SANAD COOPERATIVE INSURANCE AND
REINSURANCE COMPANY
(A Saudi Joint Stock Company)

Financial Statements
For the year ended 31 December 2013
together with the Independent auditors' report

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Aldar Audit Bureau
Abdullah Al Basri & Co.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

Scope of audit:
We have audited the accompanying statement of financial position of Sanad Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (the "Company") as at 31 December 2013 and the related statements of comprehensive income – insurance operations and shareholders' operations, statement of changes in shareholders' equity and statements of cash flows – insurance operations and shareholders' operations for the year then ended and the notes from 1 to 22 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

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

i) present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

Emphasis of a matter:
We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

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18 Rabi Al-Thani 1435H
(18 February 2014)

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
(Amount in Saudi Riyals)

	Note	31 December 2013	31 December 2012
ASSETS - INSURANCE OPERATIONS			
Cash and bank balances	4	**78,582,401**	65,479,976
Premiums receivable, net	11	**65,008,738**	67,430,050
Reinsurers' balance receivable, net		**1,295,054**	9,437,188
Reinsurers' share of outstanding claims and other technical reserves	9(ii)	**23,618,391**	37,611,190
Reinsurers' share of unearned premium	10	**14,779,480**	13,562,340
Deferred policy acquisition cost	12	**9,620,528**	7,027,284
Due from shareholders' operations		**18,791,296**	--
Prepayments and other assets		**13,940,215**	9,669,101
Property and equipment, net	7	**4,462,452**	3,486,781
Total assets - insurance operations		**230,098,555**	213,703,910
ASSETS - SHAREHOLDERS' OPERATIONS			
Cash and bank balances	4	**31,568,966**	49,940,289
Statutory deposit	14	**21,077,351**	20,918,419
Investments – available for sale	6	**44,060,370**	40,145,978
Loan receivable	6(c)	**500,000**	500,000
Due from insurance operations		--	4,901,022
Prepayments and other assets		**1,448,663**	19,111
Total assets - shareholders' operations		**98,655,350**	116,424,819
Total Assets		**328,753,905**	330,128,729
LIABILITIES - INSURANCE OPERATIONS			
Unearned premium reserve	10	**98,754,524**	67,695,866
Reinsurers' balances payable		**3,065,270**	3,404,068
Accrued expenses and other liabilities		**31,814,206**	41,220,197
Outstanding claims and other technical reserves	9	**88,763,481**	90,709,402
Unearned commission income		**4,130,018**	3,282,388
End-of-service indemnities		**3,571,056**	2,490,967
Due to shareholders' operations		--	4,901,022
Total liabilities - insurance operations		**230,098,555**	213,703,910
LIABILITIES - SHAREHOLDERS' OPERATIONS			
Accrued expenses and other liabilities		**364,525**	387,025
Zakat payable	8	**10,271,155**	9,935,141
Due to insurance operations		**18,791,296**	--
Total liabilities - shareholders' operations		**29,426,976**	10,322,166
TOTAL LIABILITIES		**259,525,531**	224,026,076
SHAREHOLDERS' EQUITY			
Share capital	15	**200,000,000**	200,000,000
Accumulated deficit		**(135,950,411)**	(105,306,937)
Investment revaluation reserve	6	**5,178,785**	11,409,590
Total shareholders' equity		**69,228,374**	106,102,653
Total Liabilities and Shareholders' Equity		**328,753,905**	330,128,729

The accompanying notes 1 to 22 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amount in Saudi Riyals)

	Note	2013	2012
Gross insurance premiums written		227,799,584	182,260,854
Gross inward reinsurance premiums written		166,767	1,267,062
Total gross written premium	*10*	**227,966,351**	183,527,916
Reinsurance premiums ceded	*10*	**(48,714,121)**	(45,394,384)
Net written premiums		**179,252,230**	138,133,532
Changes in unearned premiums	*10*	**(31,058,658)**	15,790,243
Changes in reinsurance unearned premiums	*10*	**1,217,140**	(13,732,552)
Net earned premiums		**149,410,712**	140,191,223
Reinsurance commission		**11,216,860**	8,422,282
Policy fee		**444,134**	227,934
Underwriting revenue		**161,071,706**	148,841,439
Gross claims paid	*9*	**(132,800,533)**	(141,976,091)
Reinsurance share of claims paid	*9*	**21,582,971**	30,422,378
Net claims paid		**(111,217,562)**	(111,553,713)
Net changes in outstanding claim reserve	*9*	**1,173,821**	9,554,458
Net changes in other technical reserve	*9*	**(13,220,699)**	9,485,806
Net claims incurred		**(123,264,440)**	(92,513,449)
Policy acquisition costs	*12*	**(20,548,389)**	(24,202,526)
Other underwriting expenses, net		**(6,663,609)**	(5,665,692)
(Charge to) /reversal of impairment allowance against doubtful receivables		**(4,537,280)**	5,246,810
Underwriting expenses		**(155,013,718)**	(117,134,857)
Underwriting results		**6,057,988**	31,706,582
General and administration expenses	*13*	**(46,494,118)**	(37,316,234)
Loss from insurance operations		**(40,436,130)**	(5,609,652)
Gain/ (loss) on sale of property and equipment		**13,000**	(57,162)
Other income		**304,083**	471,275
Net loss from insurance operations		**(40,119,047)**	(5,195,539)
Other comprehensive income		--	--
Total comprehensive loss from insurance operations		**(40,119,047)**	(5,195,539)
Transfer of comprehensive loss to shareholders' operations		**40,119,047**	5,195,539
Net results for the year		--	--

The accompanying notes 1 to 22 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amount in Saudi Riyals)

	Note	2013	2012
INCOME			
Commission income		529,241	610,231
Dividend income from investments		1,552,849	1,528,929
Gain on sale of investments		10,070,314	253,944
		12,152,404	2,393,104
EXPENSES			
Transfer of loss from insurance operations		(40,119,047)	(5,195,539)
General and administration expenses	13	(1,447,065)	(1,941,384)
		(41,566,112)	(7,136,923)
NET LOSS FOR THE YEAR BEFORE ZAKAT		(29,413,708)	(4,743,819)
Zakat		(1,229,766)	(2,586,077)
NET LOSS FOR THE YEAR		(30,643,474)	(7,329,896)
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
Changes in fair value of available for sale investments, net		3,839,509	6,323,474
Transferred to statement of income:			
On sale of available for sale investments		(10,070,314)	--
		(6,230,805)	6,323,474
Total comprehensive loss for the year		(36,874,279)	(1,006,422)
Basic and diluted loss per share		(1.53)	(0.37)
Weighted average number of shares in issue		20,000,000	20,000,000

The accompanying notes 1 to 22 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amount in Saudi Riyals)

	Share capital	Accumulated deficit	Investment revaluation reserve	Total
Balance at 1 January 2012	200,000,000	(97,977,041)	5,086,116	107,109,075
Net loss for the year	--	(7,329,896)	--	(7,329,896)
Other comprehensive income for the year	--	--	6,323,474	6,323,474
Total comprehensive loss for the year		(7,329,896)	6,323,474	(1,006,422)
Balance at 31 December 2012	200,000,000	(105,306,937)	11,409,590	106,102,653
Net loss for the year	--	**(30,643,474)**	--	**(30,643,474)**
Other comprehensive loss for the year	--	--	**(6,230,805)**	**(6,230,805)**
Total comprehensive loss for the year	--	**(30,643,474)**	**(6,230,805)**	**(36,874,279)**
Balance at 31December 2013	**200,000,000**	**(135,950,411)**	**5,178,785**	**69,228,374**

The accompanying notes 1 to 22 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amount in Saudi Riyals)

	Note	2013	2012
Operating Activities			
Net results for the year		—	—
Adjustments for non-cash items:			
Transfer of loss to shareholders' operations		(40,119,047)	(5,195,539)
Depreciation		2,097,770	1,938,525
Provision for employees' end of service indemnities		1,563,787	977,627
Charge / (reversal) of impairment allowance against doubtful receivables		4,537,280	(5,246,810)
(Gain)/ loss on sale of property and equipment		(13,000)	57,162
Operating cash flows before working capital changes		(31,933,210)	(7,469,035)
Changes in operating assets and liabilities:			
Premiums receivable		(1,063,672)	1,544,235
Deferred policy acquisition costs, net		(2,593,244)	3,090,211
Prepayments and other assets		(4,271,114)	(3,554,738)
Unearned premium reserves, net		29,841,518	(2,057,691)
Unearned commission income		847,630	(52,013)
Reinsurers' balances payable		(338,798)	(32,199,583)
Accrued expenses and other liabilities		(9,405,991)	(2,821,343)
Outstanding claims and other technical reserves, net		12,046,878	(19,040,264)
Reinsurance balance receivable		7,089,838	16,334,681
Cash from/ (used in) operations		219,835	(46,225,540)
Employees' end of service benefits paid		(483,698)	(396,527)
Net cash used in operating activities		(263,863)	(46,622,067)
Investing Activities			
Purchase of property and equipment		(3,073,441)	(688,405)
Proceeds from sale of property and equipment		13,000	25,000
Net cash used in investing activities		(3,060,441)	(663,405)
Financing Activity			
Due to shareholders' operations		16,426,729	(5,289,912)
Net cash from/ (used in) financing activities		16,426,729	(5,289,912)
Net changes in cash and cash equivalents		13,102,425	(52,575,384)
Cash and cash equivalents, beginning of the year	4	65,479,976	118,055,360
Cash and cash equivalents, end of the year	4	78,582,401	65,479,976

The accompanying notes 1 to 22 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amount in Saudi Riyals)

	Note	2013	2012
Operating Activities			
Net loss for the year before zakat		(29,413,708)	(4,743,819)
Adjustments for non-cash items:			
Transferred from insurance operations		40,119,047	5,195,539
Gain on sale of investments		(10,070,314)	(253,944)
Changes in operating assets and liabilities:			
Accrued expenses and other liabilities		(22,500)	289,500
Prepayments and other assets		(1,429,552)	407,503
Cash (used in)/ from operations		(817,027)	894,779
Zakat paid		(893,752)	(893,416)
Net cash (used in) /from operating activities		(1,710,779)	1,363
Investing Activities			
Purchase of investments		(19,575,283)	-
Disposal of investments		19,500,400	10,133,548
Statutory deposit		(158,932)	(139,567)
Net cash (used in)/ from investing activities		(233,815)	9,993,981
Financing Activity			
Due from insurance operations		(16,426,729)	5,289,912
Net cash (used in)/ from financing activities		(16,426,729)	5,289,912
Net changes in cash and cash equivalents		(18,371,323)	15,285,256
Cash and cash equivalents, beginning of the year	4	49,940,289	34,655,033
Cash and cash equivalents, end of the year	4	31,568,966	49,940,289
Non – cash supplemental information:			
Net change in fair value of investments-available for sale		(6,230,805)	6,323,474

The accompanying notes 1 to 22 form an integral part of these financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Sanad Cooperative Insurance & Reinsurance Company (the "Company") is a Saudi Joint Stock Company incorporated under Ministerial Resolution dated 15 Jumada Al Thani, 1428 H, (corresponding to 30 June 2007). The Company is registered in the Kingdom of Saudi Arabia under commercial registration number 1010235409 dated 23 Jumad Al Thani, 1428 H (corresponding to 8 July 2007). The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Stock Exchange on 21 July 2007.

The Registered Office address of the Company is located at Dareen Center, Al Ahsa Street, Riyadh, 11417, Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

2.1 *Basis of measurement*

These financial statements have been prepared under the historical cost convention, except for the available-for-sale investments which are measured at fair value.

As at 31 December 2013, the Company's solvency margin is below the limit prescribed by Saudi Arabian Monetary Agency (SAMA). However, based on Company's discussions with SAMA, future business prospects and anticipated improvement in net results of the Company, the management believes that the going concern assumption is valid and has therefore prepared these financial statements on a going concern basis.

2.2 *Statement of compliance*

The financial statements of the Company for the year ended 31 December 2013 have been prepared by the management in accordance with International Financial Reporting Standards (IFRS). Accordingly these financial statements are not intended to be a presentation in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia, as issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. The physical custody of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of other revenue and expenses from joint operations is determined by the management and Board of Directors.

2.3 *Functional and presentation currency*

The financial statements have been presented in Saudi Riyals, which is the functional and presentation currency of the Company.

2.4 *Use of estimates and judgements*

The preparation of annual financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the annual financial statements and the reported amounts of revenue and expenses during the reporting period.

2. BASIS OF PREPARATION (Continued)

2.4 *Use of estimates and judgements (continued)*

Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. 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.

Details of the key estimates and judgments made by management pertain to:

- Impairment and uncollectibility of financial assets (note 3.10)
- Outstanding claims and other technical reserves (note 3.3)
- Fair value of investments (note 3.11)
- Unearned premium reserve (note 3.1)
- End of service indemnities (note 3.18)
- Useful life of property and equipment (note 3.14)
- Deferred policy acquisition costs (note 3.4)
- Going concern (note 2.1 and 19)

2.5 *New standards, amendments to standards and interpretations*

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amendment to IFRS effective for the annual period beginning as of 1 January 2013:

a) New standards

IFRS 13 Fair Value Measurement establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 17.

b) Amendments to existing standards

- Amendments to ***IFRS 7 Financial Instruments: Disclosure;*** Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.

- Amendments to ***IAS 1 Presentation of Items of Other Comprehensive Income:*** The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Company's financial position or performance.

2. **BASIS OF PREPARATION (Continued)**

New standards, amendments to standards and interpretations(continued)

b) Amendments to existing standards (continued)

- ***IAS 1 Clarification of the requirement for comparative information (Amendment):*** These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Company), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Company's financial position or performance.

2.6 Standards and interpretations issued but not yet effective

Following are the Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements. The Company intends to adopt these standards, if applicable, when they become effective:

IFRS 9 Financial Instruments
On 19 November 2013, the IASB issued a new version of IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). IFRS 9 (2013)) which includes the new hedge accounting requirements and some related amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. IFRS 9 (2013) also replicates the amendments in IAS 39 in respect of novations. The standard does not have a mandatory effective date, but it is available for application now. A new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial statements. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of IFRS 9 at the same time. An accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 is available for of their hedging relationships. They may later change that policy and apply the hedge accounting requirements in IFRS 9 before they eventually become mandatory. This choice is intended to be removed when the IASB completes its project on accounting for macro hedging.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Revenue Recognition

Recognition of premium and commission revenue
Premiums and commission are taken into "statement of comprehensive income - insurance operations" over the terms of the policies to which they relate on a pro-rata basis, so that the revenue is recognized over the period of the risk. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the "statement of comprehensive income - insurance operations", over the period of risk.

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

- 25% of premiums for marine cargo business
- Actual number of days for other lines of business
- Pre-defined calculation for Engineering class of business for risks undertaken that extend beyond a single year. In accordance with this calculation, lower premiums are earned in the first year which gradually increase towards the end of the tenure of the policy.

The Company commenced using the pre-defined calculation for Engineering class of business staring 1 January 2013. As only the calculation for deferring the premiums has been amended, this is a change in accounting estimate. This change in calculation is expected to have minimal impact on the net earned premiums of the Company for future years as the net retention of the Company in respect of Engineering business is considered to be minimal by Management.

The underwriting results represents premiums earned, fee and commission income earned less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts subject to reinsurance, less provision for any anticipated future losses on continuing policies.

Investment income

Return on investments, profit and loss sharing accounts and bank deposits are recognised using effective interest rate method.

Profit or loss on sale of investments is recognised at the time of sale.

Dividend income is recognised when right to receive such dividend is established

3.2 Insurance contract

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Claims

Claims consist of amounts payable to policy holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of comprehensive income-insurance operations. Gross outstanding claims comprise gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as of the financial reporting date are made on the basis of individual case estimates. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the financial reporting date.

Outstanding claims and other technical reserves
The Company generally estimates its claims based on previous experience. In addition a provision based on management's judgment is maintained for the cost of settling claims "incurred but not reported" and "unallocated loss adjustment expense reserve" at the reporting date. Any difference between the provisions at the balance sheet date and settlements and provisions for the following period is included in the underwriting account for that period. The Company acquires services of an independent actuary to determine such claims.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported is an estimation of claims which are expected to be reported subsequent to the end of financial reporting period, for which the insured event has occurred prior to the end of the financial reporting period.

3.4 Deferred policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate as premiums are earned. Amortisation is recorded in the "statement of comprehensive income - insurance operations".

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

An impairment review is performed at each financial reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value, an impairment loss is recognised in the statement of comprehensive income - insurance operations. Deferred policy acquisition cost is also considered in the liability adequacy test for each financial reporting period.

3.5 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses under which the Company is compensated for losses on insurance contracts issued. Reinsurance assets represent balances due from Reinsurance Company. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Reinsurance (continued)

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the "statement of comprehensive income - insurance operations".

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.6 Liability adequacy test

At each reporting date the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in statement of comprehensive income- insurance operations and an unexpired risk provision is created. The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

3.7 Investments

All investments are initially recognised at fair value, including acquisition charges associated with the investment. Premiums are amortised and discounts accrued using the effective yield method and are taken to the "statement of comprehensive income – shareholders' operations".

Following initial recognition of investment securities, the subsequent period-end reporting values are determined on the basis as set out in the following paragraph:

Available for sale

Investments which are classified as "available for sale" are initially recorded at cost including transaction cost and are subsequently measured at fair value. Available for sale investments are those investments that are not held-to-maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in shareholders' equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognised in the shareholders' equity should be included in the "statement of comprehensive income – shareholders' operations" for the period. For securities that are traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without deduction for transaction costs. Fair value of investment in mutual funds is determined by reference to declared net asset values.

For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Receivables

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

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of "statement of comprehensive income – insurance operations". An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Receivables arising from administrative service plan are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.

3.9 Provisions

A provision for incurred liabilities is recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

3.10 Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognised in the "statement of comprehensive income - shareholders' operations". Impairment is determined as follows:

- For assets carried at fair value, impairment is the significant or prolonged decline in the fair value below the cost.

- For assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Impairment and uncollectibility of financial assets (continued)

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

3.11 Fair values

The Company measures financial instruments, such as, derivatives, and non-financial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 17. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Company. The fair 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 economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Fair values (continued)

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement, such as assets held for distribution in any discontinued operation. External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the valuation committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

3.12 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statements of comprehensive income unless required or permitted by any accounting standard or interpretation.

3.13 Derecognition of financial instruments

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

3.14 Property and equipment

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Expenditure for repair and maintenance is charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised. Depreciation is charged to the "statement of comprehensive income – insurance operations" on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets are:

	Years
Furniture	10
Computers and office equipment	4
Motor vehicles	4
Leasehold improvements	3
Intangible – Software	4

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

3.15 Leases

Operating lease payments are recognised as an expense in the statements of comprehensive income on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of comprehensive income - insurance operations, except when they relate to items where gains or losses are recognized directly in comprehensive income and the gain or loss is recognized net of the exchange component in equity.

3.17 Zakat and income tax

Zakat is computed on the Saudi shareholders' share of equity or net adjusted income using the basis defined under the Zakat regulations in the Kingdom of Saudi Arabia. Income taxes are computed on the foreign shareholders' share of net adjusted income.

Zakat and income tax is accrued and charged to the statement of comprehensive income – shareholders' operations.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

3.18 End-of-service indemnities

End-of-service indemnities, required by Saudi Arabian Labor Law, are provided in the financial statements based on the employees' length of service.

3.19 Statutory reserve

In accordance with its Articles of Association, the Company shall allocate 20% of its net income each year to the statutory reserve until it has built up a reserve equal to the share capital. In view of the accumulated losses, no such transfer has been made.

3.20 Segment reporting

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

- The health care products provide medical cover to policyholders.
- Motor Insurance provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Marine insurance, which is made up of marine cargo, including inland transit, open cover and marine hull products.
- Engineering insurance, which is made up of erection all risk, machinery breakdown, contractors' all risk, contractors' plant and equipment and other product lines.
- Others, which are made up of property insurance, general accident insurance and casualty insurance, which includes an array of products ranging from fire to fidelity guarantee to public liability coverage.

(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Segment reporting (continued)

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

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.

3.21 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.22 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents include cash in current account and murabaha deposits with an original maturity of three months or less.

4. CASH AND BANK BALANCES

	2013	
	Insurance Operations	**Shareholders' Operations**
Cash in hand	**45,015**	**--**
Bank balances	**48,537,386**	**1,568,966**
Murabaha deposits	**30,000,000**	**30,000,000**
	78,582,401	**31,568,966**

	2012	
	Insurance Operations	Shareholders' Operations
Cash in hand	25,001	--
Bank balances	35,454,975	9,940,289
Murabaha deposits	30,000,000	40,000,000
	65,479,976	49,940,289

Murabaha deposits are maintained with financial institutions. Murabaha deposits for Insurance operations mature on 28 January 2014 and those for shareholders' operations mature on 27 January 2014. These earn commission at the average rate of 1.85% as at 31 December 2013 (31 December 2012: 1.5%).

5. RELATED PARTY TRANSACTIONS

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

(Amount in Saudi Riyals)

5. RELATED PARTY TRANSACTIONS (continued)

Saudi Continental Insurance Company is a related party being 10% founding shareholder in the Company and through common directorship, and Aggad Investment Company is a related party through 90% shares in Saudi Continental Insurance Company and also having a common directorship. Following entities are related parties by virtue of common directorship and control:

- Alesayi Motors
- Arabian Tiles Company
- Medical Supplies and Services Company Limited (MEDISERV)
- National Advanced Systems Company Limited (NASCO)
- United Motors Company
- The Arab Palestinian Investment Company Limited (APIC)
- Riyadh Pharma

a) Transactions with related parties:

Details of significant transactions carried out during the year with related parties are as follows:

	2013		2012	
Related party	Gross written premium	Gross claims paid	Gross written premium	Gross claims paid
Aggad Investment Company	**162,271**	**328,139**	714,698	272,563
Arabian Tiles Company	**1,442,948**	**767,810**	910,717	832,982
MEDISERV	**3,109,600**	**2,292,068**	2,204,601	2,782,961
NASCO	**6,236,014**	**4,539,319**	5,431,403	3,488,832
United Motors Company	**13,427,958**	**13,945,303**	14,490,450	8,983,489

b) Balances with related parties:

Details of significant receivables from and payables to the related parties are as follows:

	2013		2012	
Related party	Premiums receivable	Outstanding claims	Premiums receivable	Outstanding Claims
Aggad Investment Company	**64**	**190,121**	145,219	134,874
Arabian Tiles Company	**1,105,342**	**230,971**	863,451	268,828
MEDISERV	**1,081,202**	**815,285**	1,040,606	2,348,997
NASCO	**3,893,057**	**5,755,929**	2,989,638	4,774,113
United Motors Company	**1,021,857**	**6,537,380**	4,100,196	3,461,209

c) 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 year is as follows:

	2013	2012
Salaries and other short term benefits	**4,263,493**	4,374,158
End of service benefit	**198,769**	223,513
	4,462,262	4,597,671

(Amount in Saudi Riyals)

6. INVESTMENTS

a) *Investments in available for sale securities*

Investment in available for sale securities comprise of the following securities:

	2013		
	Cost	Unrealised gain	Market value
Quoted			
Mutual Funds	**6,625,998**	**373,293**	**6,999,291**
Global Sukuk Fund deposits	**9,450,000**	**1,648,930**	**11,098,930**
Equities	**20,882,509**	**3,156,562**	**24,039,071**
	36,958,507	**5,178,785**	**42,137,292**
Unquoted			
Equities *(c)*	**1,923,078**	--	**1,923,078**
	38,881,585	**5,178,785**	**44,060,370**

	2012		
	Cost	Market value	Unrealised gain
Quoted			
Mutual Funds	6,625,998	321,508	6,947,506
Global Sukuk Fund deposits	9,450,000	1,546,789	10,996,789
Equities	10,737,312	9,541,293	20,278,605
	26,813,310	11,409,590	38,222,900
Unquoted			
Equities *(c)*	1,923,078	--	1,923,078
	28,736,388	11,409,590	40,145,978

b) Movement in available for sale investments is as follows:

	2013	2012
Balance at beginning of the year	**40,145,978**	43,702,108
Addition during the year	**19,575,283**	--
Disposals during the year	**(19,500,400)**	(9,879,604)
Change in fair value	**3,839,509**	6,323,474
Balance at end of the year	**44,060,370**	40,145,978

c) Investment in Najm Insurance Services Company

This investment represents a 7.69% (2012: 7.69%) equity holding in the unquoted share capital of "Najm Insurance Services Company" As the fair value is not readily available, this investment has been carried at cost and reviewed by management for impairment. A commission free loan of SR 500,000 (2012: SR 500,000) with unspecific repayment period has also been advanced to Najm Insurance Services Company.

(Amount in Saudi Riyals)

6. INVESTMENTS (continued)

d) The sector wise analysis of available for sale investments by counter-party is as follows:

	2013	2012
Financial institutions	**18,098,221**	17,944,295
Telecommunication	**11,420,321**	9,228,605
Cement	**12,618,750**	11,050,000
Services	**1,923,078**	1,923,078
	44,060,370	40,145,978

7 PROPERTY AND EQUIPMENT, NET

2013

	Software	Computers	Furniture	Leasehold improvements	Motor vehicles	Total
Cost:						
Balance at beginning of the year	2,017,846	2,907,903	2,078,389	3,630,516	356,000	10,990,654
Additions during the year	539,818	520,901	348,241	1,432,681	231,800	3,073,441
Disposals during the year	--	(24,155)	--	--	(30,000)	(54,155)
Balance at end of the year	**2,557,664**	**3,404,649**	**2,426,630**	**5,063,197**	**557,800**	**14,009,940**
Accumulated depreciation:						
Balance at beginning of the year	1,581,807	2,269,523	741,848	2,644,072	266,623	7,503,873
Charge during the year	376,682	397,867	272,011	968,657	82,553	2,097,770
Disposals during the year	--	(24,155)	--	--	(30,000)	(54,155)
Balance at end of the year	**1,958,489**	**2,643,235**	**1,013,859**	**3,612,729**	**319,176**	**9,547,488**
Net book value at 31 December 2013	**599,175**	**761,414**	**1,412,771**	**1,450,468**	**238,624**	**4,462,452**

2012

	Software	Computers	Furniture	Leasehold improvements	Motor vehicles	Total
Cost:						
Balance at beginning of the year	2,006,746	2,695,990	2,164,079	3,230,548	356,000	10,453,363
Additions during the year	11,100	235,124	42,213	399,968	--	688,405
Disposals during the year	--	(23,211)	(127,903)	--	--	(151,114)
Balance at end of the year	2,017,846	2,907,903	2,078,389	3,630,516	356,000	10,990,654
Accumulated depreciation:						
Balance at beginning of the year	1,127,328	1,825,395	583,050	1,897,820	200,707	5,634,300
Charge during the year	454,479	466,371	205,507	746,252	65,916	1,938,525
Disposals during the year	--	(22,243)	(46,709)	--	--	(68,952)
Balance at end of the year	1,581,807	2,269,523	741,848	2,644,072	266,623	7,503,873
Net book value at 31 December 2012	436,039	638,380	1,336,541	986,444	89,377	3,486,781

(Amount in Saudi Riyals)

8. ZAKAT AND INCOME TAX

(a) Zakat

The provision for zakat of SR 1,229,766 (2012: SR 2,586,077) has been made for the year ended 31 December 2013.

(b) Movements in zakat provision

	2013	2012
Balance at beginning of the year	**9,935,141**	8,242,480
Zakat charge for the year	**1,229,766**	2,586,077
Payments made during the year	**(893,752)**	(893,416)
Balance at end of the year	**10,271,155**	9,935,141

(c) Income Tax

No income tax has been provided due to negative tax base. For the year ended 31 December 2013, the Company has incurred adjusted tax losses which may be carried forward to future years without limitation of time.

(d) Status of assessments

The Company has filed tax and zakat declaration for the years ended up to 31 December 2012. The Company has filed an appeal against Department of Zakat and Income Tax's (DZIT) assessment of additional zakat amounting to SR 5.2 million, arising from disallowance of certain investments from zakat base for 2010, 2011 and 2012. The Company has recorded the additional zakat provision in the financial statements.

9. CLAIMS AND TECHNICAL RESERVES

9. (i) Incurred claims

	2013		
	Gross	**Reinsurers' Share**	**Net**
Claims paid during the year	**132,800,533**	**(21,582,971)**	**111,217,562**
Changes in outstanding claims reserves	**(9,849,409)**	**8,675,588**	**(1,173,821)**
Changes in other technical reserves	**7,903,488**	**5,317,211**	**13,220,699**
	130,855,612	**(7,590,172)**	**123,264,440**

	2012		
	Gross	Reinsurers' Share	Net
Claims paid during the year	141,976,091	(30,422,378)	111,553,713
Changes in outstanding claims reserves	(6,517,005)	(3,037,453)	(9,554,458)
Changes in other technical reserves	(7,041,039)	(2,444,767)	(9,485,806)
	128,418,047	(35,904,598)	92,513,449

(Amount in Saudi Riyals)

9. CLAIMS AND TECHNICAL RESERVES (continued)

9. (ii) Outstanding claims and other technical reserves

	2013		
	Gross	Reinsurers' Share	Net
Outstanding claim reserves	54,435,816	(19,524,529)	34,911,287
Incurred but not reported reserve	23,880,657	(4,093,862)	19,786,795
Premium deficiency reserve	10,447,008	–	10,447,008
	88,763,481	(23,618,391)	65,145,090

	2012		
	Gross	Reinsurers' Share	Net
Outstanding claim reserves	64,285,225	(28,200,117)	36,085,108
Incurred but not reported reserve	23,808,330	(9,411,073)	14,397,257
Other technical reserves	2,615,847	–	2,615,847
	90,709,402	(37,611,190)	53,098,212

10. PREMIUMS

10.(i) Earned premium

	2013		
	Gross	Reinsurers' Share	Net
Total gross written premium	227,966,351	(48,714,121)	179,252,230
Changes in unearned premium	(31,058,658)	1,217,140	(29,841,518)
	196,907,693	(47,496,981)	149,410,712

	2012		
	Gross	Reinsurers' Share	Net
Total gross written premium	183,527,916	(45,394,384)	138,133,532
Changes in unearned premium	15,790,243	(13,732,552)	2,057,691
	199,318,159	(59,126,936)	140,191,223

(Amount in Saudi Riyals)

10. PREMIUMS (continued)

10. (ii) Unearned premium reserves (UEP)

	2013		
	Gross	Reinsurers' Share	Net
Balance as at beginning of the year	67,695,866	(13,562,340)	54,133,526
Total gross written premium	227,966,351	(48,714,121)	179,252,230
Earned premiums	(196,907,693)	47,496,981	(149,410,712)
Balance as at end of the year	98,754,524	(14,779,480)	83,975,044

	2012		
	Gross	Reinsurers' Share	Net
Balance as at beginning of the year	83,486,109	(27,294,892)	56,191,217
Total gross written premium	183,527,916	(45,394,384)	138,133,532
Earned premiums	(199,318,159)	59,126,936	(140,191,223)
Balance as at end of the year	67,695,866	(13,562,340)	54,133,526

11. PREMIUM RECEIVABLES, NET

	2013	2012
Premiums receivable	93,122,098	92,058,426
Less: Allowance for impairment	(28,113,360)	(24,628,376)
	65,008,738	67,430,050

	Total	Neither past due nor impaired	Past due but not impaired	Past due and impaired
31 December 2013	93,122,098	22,998,312	42,010,426	28,113,360
31 December 2012	92,058,426	24,922,401	42,507,649	24,628,376

The Company classifies receivable balances as 'past due and impaired' on a case to case basis, impairment against which is recorded in the statement of comprehensive income - insurance operations. The Company does not obtain collateral against premium receivables. Amounts which are neither past due nor considered impaired by management, in respect of premium receivables, are from individuals and unrated corporate policy holders.

(Amount in Saudi Riyals)

12. DEFERRED POLICY ACQUISITION COSTS

	2013	2012
Balance as at beginning of the year	7,027,284	10,117,495
Incurred during the year	23,141,633	21,112,315
Amortised during the year	(20,548,389)	(24,202,526)
Balance as at end of the year	9,620,528	7,027,284

13. GENERAL AND ADMINISTRATION EXPENSES

Insurance Operations	2013	2012
Employee costs	32,936,069	28,361,612
Office rent	4,831,927	2,985,054
Legal and professional fees	2,416,749	1,270,493
Depreciation	2,097,771	1,938,525
Information technology and communications	1,202,793	711,366
Travel and lodging	829,846	461,632
Office supplies, printing and stationery	420,717	332,050
Marketing, advertising and promotions	254,011	358,183
Others	1,504,235	897,319
	46,494,118	37,316,234

Shareholders' Operations	2013	2012
Employee costs	468,650	490,350
Executive committee expenses	418,500	922,500
Regulatory and other fees	220,000	220,000
Legal and professional fees	214,500	19,500
Information technology and communications	120,550	95,750
Travel and lodging	3,250	153,564
Others	1,615	39,720
	1,447,065	1,941,384

14. STATUTORY DEPOSIT

As required by Saudi Arabian Insurance Regulations, the Company is required to deposit 10% of its paid up capital, amounting to SR 20 million (2012: SR 20 million), within three months from the date of the issuance of the license in a bank designated by SAMA. The statutory deposit is maintained with a local bank and can be withdrawn only with the consent of SAMA.

15. SHARE CAPITAL

The authorised and issued capital of the Company as at 31 December 2013 is SAR 200 million (2012: SR 200 million) consisting of 20 million (2012: 20 million) shares of SAR 10 each.

16. OPERATING SEGMENTS

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities as stated below. Segment results do not include general and administration expenses and other income.

Segment assets do not include property and equipment, prepayments and other assets, premiums receivable, reinsurances' balance receivables and cash and cash equivalents. Accordingly, they are included in unallocated assets.

Segment liabilities do not include due to shareholders operations, end-of-service indemnities, reinsurers' balances payable, accrued expenses and other liabilities.

All unallocated assets and liabilities are reported to chief operating decision maker as unallocated assets and liabilities and are monitored on a centralised basis.

All of the Company's operating assets and principal activities are located in the Kingdom of Saudi Arabia.

(Amount in Saudi Riyals)

16. OPERATING SEGMENTS (Continued)

a) Statement of results for insurance operations

	For the year ended 31 December 2013					
	Medical	Motor	Marine	Engineering	Others	Total
Gross written premiums	85,536,332	91,183,887	20,528,956	14,912,861	15,804,315	227,966,351
Reinsurance premiums ceded	(4,156,183)	(3,174,689)	(17,302,727)	(12,577,821)	(11,502,701)	(48,714,121)
Net written premiums	81,380,149	88,009,198	3,226,229	2,335,040	4,301,614	179,252,230
Net changes in unearned premiums	(27,050,787)	(2,564,265)	(152,177)	(2,396)	(71,893)	(29,841,518)
Net earned premiums	54,329,362	85,444,933	3,074,052	2,332,644	4,229,721	149,410,712
Reinsurance commission earned	--	--	4,780,449	3,311,625	3,124,786	11,216,860
Other underwriting income	12,400	335,629	57,020	5,460	33,625	444,134
Total underwriting revenue	54,341,762	85,780,562	7,911,521	5,649,729	7,388,132	161,071,706
Gross claims paid	(48,611,802)	(71,574,850)	(5,663,685)	(2,062,793)	(4,887,403)	(132,800,533)
Reinsurance share of claims paid	10,273,007	967,890	4,397,601	1,938,711	4,005,762	21,582,971
Net claims paid	(38,338,795)	(70,606,960)	(1,266,084)	(124,082)	(881,641)	(111,217,562)
Net changes in outstanding claims and other technical reserves	221,424	(13,475,826)	1,065,158	323,046	(180,680)	(12,046,878)
Net claims cost	(38,117,371)	(84,082,786)	(200,926)	198,964	(1,062,321)	(123,264,440)
Policy acquisition costs	(3,576,062)	(10,920,855)	(2,188,153)	(1,978,184)	(1,885,135)	(20,548,389)
Other underwriting expenses, net	(2,933,305)	(1,870,497)	(825,952)	(524,345)	(509,510)	(6,663,609)
Impairment allowance against doubtful receivables	(1,280,901)	(3,256,379)	--	--	--	(4,537,280)
Total underwriting expenses	(45,907,639)	(100,130,517)	(3,215,031)	(2,303,565)	(3,456,966)	(155,013,718)
Underwriting surplus / (loss) before administration expenses	8,434,123	(14,349,955)	4,696,490	3,346,164	3,931,166	6,057,988
Unallocated income						317,083
Unallocated expenses						(46,494,118)
Net loss from insurance operations						(40,119,047)

(Amount in Saudi Riyals)

16. OPERATING SEGMENTS (Continued)

a) Statement of results for insurance operations (continued)

	For the year ended 31 December 2012					
	Medical	Motor	Marine	Engineering	Others	Total
Total gross written premiums	68,245,527	74,401,896	14,076,129	11,935,124	14,869,240	183,527,916
Reinsurance premiums ceded	(11,220,397)	(2,020,326)	(10,887,552)	(10,625,834)	(10,640,275)	(45,394,384)
Net written premiums	57,025,130	72,381,570	3,188,577	1,309,290	4,228,965	138,133,532
Net changes in unearned premiums	7,648,387	(6,290,394)	73,931	563,436	62,331	2,057,691
Net earned premiums	64,673,517	66,091,176	3,262,508	1,872,726	4,291,296	140,191,223
Reinsurance commission earned	--	--	3,187,298	2,964,506	2,270,478	8,422,282
Other underwriting income	13,400	125,949	54,055	4,310	30,220	227,934
Total underwriting revenue	64,686,917	66,217,125	6,503,861	4,841,542	6,591,994	148,841,439
Gross claims paid	(73,469,708)	(53,144,909)	(8,238,500)	(2,459,336)	(4,663,638)	(141,976,091)
Reinsurance share of claims paid	20,217,255	521,280	3,728,586	2,303,320	3,651,937	30,422,378
Net claims paid	(53,252,453)	(52,623,629)	(4,509,914)	(156,016)	(1,011,701)	(111,553,713)
Net changes in outstanding claims and other technical reserves	23,103,100	(2,385,479)	(1,278,099)	(540,129)	140,871	19,040,264
Net claims cost	(30,149,353)	(55,009,108)	(5,788,013)	(696,145)	(870,830)	(92,513,449)
Policy acquisition costs	(7,838,683)	(10,319,317)	(1,617,974)	(2,020,996)	(2,405,556)	(24,202,526)
Other underwriting expenses, net	(2,823,773)	(587,123)	(692,633)	(712,318)	(849,845)	(5,665,692)
Reversal of impairment allowance against doubtful receivables	4,860,080	386,730	--	--	--	5,246,810
Total underwriting expenses	(35,951,729)	(65,528,818)	(8,098,620)	(3,429,459)	(4,126,231)	(117,134,857)
Underwriting surplus / (deficit) before administration expenses	28,735,188	688,307	(1,594,759)	1,412,083	2,465,763	31,706,582
Unallocated income						414,113
Unallocated expenses						(37,316,234)
Net loss from insurance operations						(5,195,539)

(Amount in Saudi Riyals)

16 OPERATING SEGMENTS (Continued)

b) Insurance operation assets and liabilities

	At 31 December 2013					
	Medical	Motor	Marine	Engineering	Others	Total
Assets – insurance operations						
Reinsurers' share of unearned premium	–	–	3,603,338	6,608,484	4,567,658	14,779,480
Reinsurers' share of outstanding claims and other technical reserves	1,032,564	1,832,490	3,247,335	10,026,829	7,479,173	23,618,391
Deferred policy acquisition cost	3,598,577	3,603,919	568,171	1,041,553	808,308	9,620,528
Allocated assets	4,631,141	5,436,409	7,418,844	17,676,866	12,855,139	48,018,399
Unallocated assets						182,080,156
Total insurance operations assets						230,098,555
Liabilities – insurance operations						
Unearned premium reserves	50,860,341	30,003,725	4,533,801	6,965,018	6,391,639	98,754,524
Outstanding claims and other technical reserves	21,526,250	43,807,756	4,085,556	10,574,955	8,768,964	88,763,481
Unearned commission income	–	–	1,138,765	1,731,384	1,259,869	4,130,018
Allocated liabilities	72,386,591	73,811,481	9,758,122	19,271,357	16,420,472	191,648,023
Unallocated liabilities						38,450,532
Total insurance operations liabilities						230,098,555

	At 31 December 2012					
	Medical	Motor	Marine	Engineering	Others	Total
Assets – insurance operations						
Reinsurers' share of unearned premium	1,733,029	–	2,497,098	5,087,342	4,244,871	13,562,340
Reinsurers' share of outstanding claims and other technical reserves	14,344,401	4,937,249	5,009,030	7,498,132	5,822,378	37,611,190
Deferred policy acquisition cost	1,104,460	3,888,894	389,745	835,848	808,337	7,027,284
Allocated assets	17,181,890	8,826,143	7,895,873	13,421,322	10,875,586	58,200,814
Unallocated assets						155,503,096
Total insurance operations assets						213,703,910
Liabilities – insurance operations						
Unearned premium reserves	25,542,582	27,439,460	3,275,384	5,441,480	5,996,960	67,695,866
Outstanding claims and other technical reserves	35,059,512	33,436,689	6,912,409	8,369,304	6,931,488	90,709,402
Unearned commission income	–	–	779,059	1,338,964	1,164,365	3,282,388
Allocated liabilities	60,602,094	60,876,149	10,966,852	15,149,748	14,092,813	161,687,656
Unallocated liabilities						52,016,254
Total insurance operations liabilities						213,703,910

(Amount in Saudi Riyals)

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
2013				
Equities	24,039,071	--	--	24,039,071
Other quoted investments	--	18,098,221	--	18,098,221
Unquoted equities	--	--	1,923,078	1,923,078
	24,039,071	18,098,221	1,923,078	44,060,370
2012				
Equities	20,278,605	--	--	20,278,605
Other quoted investments	--	17,944,295	--	17,944,295
Unquoted equities	--	--	1,923,078	1,923,078
	20,278,605	17,944,295	1,923,078	40,145,978

The fair values of other financial instruments are not significantly different from the carrying values included in the financial statements. During the year, there have been no transfers within the levels of fair value hierarchy. Further, there were no movements in the unquoted equities categorised under level 3 of fair value hierarchy.

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Risk governance

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

Risk management structure

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

Board of directors

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

Senior management

Senior management is responsible for the day to day operations towards achieving the strategic goals within pre-determined parameters approved by the Board of Directors.

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

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

a. Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.

A significant portion of reinsurance business ceded is placed on a quota share basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the Statement of Financial Position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

A key feature of the liability adequacy testing is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognised, while significant enough deterioration in estimates is immediately recognised to make the liabilities adequate.

b. Reinsurance risk

In order to minimize financial exposure arising from large claims, the Company, in the normal course of business, has entered into agreements for reinsurance purposes. The medical policies for 2012/2013 were covered through excess of loss protection arrangements. Motor policies are protected by an excess of loss treaty. Marine, Engineering and other policies have been reinsured on a quota share, surplus and facultative basis.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

Reinsurers are selected using the following parameters and guidelines set by the Company's Board of Directors and Reinsurance Committee. The criteria may be summarised as follows:

a. Minimum acceptable credit rating by recognised rating agencies (e.g. S&P) that is not lower than BBB.
b. Reputation of particular reinsurance companies.
c. Existing or past business relationship with the reinsurer.

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

b. Reinsurance risk (continued)

The exception to this rule is in respect of local companies who do not carry any such credit rating. This, however, is limited to those companies registered and approved by the local Insurance Regulator.

Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and compared against a list of requirements pre-set by the Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. As shown in Note 9(ii) the Company has reduced its outstanding claims and other technical reserves by the expected recoveries from reinsurers as of 31 December 2013 by SR 23,618,391 (2012: SR 37,611,190).

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its exposure to catastrophic and riot events by use of reinsurance arrangements.

Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The table below sets out the concentration of the claims and premium liabilities (in percentage terms) by class of business at balance sheet date:

Class	2013				2012			
	Outstanding claims and other technical reserves		Unearned premium reserves		Outstanding claims and other technical reserves		Unearned premium reserves	
	Gross (%)	Net (%)	Gross (%)	Net (%)	Gross (%)	Net (%)	Gross (%)	Net (%)
Medical	24	32	52	61	39	39	38	44
Motor	49	64	30	36	37	53	41	51
Marine	5	1	5	1	8	4	5	1
Engineering	12	1	7	-	9	2	8	1
Others	10	2	6	2	7	2	8	3

The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

Since the Company operates in Saudi Arabia only, hence, all the insurance risks relate to policies written in Saudi Arabia.

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the reporting date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims Incurred But Not Reported (IBNR) at the reporting date.

Process used to decide on assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve as a result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of reporting date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the yearend are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. However, a hypothetical 10 percent change in net outstanding claims and other technical reserves would impact the net results and shareholders' equity as follows:

	Net results	
	2013	2012
Impact of + 10 percent		
Medical	1,401,693	2,071,511
Motor	3,057,179	2,849,944
Marine	123,811	190,338
Engineering	97,495	87,117
Others	132,390	110,911
	4,812,568	5,309,821
Impact of - 10 percent		
Medical	(1,401,693)	(2,071,511)
Motor	(3,057,179)	(2,849,944)
Marine	(123,811)	(190,338)
Engineering	(97,495)	(87,117)
Others	(132,390)	(110,911)
	(4,812,568)	(5,309,821)

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Claim development

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against future claims experience and developments. As claims develop and actual cost become more certain, adverse claims experience will become more certain. Adverse claims experience will be eliminated which results in release of reserves from earlier accident years. In order to maintain adequate reserves, the Company will transfer much of this release to the current accident year reserves when the development of claims are less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Accident year	2008	2009	2010	2011	2012	2013	Total
Estimate of ultimate claim loss							
- At end of accident year	4,082,592	90,784,794	237,726,795	165,208,719	158,769,666	60,068,116	716,640,682
- One year later	4,404,489	84,757,395	221,855,015	137,708,659	--	--	448,725,558
- Two year later	3,804,215	83,281,810	218,054,031	--	--	--	305,140,056
- Three year later	--	84,231,233	--	--	--	--	84,231,233
- Four year later	--	--	--	--	--	--	--
Current estimate of cumulative claims	--	84,231,233	218,054,031	137,708,659	158,769,666	60,068,116	678,063,397
Cumulative payments to date	--	81,871,773	212,854,133	127,424,369	85,903,912	33,503,255	589,299,916
Liability recognised in the statement of financial position	--	2,359,460	5,199,898	10,284,290	72,865,754	26,564,861	88,763,481

c. Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market commission rates or the market price of securities or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

The Company is exposed to market risk with respect to its available for sale investments. These investments are sensitive to the various factors that affect market movements. As part of Company's investment strategy and to reduce market risk, the Company maintains diversified portfolio and performs regular monitoring of developments in related markets.

In addition, the key factors that affect market movements are monitored, including analysis of the operational and financial performance of investees.

Market risk comprises of three types of risk: currency risk, commission rate risk and price risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Management assesses that there is minimal risk of significant losses due to exchange risk fluctuations and consequently the Company does not hedge its foreign currency exposure.

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Commission rate risk

The Company invests in securities and has deposits that are subject to commission rate risk. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates in the currencies in which its cash and cash equivalents and investments are denominated.

At the reporting date, the commission rate profile of Company's commission-bearing financial instruments is as follows:

	Carrying Amount 2013	Carrying Amount 2012
Fixed rate instruments		
Financial assets	81,077,351	90,918,419

Presently, the Company does not hold any variable SIBOR based return bearing instruments that expose the Company to commission rate risk.

The Company does not have any commission based financial liabilities as at 31 December 2012.

The information about Company's exposure to commission rate risk is based on contractual re-pricing or maturity dates whichever is earlier is as follows:

2013 Financial assets - Insurance Operations	Commission bearing < 1 Year	Commission bearing 1-5 Years	Commission bearing > 5 Years	Non-Commission bearing	Total
Cash and Bank balance	30,000,000	--	--	48,582,401	78,582,401
Premiums receivable, net	--	--	--	65,008,738	65,008,738
Reinsurers' balance receivable	--	--	--	1,295,054	1,295,054
Reinsurers' share of technical reserves	--	--	--	23,618,391	23,618,391
Other assets	--	--	--	11,991,009	11,991,009
	30,000,000	--	--	150,495,593	180,495,593

2013 Financial assets – Shareholders' Operations	Commission bearing < 1 Year	Commission bearing 1-5 Years	Commission bearing > 5 Years	Non-Commission bearing	Total
Cash and Bank balance	30,000,000	--	--	1,568,966	31,568,966
Statutory deposit	21,077,351	--	--	--	21,077,351
Investments – available for sale	--	--	--	44,060,370	44,060,370
Loan receivable	--	--	--	500,000	500,000
Other Assets	--	--	--	1,448,663	1,448,663
	51,077,351	--	--	47,577,999	98,655,350

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Commission rate risk (Continued)

	2012				
	Commission bearing			Non-Commission bearing	Total
Financial assets - Insurance Operations	< 1 Year	1-5 Years	> 5 Years		
Cash and Bank balance	30,000,000	--	--	35,479,976	65,479,976
Premiums receivable, net	--	--	--	67,430,050	67,430,050
Reinsurers' balance receivable	--	--	--	9,437,188	9,437,188
Reinsurers' share of technical reserves	--	--	--	37,611,190	37,611,190
Other assets	--	--	--	6,878,670	6,878,670
	30,000,000	--	--	156,837,074	186,837,074

	2012				
Financial assets – Shareholders' Operations	Commission bearing			Non-Commission bearing	Total
	< 1 Year	1-5 Years	> 5 Years		
Cash and Bank balance	40,000,000	--	--	9,940,289	49,940,289
Statutory deposit	20,918,419	--	--	--	20,918,419
Investments – available for sale	--	--	--	40,145,978	40,145,978
Loan receivable	--	--	--	500,000	500,000
Other Assets	--	--	--	19,111	19,111
	60,918,419	--	--	50,605,378	111,523,797

Other Price Risk

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

The Company's investments amounting to SAR 40.1 million are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its investment portfolio and by actively monitoring the developments in markets.

Had all investments, other than unquoted, been measured at fair values as required by IAS 39, Financial Instruments: Recognition and Measurement, the impact of hypothetical change of a 10% increase and 10% decrease in the market prices of investments on Company's profit and equity would be as follows:

	Fair value	Price change	Effect on profit and loss	Effect on Shareholders' equity
31 December 2013	10% increase	**4,213,729**	--	**4,009,785**
	10% decrease	**(4,213,729)**	--	**(4,009,785)**
31 December 2012	10% increase	3,822,290	--	3,637,291
	10% decrease	(3,822,290)	--	(3,637,291)

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2013. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

d. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company's underwriting activities are all carried out in Saudi Arabia.

For all classes of financial assets held by the Company, other than those relating to reinsurance contracts as described in (b) above, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the balance sheet date.

The company seeks to limit its credit risk with respect to customers by setting credit limit for individual customers and monitoring outstanding receivables.

The table below shows the maximum exposure to credit risk for the components of the balance sheet:

	2013	2012
Assets - Insurance Operations		
Bank balances	**78,582,401**	65,479,976
Premiums receivables, net	**65,008,738**	67,430,050
Reinsurers' balance receivable	**1,295,054**	9,437,188
Reinsurers' share of technical reserves	**23,618,391**	37,611,190
Other assets	**11,991,009**	6,878,670
	180,495,593	186,837,074
Assets - Shareholders' Operations		
Bank balances	**31,568,966**	49,940,289
Statutory deposit	**21,077,351**	20,918,419
Investments	**18,098,221**	17,944,295
Loans receivable	**500,000**	500,000
Other assets	**1,448,663**	19,111
	72,693,201	89,322,114

The credit quality of Company's bank balances and deposits can be assessed with reference to external credit rating as follows:

Rating

	2013	2012
AA-	**110,151,367**	115,420,265
A+	**21,077,351**	20,918,419
	131,228,718	136,338,684

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

d. Credit risk (Continued)

The credit quality of Company's investment can be assessed with reference to external credit ratings as follows:

Rating	2013	2012
AA+	**6,999,291**	6,947,506
A or A above	**11,098,930**	10,996,789
	18,098,221	17,944,295

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Details of the Company's concentration of credit risk of financial instruments by industrial distribution are as follows:

	2013		2012	
		%		%
Banks	**131,228,718**	**52**	136,338,684	50
Financial Institutions	**43,511,666**	**17**	66,361,215	24
Services & Contracting	**28,815,564**	**11**	30,923,146	11
Others	**49,632,846**	**20**	39,020,674	15
	253,188,794	**100**	272,643,719	100

e. Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet its obligations and commitments associated with financial instruments. The Company has a proper cash management system, where daily cash collection and redemption is strictly monitored and reconciled at the end of the day. At the time of investment, particular emphasis is focused on the selection of those companies which are actively traded. The Company manages this risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Company's assets in highly liquid financial assets.

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The expected maturity approximates the contractual maturity. The amounts in the table are the contractual undiscounted cash flows.

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

e. Liquidity risk (Continued)
Maturity Profile

	2013			
Financial assets - Insurance Operations	**Less than one year**	**1 to 5 years**	**No fixed maturity**	**Total**
Cash and Bank balance	78,582,401	--	--	78,582,401
Premiums receivable, net	65,008,738	--	--	65,008,738
Reinsurers' balance receivable	1,295,054			1,295,054
Reinsurers' share of technical reserves	23,618,391	--	--	23,618,391
Other assets	11,991,009	--	--	11,991,009
	180,495,593	--		180,495,593

Financial assets – Shareholders' Operations	**Less than one year**	**1 to 5 years**	**No fixed maturity**	**Total**
Cash and Bank balance	31,568,966	--	--	31,568,966
Statutory deposit	--	--	21,077,351	21,077,351
Investments – available for sale	44,060,370	--	--	44,060,370
Loan receivable	--	--	500,000	500,000
Other Assets	1,448,663	--	--	1,448,663
	77,077,999	--	21,577,351	98,655,350

	2012			
Financial assets - Insurance Operations	Less than one year	1 to 5 years	No fixed maturity	Total
Cash and Bank balance	65,479,976	--	--	65,479,976
Premiums receivable, net	67,430,050	--	--	67,430,050
Reinsurers' balance receivable	9,437,188	--	--	9,437,188
Reinsurers' share of technical reserves	37,611,190	--	--	37,611,190
Other assets	6,878,670	--	--	6,878,670
	186,837,074	--	--	186,837,074

Financial assets – Shareholders' Operations	Less than one year	1 to 5 years	No fixed maturity	Total
Cash and Bank balance	49,940,289	--	--	49,940,289
Statutory deposit	--	--	20,918,419	20,918,419
Investments – available for sale	40,145,978	--	--	40,145,978
Loan receivable	--	--	500,000	500,000
Other Assets	19,111	--	--	19,111
	90,105,378	--	21,418,419	111,523,797

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

e. Liquidity risk (Continued)
Maturity profile (Continued)

	2013			
Financial liabilities - Insurance Operations	**Less than one year**	**1 to 5 years**	**No fixed maturity**	**Total**
Reinsurer balances payable	3,065,270	--	--	3,065,270
Accrued expenses and other liabilities	31,814,206	--	--	31,814,206
Outstanding claims and other technical reserves	88,763,481	--	--	88,763,481
End-of-service Indemnities	--	--	3,571,056	3,571,056
	123,642,957	**--**	**3,571,056**	**127,214,013**
Financial liabilities - Shareholders' Operations				
Accrued expenses and other liabilities	387,025	--	--	387,025
	387,025	**--**	**--**	**387,025**

	2012			
Financial liabilities - Insurance Operations	Less than one year	1 to 5 years	No fixed maturity	Total
Reinsurer balances payable	3,404,068	--	--	3,404,068
Accrued expenses and other liabilities	41,220,197	--	--	41,220,197
Outstanding claims and other technical reserves	90,709,402	--	--	90,709,402
End-of-service Indemnities	--	--	2,490,967	2,490,967
	135,333,667	--	2,490,967	137,824,634
Financial liabilities - Shareholders' Operations				
Accrued expenses and other liabilities	387,025	--	--	387,025
	387,025	--	--	387,025

f. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Company's activities.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors.

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

f. Operational risk (continued)

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

Senior Management ensures that the Company's staff has adequate training and experience and fosters effective communication related to operational risk management.

g. Regulatory framework risk

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

19. CAPITAL MANAGEMENT

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value. The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure and comply with regulatory requirements, the Company may issue shares or take other appropriate measures.

As per relevant regulatory requirements, the Company need to maintain solvency margins equal to its share capital after the end of its third year of operations. As at 31 December 2013, the Company's solvency margin is below the limit prescribed by SAMA. The Board of Directors and management is in the process of taking necessary steps to ensure that solvency requirements are complied with.

Further, the Capital Market Authority has recently issued instructions regarding procedures applicable to listed Companies whose losses are in excess of 50% of Capital, which will be effective from 1 July 2014. If the accumulated losses of the Company as of the balance sheet date continue to be in excess of 50% of its Capital as of that date, the shares will be flagged to indicate losses in excess of 50% in Tadawul. In the event that losses were to reach 75% of the Capital, the Company's shares would be suspended for one trading session. Further punitive measures would be applicable, if the accumulated losses were to exceed 100%.

20. COMMITMENTS AND CONTINGENCIES

a. Legal proceedings and regulations

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

b. Capital commitments

There are no capital commitments of the Company as at the reporting period end.

21. RECLASSIFICATION

Comparatives figures for certain account heads have been re-classified to confirm with the current year's presentation.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 18 February 2014 corresponding to 18 Rabi Al-Thani 1435.