. Al-Kadi	2,060	0.0052%			2,060	0.0052%
2	Abdullah M. Al-Othman	1,612,000	4.0300%			1,612,000	4.0300%
3	IGI Ltd., (represented by Wasef S.A. Jebseh)	2,100,000	5.2500%			2,100,000	5.2500%
4	Walid S. Al-Shoaibi	100,000	0.2500%			100,000	0.2500%
5	Khalid A.S Al-Rajhi	1,000	0.0025%			1,000	0.0025%
6	Abdulaziz S. Al-Rebdi (up to 25.May.2016)	2,000	0.0050%			2,000	0.0050%
7	Solaiman A. Al-Twajiri	1,000	0.0025%			1,000	0.0025%
8	Walid M. Al-Jafari	480,000	1.2000%			480,000	1.2000%
9	Hassan E. Al-Kabbani	1,000	0.0025%			1,000	0.0025%
10	Jameel A. Al-Mulhem (up to 25.May.2016)	3,000	0.0075%			3,000	0.0075%
11	Hatem Balghoneim (from 25.May.2016)	-	0.0000%	3,200	100.00%	3,200	0.0080%
12	Abdulrahman Balghoneim (from 25.May.2016)	-	0.0000%	-	0.00%	-	0.0000%

(based on shareholding of 40m shares of SR 10 each)

Total Paid-up Cap: SR 400m

(based on shareholding of 40m shares of SR 10 each)

Total Paid-up Cap: SR 400m

Senior Executives and their spouses and minor children have no interests, options, and subscriptions rights in the Shares or Debt Instruments of the Company.

10. Significant Interest in a Class of Voting Shares

As at 31st December 2016, there is no holding of significant interest in a class of voting shares held by any person.

11. Borrowings, Issue / Redemption of Securities

The company has neither borrowed any funds nor issued or redeemed any securities during the year and does not have any outstanding convertible and/or redeemable debt instruments, options, warrants or similar rights.

12. Related Party Transactions

Details of related party transactions are furnished below:

(SAR m)

Director		Insurance contracts	Terms / duration
	Direct placements:		
Sulaiman Al-Kadi	private motor car insurance	0.129	12-months
Abdullah M. Al-Othman	Al-Othman Group	0.250	12-months
Waleed Al-Jaafari	Al-Dawaa Medical Services	2.232	various
Khalid Al-Rajhi	Procure / Al-Riaya Hospital	0.092	various
	Key management personnel	0.010	12-months

In addition to the above direct placements, the company also recorded during the year following premiums placed through brokers:

Hassan Kabbani	Essam Al-Kabbani Group	0.022	various
Dr. Sulaiman Al-Towaijri	Amiantit Group	0.302	various
Waleed Al-Shoaibi	Al-Shoaibi Group	0.344	various
Abullah M. Al-Othman	Al-Othman Group	0.306	various

The company did not conduct any contract in which a director of the issuer, the CEO, the CFO or any associate is or was materially interested during the year other than those mentioned above.

13. Statutory dues and payments

The company does not have any outstanding statutory dues as on 31 December 2016, except for the following:

	2016	2015	2014	2013	2012	2011
GOSI for December paid in January the following year	0.38	0.31	0.23	0.17	- *	0.13
Zakat and tax: Provision for year, due for payment upon filing	9.00	4.00	3.00	3.00	2.75	1.88
Council of Cooperative Health Insurance (CCHI) fee	0.19	0.69	0.47	0.45	0.65	0.99
SAMA Supervision fee (provision for last quarter, paid in January)	1.31	0.63	0.50	0.35	0.18	0.75

(* - SR 0.142m towards GOSI for December 2012, has been paid in December 2012 itself)

During the year 2016, the Company has made following payments to various statutory agencies:

(SAR m)

	2016	2015	2014	2013	2012	2011
Zakat, Income tax and withholding tax	2.24	2.13	2.58	2.45	1.51	1.58
Saudi Arabian Monetary Agency (SAMA) Supervision	4.36	3.57	3.01	1.53	1.72	0.86
GOSI (Social insurance)	3.48	3.12	2.26	1.79	1.88	1.00
Council of Cooperative Health Insurance (CCHI)	1.94	0.47	0.60	0.65	0.99	0.37
Ministry of Interior, Labour office, Chamber of Commerce & Sagia	0.07	0.04	0.06	0.03	0.03	0.04

14. Employees benefits

The Company did not make any investments or set up any reserves for the benefit of the employees. The Company provides personal accident with group life insurance cover to its employees against any accidental death or disability.

15. Statements of affirmation

During the year,

- The Company has maintained proper books of accounts.
- The System of internal control is sound in design and has been effectively implemented.
- There are no significant doubts concerning the company's ability to continue as a going concern.

16. Appointing External Auditors

The Board of Directors had recommended during its meeting held on 27.April.2015, the appointment of Al-Bassam & Partners and Abdulaziz Al-Naim CPAs as external auditors based on Audit Committee's recommendation to review and audit the company's accounts for 2015 and later years, after completion of terms by the previous external auditors at the end of 2014. The current set of external auditors are yet to complete their appointed tenures.

17. Corporate Governance

SAMA had issued Insurance Corporate Governance Regulations in October 2015. We updated our Corporate Governance policies in line with revised corporate governance regulations issued by SAMA and also in accordance with all applicable laws and regulations. The updated Corporate Governance policy was approved by Board and presented to General Assembly in May 2016.

18. Offices held by company's directors in other companies

During the year, the Company's Board members held offices in other companies as members of its board of directors as follows:

	Name of Board Member	Name of Companies
1	Sulaiman A. Al-Kadi	<ul style="list-style-type: none"> • Saudi Electricity Co. (SEC) • Saudi Hollandi Bank • Chemical Development Co. – Closed company • Basic Chemical Industries Co. (BCI)
2	Abdullah M. Al-Othman	<ul style="list-style-type: none"> • Takween Advanced Industries • Al-Othman Holding Co.- Closed company • Roots Group Arabia- Closed company • GIB Capital LLC - Closed company
3	Wasef S. A. Al-Jabsheh	<ul style="list-style-type: none"> • International General Insurance Co. Ltd. and associates
4	Walid S. Al-Shoaibi	<ul style="list-style-type: none"> • Suhayl Bin Abdulmohsin Al Shoaibi & Sons Holding Co. Ltd. • Saudi Chainlink Fence Manufacturing Co. Ltd. • Heating & Air Conditioning Enterprises Co. • Kalaam Telecom Company • Pride Arabia Company

		<ul style="list-style-type: none"> • McDermott Arabia Co. Ltd • Chemical Development Co. – Closed company
5	Khalid A. S. Al-Rajhi	<ul style="list-style-type: none"> • Al-Bilad Bank • Al-Bilad Capital • Saudi Cement Company • Takween Advanced Industries
6	Solaiman A. Al-Twajiri	<ul style="list-style-type: none"> • Saudi Arabian Amiantit Co. • Takween Advanced Industries • Chemical Development Co. – Closed company
7	Waleed M. Al-Jaafari	<ul style="list-style-type: none"> • Advanced Petrochemical Co. • Golf Real Estate Co. – Closed company • Siyaha International Company – Closed company • Al-Dawaa Medical Services Company – Closed company
8	Hassan E. Kabbani	<ul style="list-style-type: none"> • Isam K. Kabbani for Insurance and Reins. Brokerage Co. - limited liability • Isam Kabbani & Partners for Constn. & Maint. Co. Ltd.- Closed Company • Isam Mohammad Khayri Kabbani & Partners Holding Co. • Dar Istegdam Company
9	Abdulrahman Balghoneim	<ul style="list-style-type: none"> • Projects Manager, Ministry of Economy and Planning, Kingdom of Saudi Arabia
10	Hatem Balghoneim	<ul style="list-style-type: none"> • Vice-President, Dynamic Energy Oil and Gas Services Co.

19. Board of Directors and composition

	Member	Functional duty	Classification
1	Sulaiman A. Al-Kadi	Chairman	Independent
2	Abdullah M. Al-Othman	Vice Chairman	Independent
3	Wasef S. A. Al-Jabsheh	Member	Non-executive
4	Walid S. Al-Shoaibi	Member	Independent
5	Khalid A. S. Al-Rajhi	Member	Independent
6	Waleed M. Al-Jaafari	Member	Independent
7	Abdulaziz S. Al-Rebdi (up to 25.May.2016)	Member	Independent
8	Solaiman A. Al-Twajiri	Member	Independent
9	Hassan E. Kabbani	Member	Independent
10	Jameel A. Al-Molhem (up to 25.May.2016)	Member	Independent
11	Abdulrahman Balghoneim (from 25.May.2016)	Member	Independent
12	Hatem Balghoneim (from 25.May.2016)	Member	Independent

At the Annual General Meeting held on 25.May.2016 two of the directors opted to relinquish their membership of the Board and simultaneously two new members were inducted as shown above.

20. Board of Directors and Committees

The Board of Directors is entrusted with effective management and control of the company. It gives strategic direction to achieve the company objectives and monitors the performance through regular meetings held throughout the year. During the period of this report the Board held five meetings attended as follows:

		From 1.Jan.2016 up to 25.May.2016		From 25.May.2016 up to 31.December.2016			Total meetings attended
Board Member		No. 1 16-Feb	No.2 25-May	No.3 25-May	No.4 26-Jun	No.5 23-Nov	
1	Sulaiman Al-Kadi Chairman	✓	✓	✓	✓	✓	5
2	Abdullah Al-Othman Member	✓	✓	✓	✓	✓	5
3	Hassan Kabbani Member	✓	✓	✓	✓	✓	5
4	Abdulaziz Al-Rebdi (up to 25.May) Member	✓	X	n.a	n.a	n.a	1
5	Jameel Al-Molhem (up to 25.May) Member	✓	X	n.a	n.a	n.a	1
6	Khalid Al-Rajhi Member	✓	✓	✓	✓	✓	5
7	Solaiman Al-Twajri Member	✓	X	X	X	✓	2
8	Waleed Al-Jaffary Member	✓	X	X	✓	X	2
9	Walid Al-Shoaiabi Member	✓	✓	✓	✓	✓	5
10	Wasef Jebshah Member	✓	X	X	X	✓	2
11	Abdulrahman Balghoneim (from 25.May) Member	n.a	n.a	X	✓	✓	2
12	Hatem Balghoneim (from 25.May) Member	n.a	n.a	X	✓	✓	2

The Board has appointed the following committees to ensure full control and effectiveness of the management:

(i) Executive Committee

The Board of Directors shall appoint the Executive Committee from amongst its members. The CEO shall be an ex-officio member and secretary of the Committee. The Committee should have at least three members.

The Executive Committee makes recommendations to the Board of Directors in regards to the topics raised by the executive management of the company, and determines which of those shall be referred to the Board.

The Executive Committee also reviews the annual budget of the company prior to presentation to the board with their recommendation. Furthermore, the Executive Committee discusses the related technical, marketing, and administrative matters and raises its decisions and recommendations to the Board of Directors.

The term of office of the executive committee extends from the date of appointment until the end of the term of the board of directors which appointed the members of the committee.

During the period of this report, the Committee has met six times. The members of the Committee and the details of the meetings held and attended are given below:

		From 1.Jan.2016		From 25.May.2016 up to				Total
		up to 25.May.2016		31.December.2016				meetings
Member		No. 1	No. 2	No. 3	No. 4	No. 5	No. 6	attended
		16-Feb	26-Apr	26-Jun	26-Sep	10-Nov	23-Nov	
1	Abdullah Al-Othman Chairman	✓	✓	✓	✓	✓	✓	6
2	Wasef Jebseheh (up to 25.May) Member	✓	✓	n.a	n.a	n.a	n.a	2
3	Waleed Al-Shoaibi (up to 25.May) Member	✓	✓	n.a	n.a	n.a	n.a	2
4	Khalid Al-Rajhi (up to 25.May) Member	✓	✓	n.a	n.a	n.a	n.a	2
5	Solaiman Al-Twajiri (from 25.May) Member	n.a	n.a	x	✓	✓	✓	3
6	Hatem Balghoneim (from 25.May) Member	n.a	n.a	✓	✓	✓	✓	4

(ii) *Audit Committee*

Audit Committee should consist of three to five members majority of them should be independent members at least one of them should be a member of the Board. The Board, upon the recommendation of the Nomination Committee, appoints a Chairman from among the members. The internal auditor of the Company shall function as secretary to the Audit Committee.

The Audit Committee supervises the company's internal audit department and compliance department to ensure their effectiveness in executing the activities and duties specified by the Board of Directors. The Audit Committee also reviews the internal audit procedures periodically.

The Audit Committee reviews the internal audit and compliance reports and pursues the implementation of the corrective measures in respect of the comments included in them.

All members should be financially literate and possesses an ability to read and understand the fundamental financial statements of the company. At least one member of the Committee shall be an expert on finance and accounting matters.

An audit committee member shall not serve as a member in more than three audit committees of publicly listed companies concurrently. An audit committee member shall not accept from the company any consulting, advisory or other compensatory fees other than the sitting fee/ remuneration determined by the Board.

The audit committee should meet at least four times a year and simple majority of the members shall make a quorum. In case of urgency, the committee can take decision by circulation of email. Term of office shall

extend from the date of appointment until the end of the term of the Board of Directors which appointed the members of the committee.

During the period of this report, the Committee met six times. The members of the Committee and the details of the meetings held and attended are shown below:

		From 1.Jan.2016 up to 25.May.2016			From 25.May.2016 up to 31.December.2016			Total	
Member		No. 1	No. 2	No. 3	No. 4	No. 5	No. 6	meetings attended	
		17-Jan	15-Feb	14-Apr	17-Jul	13-Oct	11-Dec		
1	Dr. Solaiman Al-Twajjri	Chairman	✓	✓	✓	n.a	n.a	n.a	3
2	Waleed Al-Othaimeen	Member	✓	✓	✓	✓	✓	X	5
3	Dr. Raed Al-Hogail (up to 25.May)	Member	✓	✓	✓	n.a	n.a	n.a	3
1	Abdulrahman Balghoneim (from 25.May)	Chairman	n.a	n.a	n.a	✓	✓	✓	3
2	Dr. Amr Kurdi (from 25.May)	Member	n.a	n.a	n.a	✓	✓	✓	3
3	Waleed Al-Othaimeen	Member							

Moreover, the committee recommends to the Board of Directors the appointment, dismissal and the remuneration of the external auditors; upon and such recommendation, regard must be made to their independence. The committee monitors the activities of the external auditors and approves any activity beyond the scope of the audit work assigned to them during the performance of their duties. They also review together with the external auditors the audit plan and make any comments thereon, and review the external auditors' comments on the financial statements and follow up the actions taken. In addition, they review the interim and annual financial statements prior to presentation to the Board of Directors; and to give opinion and recommendations with respect thereto.

The Audit Committee reviews the accounting policies in force and advises the Board of Directors of any recommendations regarding them.

(iii) Investment Committee

The Board, based on the recommendation of the Nomination Committee, appoints the investment committee from amongst its members. The committee should have at least three members, and the CEO and the CFO shall be ex-officio members of the Committee, with the CFO functioning as the secretary.

The Investment Committee is responsible for the formulation of the investment policy.

The committee should meet minimum four times a year. Term of office shall extend from the date of appointment until the end of the term of the Board of Directors which appointed the members of the committee. The Committee met

thrice during the period of this report. The details of the Investment Committee and its meetings are provided below:

		From 1.Jan.2016 up to 25.May.2016			From 25.May.2016 up to 31.December.2016			Total
Member		No. 1	No. 2	No. 3	No. 2	No. 3	meetings attended	
		16-Feb			26-Jun	23-Nov		
1	Khalid Al-Rajhi	Chairman	✓		✓	✓	3	
2	Abdulaziz Al-Rebdi (up to 25.May)	Member	✓		n.a	n.a	1	
3	Waleed Al-Jaffery (up to 25.May)	Member	✓		n.a	n.a	1	
4	Hassan Kabbani	Member	✓		✓	✓	3	
5	Waleed Al-Shoaibi (from 25.May)	Member	n.a		✓	✓	2	

(iv) Nomination & Remuneration Committee

The Board of Directors appoints a Nomination & Remuneration Committee from amongst its members with the CEO being the secretary of this Committee. The Committee shall consist of independent members and should have at least three members. This Committee shall make recommendations to the Board of persons to serve as directors from among the proposals received from the shareholders. They shall also recommend names to fill the vacancies occurring on the Board. The committee shall review the performance of the executive management and ensure that it is in line with the overall strategy of the Company.

The N&R Committee shall oversee the performance of the members of the Board, and shall be responsible for making recommendations to the board with respect to appointment of committees to the Board.

The N&R Committee shall recommend the remuneration payable to the Directors and committee members as well as the CEO.

The Committee should meet at least once a year. Term of office shall extend from the date of appointment until the end of the term of the Board of Directors which appointed the members of the committee.

The N&R Committee reviews annually the requirement of suitable skills for membership of the Board of Directors and prepares a description of the required capabilities and qualifications for such membership, and defining the time that a board member should reserve for the activities of the Board. Moreover, The N&R Committee is reviews annually the structure of the Board of Directors and recommends changes. Also, the committee determines the points of strength and weakness in the Board of Directors and recommends remedies that serve the company's interests and objectives.

The Committee ensures the independence of the members of board and absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.

The N&R Committee draws clear policies regarding the indemnities and remunerations of the Board members and top executives; in laying down such policies, the standards related to performance were followed.

The Committee met twice during the period. The details and attendance at the Nomination and Remuneration committee meeting held during the year are given below:

		From 1.Jan.2016		From 25.May.2016 up to		Total	
		up to 25.May.2016		31.December.2016			
Member		No. 1	No. 2				meetings attended
		08-Feb	25-Dec				
1	Sulaiman Al-Kadi (up to 25.May)	Chairman	✓				1
2	Sulaiman Al-Kadi (from 25.May)	Member	n.a			✓	1
2	Abdulaziz Al-Rebdi (up to 25.May)	Member	✓			n.a	1
3	Waleed Al-Jafferi (up to 25.May)	Member	✓				1
4	Waleed Al-Jafferi (from 25.May)	Chairman	n.a			✓	1
4	Jameel Al-Molhem (up to 25.May)	Member	✓			n.a	1
5	Hassan Kabbani (from 25.May)	Member	n.a			✓	1

(v) *Risk Management Committee*

The Risk Management Committee shall consist of a minimum of three members of the Board who shall be appointed by the Board and a majority of which have been determined by the Board to be independent.

The Risk Management Committee shall assist the Board and the other Board committees in fulfilling their oversight responsibilities for the risk management function of the Company.

The purpose of the Risk Management Committee is to assist the Board in discharge of oversight responsibility in respect of:

- The executive team to ensure that it has identified and assessed all risks that Company faces and has established a risk management infrastructure capable of addressing those risks.
- Compliance with applicable laws, regulations, policies and procedures.
- Any other matters, as the Board or the Committee deem appropriate.

During the year, the Committee met four times with details of meetings held and attendance noted as follows:

	Member		From 1.Jan.2016		From 25.May.2016 up to		Total meetings attended
			up to 25.May.2016		31.December.2016		
			No. 1 16-Feb	No. 2 26-Apr	No. 3 26-Jun	No. 4 23-Nov	
1	Wasef Jebseheh (up to 25.May)	Chairman	✓	✓	n.a	n.a	2
2	Abdullah Al-Othman (up to 25.May)	Member	✓	✓	n.a	n.a	2
3	Waleed Al-Shoaibi (up to 25.May)	Member	✓	✓	n.a	n.a	2
4	Waleed Al-Shoaibi (from 25.May)	Chairman	n.a	n.a	✓	✓	2
5	Wasef Jebseheh (from 25.May)	Member	n.a	n.a	x	✓	1
6	Khalid Al-Rajhi (from 25.may)	Member	n.a	n.a	✓	✓	2

(vi) *Shariyah Board*

Wala'a has appointed Shariyah Review Bureau Co. as a Shariyah review committee. Part of the committee duties is to review annually the company's products and services from an Islamic point of view and then report the review processes results periodically - after the company's execute required amendments if they exist - to the board of the Shariyah Review Bureau for certification, taking into consideration any modification as may be required by the Shariyah board in order to approve the company and its products. The Shariyah Board consists of eminent scholars as nominated by them from time-to-time.

Their main role is to study and revise the company's financial and investments activities, and review the principles of insurance mechanism, insurance programs and products to confirm their compliance with the Shariyah principles.

21. Compensation paid to Directors and senior executives

(SR. millions)

Board member	Board Meetings		Committee Meetings		Travel Exp.	Total
	Remn.	Att. fee	Remn.	Attn. fee		
Sulaiman A. Al-Kadi	0.180	0.015	0.050	0.003	-	0.248
Abdullah M. Al-Othman	0.120	0.015	0.050	0.011	-	0.196
Wasef S.A Al-Jabsheh	0.120	0.006	0.050	0.008	0.0095	0.193
Walid S. Al-Shoaibi	0.120	0.015	0.050	0.012	-	0.197
Khalid A.S Al-Rajhi	0.120	0.015	0.050	0.009	-	0.194
Abdulaziz S. Al-Rebdi	0.048	0.003	0.042	0.003	0.0015	0.097
Solaiman A. Al-Twajri	0.120	0.006	0.045	0.008	-	0.179
Waleed M. Al-Jaafary	0.120	0.006	0.050	0.005	-	0.181
Hassan E. Al-Kabbani	0.120	0.015	0.050	0.006	0.0100	0.201
Jameel A. Al-Molhem	0.048	0.003	0.025	0.002	0.0015	0.079
Abdulrahman Balghoneim	0.072	0.006	0.025	0.005	0.0060	0.114
Hatem Balghoneim	0.072	0.006	0.030	0.005	-	0.113
Total	1.260	0.111	0.517	0.074	0.028	1.990

Paid for the year 2016	Salaries and compensation	Transport Allowance	Bonus	Other Allowances	Total (SAR m)
Compensation paid to five top-management executives	3.50	0.28	2.45	0.04	6.27

There have been no arrangements or agreements under which any director or senior executives of the company have waived any emolument or compensation.

22. Penalty / Preventive restriction

During the year under review, there were no penalties or fines paid by the Company to any Regulatory Agency. Further, no restrictions were placed on the operations of the Company.

23. Internal Control

The Board of Directors have formed an audit committee, the prime responsibility of which includes discharging the board's responsibilities in respect of supervision of the company's financial reporting and evaluating the adequacy and effectiveness of the company's audit (both internal and external) and risk management processes.

The Committee comprises of three members, two of whom are independent. The chairman is an independent non-executive director of the company. The audit committee held six meetings in the year 2016. The purposes of these meetings included, among others, the following:

- a. Review and approval of the interim and final results of the company
- b. Evaluating the adequacy and effectiveness of the internal and external audit functions.
- c. Evaluating the adequacy and effectiveness of the compliance department
- d. Assessing the effectiveness of the risk management practices and procedures.

The satisfactory annual audit of the financial statements provides insights into the effectiveness of the Company's internal control environment and procedures and its risk management practices. In addition to that, the internal audit function of the company assists the audit committee and consequently the board of directors in providing assurance that the Company's internal control system is adequate and effective in mitigating various risks faced by the company and hence ensuring that the objectives of the Company will be met.

The internal audit department maintains its organization independence by functionally reporting to the audit committee as required by both the regulations and the best practices. As instructed by the audit committee and the requirement of policies and procedures of the company as well as best practices, the procedure followed by the internal audit department in discharging its responsibilities is as follows:

- a. Periodically all significant business processes are risk assessed and classified as high, medium and low risk business processes.
- b. An audit plan is then prepared and submitted to the Audit committee for approval on an annual basis. The audit plan is risk focused i.e. the high risk business

processes are subject to more frequent audits and more rigorous internal audit procedures.

- c. As a result of evolving circumstances, the audit plan may require revisions. Any revisions to the audit plan are also approved by the Audit Committee.
- d. The audits are conducted in accordance with the approved audit plan and its results are submitted in the form of a report to the Audit Committee.

The internal audit department has conducted a number of audits in accordance with the approved internal audit plan and reported the findings to the Audit Committee as a result of these audits, together with management's response. In addition, the progress towards the resolution of the audit findings is also reported periodically. The department also presents separately the most significant findings, if any, either as part of the scheduled or specially arranged meetings.

Based on the risk assessments, audit plan and the internal audit review reports submitted by the internal audit department and the results of the quarterly reviews and the annual audits performed by the external auditors the Audit Committee was able to conclude that internal control system in the company is effective.

Moreover, the compliance function of the company assists the Audit Committee in ensuring compliance by the company's management, board of directors and approved persons with all relevant regulatory requirements, guidelines and directives issued by SAMA, CMA and other statutory authorities. The compliance function's key responsibilities include:

- a. Developing, implementing, documenting and updating as needed compliance monitoring and risk management strategies, systems, procedures, processes and controls to meet SAMA's regulatory requirements, directives and anti-money laundering regulations
- b. Ensuring Compliance with CMA rules and regulations including listing requirements, regulatory compliance and corporate governance.
- c. Monitoring changes in legislation for insurance and ensure that the company acts in accordance with the revised / changed requirements.
- d. Undertaking ongoing monitoring and ad hoc spot checks to assess the validity and application of internal procedures and processes and their compliance with regulations and/or directives
- e. Ensuring that the company fulfills all the conditions required by SAMA and develop and maintains a professional relationship with SAMA and other statutory bodies.
- f. Working with departmental Heads to direct compliance issues to appropriate channels for investigation and resolution
- g. Consulting with the company's legal advisors as needed to resolve legal compliance issues.